Godly Wisdom for Managing Money

Bob Blewett
email: blewett@stlawu.edu website: http://myslu.stlawu.edu/~rble/pf.htm

Session 3: Getting out of Debt and Staying out of Debt

Session 3: A. Review B. What’s Wrong with Debt? C. Debt Reduction D. How To Avoid Debt E. Steps toward Living Debt-Free

A. Review Session 2

a. We need to plan if we are to be Godly stewards. A budget is merely a short-term, one-year plan to help us move toward our intermediate and long-term goals. It must be written and spending records must be maintained.

b. First comes God’s portion. Second comes the government’s portion. Third comes savings, which must put away. All this happens before spending begins. Money for lumpy, infrequent payments has to be set aside.

c. An envelope system works the best. Unlike computerized records, this system provides real-time feedback to help us change behavior.

d. Most items in a budget are there to limit our spending while other items are to encourage us to spend more. We need to distinguish between needs, wants, and desires. Married couples need to work to together and take responsibility together.

e. This stuff works! Even if you don’t do it very well, it still works. You don’t have to be smart. (In fact, smart can just get you into trouble.) Almost all financial counselors, whether Christian or not, give remarkably similar advice about budgeting.

Why? BECAUSE IT WORKS!!!!
B. What’s Wrong with Debt?

1. Borrowing is not prohibited in Scripture but it is never spoken of favorably.

   **Proverbs 22:7**  The rich rule over the poor, and the borrower is servant to the lender.

   **Deuteronomy 28:43-45**  The alien who lives among you will rise above you higher and higher, but you will sink lower and lower. He will lend to you, but you will not lend to him. He will be the head, but you will be the tail. All these curses will come upon you. They will pursue you and overtake you until you are destroyed, because you did not obey the LORD your God and observe the commands and decrees he gave you.

   One of the curses for disobeying God is to be a __________________________.

2. Surety vs. a collateralized loan.

   *Surety* means a guarantor for a debt; taking on an obligation to pay later without a sure way to pay. A car loan, where the outstanding balance is greater than the value of the car, is surety. However, a mortgage backed by a house greater in value is a *collateralized loan*. While not prohibited by Scripture, surety is obviously not encouraged.

   **Proverbs 17:18**  A man lacking in sense pledges, And becomes surety in the presence of his neighbor (NAS).

3. We have a God of integrity. He keeps His word and requires that others live up to their obligations.

   **Psalm 37:21**  The wicked borrow and do not repay, but the righteous give generously...

4. Borrowing makes it easier to ignore God’s direction and harder to discipline spending.

5. **Borrowing causes the miracle of compound interest to become a curse for the debtor.** Next week we’ll look at this miracle and how it can work for us. However, on the next page are a couple of examples showing how it can work against us.
**EXAMPLE #1: Paying what you can instead of paying what you have to.**

Fred has $5000 in credit card debt borrowed at 21%. He decides to make only the minimum payments required. His payments for the first five months are:

- $110.00 month 1
- $109.51 month 2
- $109.01 month 3
- $108.52 month 4
- $108.03 month 5

In addition to the 5 payments listed, another 619 payments will be required to pay off the debt. 52 years later, after all 624 payments have been made, Fred will have paid $18,136.96 in interest, plus the original balance of $5,000.00 (a total of $23,136.96)!

**A Better Option:** Instead of making only the minimum payment required each month, consider the interest payments avoided by continuing to make the same payment of $110.00 every month. His payment schedule will be:

- $110.00 month 1
- $110.00 month 2
- $110.00 month 3
- ...
- $110.00 month 88

In this option, Fred will pay $4,820.82 in interest (versus $18,136.96 above). He will pay off his debt completely in 88 months (7 1/3 years instead of 52 years above) and save $13,316.14 in interest.

**EXAMPLE #2: Adding a little extra to your mortgage payment.**

Lilith takes out a 30-year mortgage at 7% interest. What would happen if she added $100 per month to her mortgage payment?

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<tr>
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<th>Original</th>
<th>Extra Payments</th>
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<tbody>
<tr>
<td>Principle</td>
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<td>$100,000.00</td>
</tr>
<tr>
<td>Interest</td>
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<td>$89,002.73</td>
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<tr>
<td>Total</td>
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<tr>
<td>Term</td>
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<td>20 years 7 months</td>
</tr>
<tr>
<td># Payments</td>
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<td>247</td>
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<tr>
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</tr>
<tr>
<td>Time Saved</td>
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<td>9 years 5 months</td>
</tr>
<tr>
<td>Payments Eliminated</td>
<td>None</td>
<td>113</td>
</tr>
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</table>

**Who is saving over $50,500?**

- **Note:** Financial calculators available online generated the above examples. Go to [http://myslu.stlawu.edu/~rble/pf.htm](http://myslu.stlawu.edu/~rble/pf.htm). Under Topics, click Calculators and Other Tools.
C. Debt Reduction

1. Counterfeit Debt Reduction

a. Loan/Debt Consolidation.

The attraction of debt consolidation is that it often lowers interest and you have one smaller payment. At best, this does not reduce debt but merely restructures it.

The danger of consolidation is that it may make you feel good about yourself. You can fool yourself into thinking you have done something about your debt problem. However, you are only alleviating the symptom and not treating the problem. The payment is merely a symptom while the problem is getting into debt. The debt is still there. More importantly, the habits that caused excessive debt are still there.

b. Bankruptcy

God’s Word is clear that we are responsible for keeping our promises and for paying what we owe. However, if used to protect the lenders, bankruptcy is not unscriptural. That is, to ensure that the lenders are treated fairly.


a. Make a list of all debts but put them in order of largest to smallest. All means all debts, including past-due bills and informal loans that are not legally enforceable.

b. You still need to make payments on your debts. However, when you are able, make every effort to pay off the smallest debt first. After that debt is paid off, put extra funds toward the smallest debt left. Repeat the process until you run out of debts.

c. This old technique is called the window shade method because you will start seeing debt disappear as a window shade disappears when it rolls up. (Dave Ramsey renamed this the snowball method.)

d. Wouldn’t paying off the high interest loans first make more sense? Well, yes in terms of the math, but no in terms of human behavior. To quote Dave Ramsey,

“You need some quick wins in order to stay pumped enough to get out of debt completely. When you start knocking off the easier debts, you will start to see results and you will start to win in debt reduction.”
D. How to Avoid Debt

1. **Plan to avoid debt.** Make a commitment not to increase debt. If credit cards are a problem, cut them up.

2. **Know your financial condition.**

   *Proverbs 27:24* Be sure you know the condition of your flocks, give careful attention to your herds....

   a. **Have a budget plan and use it.** Keep tract of spending.

   b. **Make a list of debts.** Use the form provided and list all debts, even those to family and friends.

   c. **Reconcile your bank statement monthly** (consider using “double checks”).

3. **Develop contingency plans.** Have a plan for an unexpected financial blessing. Discuss the conditions necessary for accessing savings.

4. **Do not set yourself up for planned emergencies or scheduled disasters.** Put aside money for infrequent and irregular expenses as well as for savings. Even if you are heavily in debt, you must start saving something for emergencies. Otherwise, debt happens.

5. **Have paid-up insurance policies and a will.**

   a. Health insurance is a necessity for most. There are low-cost health care plans available through the state. College students have access to inexpensive plans.

   *1 Timothy 5:8* If anyone does not provide for his relatives, and especially for his immediate family, he has denied the faith and is worse than an unbeliever.

   b. Would your unexpected death financially burden your family? If so, you require life insurance.

   Term life insurance is ____________________________!

   c. A will is necessary and can be inexpensive. You can plan now with a will or let the State of New York do the planning for you later.

6. **Create financial transparency.** Set up conditions so that if any agreement or procedure is not being followed, the financial records will make it obvious. Everyone should be accountable in order to avoid ungodly acts and to avoid ungodly suspicions or accusations.
D. Steps toward Living Debt-Free

Remember this is a long-term process. As Dave Ramsey points out, this process involves taking a lot of

_____________________     ________________________.

Proverbs 21:5  *The plans of the diligent lead to profit as surely as haste leads to poverty.*

Step #1. **Commit to no new debt.** Develop a spending plan (budget) and do the stuff mentioned above in the **Section C**. You’ll always need to do so, so get used to it. You need to develop habits, good habits. That takes time and effort.

Step #2. **Save $1000 for emergencies.** Save at least something no matter how in debt you are. Your goal is *not* going back into debt. Saving is also a good habit to cultivate.

Proverbs 21:20  *In the house of the wise are stores of choice food and oil, but a foolish man devours all he has.*

Step #3. **Pay off credit cards.** Given the interest rates charged, this is the only high interest rate investment that is risk-free! Another goal is to increase savings to equal one-month’s living expenses.

Step #4. **Pay off consumer debt.** Also, move toward increasing savings to at least three months’ living expenses.

Step #5. **Save for major purchases.** You should start saving for replacement of cars and appliances. Longer-term savings should start as well.

Romans 13:8  *Let no debt remain outstanding, except the continuing debt to love one another, for he who loves his fellowman has fulfilled the law.*

**NEXT WEEK:**

**LONG-TERM VISION FOR INCREASE**