DAVE Says
By Dave Ramsey

Husband's business is dying

Dear Dave,

My husband and I have four kids, and I make $50,000 a year. He runs a small business that has been floundering for a while now, so we're basically living off my income. Part of that income is going into the business. Plus, we don't have much in savings, and we're behind on our house payments. Do you have any advice?

Paige

Dear Paige,

First of all, you and your husband have to get on the same page financially. Sit down together, and do a household budget and a profit and loss statement on the business. A profit and loss statement will tell you the money that comes in minus the money that goes out.

Here's the thing. If you're putting other money into a business account, that's a clue that you're not making money on the business. Put his rent, supplies and any other business expenses on the profit and loss list, and write out — step by step — what it will take for you to break even in the business each month. If you don't at least break even, then it's time for him to do something else for a living.

I'm an entrepreneur and a business owner. I get the allure and excitement that goes along with running your own business. But family and your financial responsibilities come first. You don't need to put any money into the business account, except for the income he creates. And while you two are sorting this out, use your income to get current on your house payments and attack any other debt!

Dave

Get rid of the cards

Dear Dave,

We're trying to get control of our finances, and my husband wants to close all our credit cards. I want to keep one and use the bill-pay option for monthly stuff like utilities, so we can keep earning rewards points. I look at my way as a method of just re-routing the money and paying it off each month. Am I wrong in looking at it like this?

Cheryl

Dear Cheryl,

Yes, you are. Life never goes as planned. You can have all the well-reasoned and best-intentioned ideas you want, but sooner or later something will go wrong.

Why not use a debit card that has a rewards system attached? Lots of debit card programs offer the same kinds of rewards programs that credit card companies do, with one big exception — you don't have to go into debt!

Studies have shown that the vast majority of people never redeem their credit card airline miles. Other studies show that people spend more when using credit cards as opposed to cash. That extra money you spend on things you don't need is money you could have been saving and investing.

So, where's the reward?

Dave

Collections and creditors question

Dear Dave,

We were very late on one of our credit card bills, and now it has been turned over to a collection agency. The collection company has offered us three or four different payment options. Does the original creditor accept the agreement, too, if we accept one of the collection agency's options?

Anonymous

Dear Anonymous,

In most situations of this type, the collection agency owns the debt outright or they're directly representing the original creditor. It's pretty much standard operating procedure when someone has defaulted on a loan.

My advice would be to accept the deal they've offered that makes the most sense for you and your current financial situation. It'll ding your credit report, and show a settlement on the defaulted credit card, but that's not the end of the world. There's already a mark against you for it being turned over to collections.

If you want to keep things like this from happening in the future, you need to get control of your finances. Stop playing with credit cards!

Dave

Dying car, or kill the student loan?

Dear Dave,

I'm 38 years old, and I've got $12,000 in student loans still hanging over my head. It's the only debt I have. I make $30,000 a year, and I've managed to save $12,000, but I'm also driving a junky, old car that will have to be replaced soon. Should I split the money I've saved and buy a $6,000 car while paying off $6,000 of the student loan?

Phil

Dear Phil,

If I'm in your shoes, I want that student loan out of my life as quickly as possible. At the same time, I don't want you living life without some money in the bank.

If you've followed me for very long, you know I teach the Baby Steps when it comes to getting out of debt and saving money. Baby Step 1 is to save a beginner emergency fund of $1,000. Baby Step 2 is to pay off all debt, except for your home, using the debt snowball method. The third Baby Step is to build a fully funded emergency fund of three to six months of expenses.

You don't have quite enough on hand for your idea and to have something left over. I recommend paying off $11,000 of the school loan now and then finishing it up as you go. It won't take much more time. Limp along in the beater for a little while longer and then, when you have no student loan debt, finish your emergency fund and start a car fund.

I talk to a lot of people your age who still have student loan debt. But you have the opportunity to punch its lights out in a hurry. If you pour on the coals, you should be able to save money and get a better car in just a few months!

Dave

The teacher was wrong

Dear Dave,

My daughter is in her first year of college. Recently, her math instructor walked students through the process of getting a credit card and building credit. We've always followed your plan and taught her to do the same. When she asked the instructor if no credit score was as good as a high credit score, the instructor said no. He told the class the only way to buy a home without a high credit rating is by having a huge amount of assets or savings. I think I know your answer, but how do I explain this to an 18-year-old?

Allison

Dear Allison,

Well, the first thing you explain is that college instructors — even tenured college professors — can be absolutely wrong sometimes.

A few years ago my daughter took a personal finance class in college, and on the first day the instructor went on a rant saying Dave Ramsey is stupid. He didn't know I was her dad, but she went through the entire class and never said a word. When she called home and asked what she should do, we told her to take the class and give him the answers he wants on the tests. We reminded her that she's just taking a class, and that doesn't mean she has to form her life opinions around what that guy thinks.

Sit down with your daughter and gently explain in this instance her instructor doesn't have a clue what he's talking about. Explain to her you can get a home loan even if you have no credit score. People do it all the time. There are places like Churchill Mortgage that would be happy to give her an example of this process. It's called manual underwriting. All you have to do is make a reasonable down payment, have two years at the same job, and provide two years of tax returns.

Hope this helps, Allison!

Dave

Dave Ramsey is a seven-time #1 national best-selling author, personal finance expert, and host of The Ramsey Show, heard by more than 16 million listeners each week. He has appeared on Good Morning America, CBS This Morning, Today Show, Fox News, CNN, Fox Business, and many more. Since 1992, Dave has helped people regain control of their money, build wealth and enhance their lives. He also serves as CEO for Ramsey Solutions.

SPAGHETTI WESTERN By Fred Piscop

1 B	A	R	E	D	■	6 S	7 H	8 A	9 W	■	10 P	11 D	12 A	13 S
14 A	L	O	N	E	■	15 T	A	M	E	■	16 I	O	T	A
17 G	O	O	D	C	18 H	O	L	E	S	19 T	E	R	O	L
20 S	E	S	S	I	O	N	■	21 S	T	A	M	I	N	A
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25 B	26 O	27 N	28 B	29 O	N	■	30 A	31 R	32 S	O	N	■	■	■
33 A	V	A	I	L	■	34 A	S	I	A	■	■	35 S	36 H	37 E
38 B	A	D	N	E	39 I	G	H	B	O	40 R	41 H	O	O	D
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53 O	N	A	T	E	54 A	55 R	■	56 A	R	57 I	58 E	59 T	60 T	61 A
62 U	G	L	Y	S	T	E	63 P	S	I	S	T	E	R	S
64 S	L	O	E	■	65 O	M	I	T	■	66 I	N	S	E	T
67 T	E	N	T	■	68 M	O	P	E	■	69 L	A	S	E	R

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