



# **BEYOND THE TITHE**

Practical Lessons on Personal Finance

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## **SESSION 4**

### INDENTURED SERVANTS WITH SMALLPOX

Dealing with Debt

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# Saving the Crumbs

SAVINGTHECRUMBS.COM

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The borrower is **servant** to the lender.

—Proverbs 22:7

Be determined never to incur another debt. Deny yourself a thousand things rather than run in debt. This has been the curse of your life, getting into debt. **Avoid it as you would the smallpox.**

—Adventist Home 393.4

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# DEBT IS BAD!

But not a sin.

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I now write to ask you if you will **let me have the use of two thousand dollars** to help me in bringing out books that the people need....If I should fall in the conflict before the Lord's appearing, my sons would carry forward the work of circulating my books according to my plans. When the expense of issuing my books is lessened, **the sales will soon pay up all my debts....**

—Publishing Ministry, 209.4-5

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## RULES FOR DEBT

1. Never borrow money for something that goes down in value.
2. Borrowing is acceptable only if what you're buying can pay off the debt.

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## WHAT ABOUT THESE?

1. iPhone?

***NO!***

2. Vacation?

***NO!***

3. Car?

***NO!***

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# INTEREST & DEPRECIATION

	New Price	Price After 1 Year	Total Cost with 10% Interest	Difference
iPhone	\$650	\$400	\$715	<b>\$315</b>
Vacation	\$2,000	\$0	\$2,200	<b>\$2,200</b>
Car	\$30,000	\$24,300	\$33,000	<b>\$8,700</b>

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## PAYING INTEREST ON DEPRECIATING ASSETS

There's no surer way to lose money.

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“A fool and his money is soon parted.”

–English Proverb

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## THOUGHTS ON CREDIT CARDS

- Credit cards are not dangerous.
- Credit card use **without self-control** is dangerous.
- You can live without credit cards.
- Credit cards do have benefits.

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# PROPER CREDIT CARD USAGE



- Don't use them to buy stuff you don't need. (Have a spending plan!)
- Never carry a balance. Pay them off every month.
- If you violate either of these two rules, cut them up.
- Consolidate use to concentrate rewards.

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# PAYING OFF DEBT

- Own the debt. Don't make excuses. Don't play the victim.
- There is no alternative to making big payments. Sometimes you can negotiate with creditors, but that won't eliminate the debt.
- Make debt payoff the #1 priority in your short-term savings plan. Then squeeze every dime out of your monthly spending plan.
- Don't worry about other investments until your debt is paid off.
- Use the Debt Snowball Method.

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# DEBT SNOWBALL

- List debts from smallest to largest.
- Pay minimums on all debt except the smallest.
- Focus intense efforts to pay off the smallest, then roll all extra payments to the next one on the list.



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# DEBT SNOWBALL

Credit Card 1	\$1,000
Credit Card 2	\$2,500
Car Loan	\$10,000
Student Loan	\$25,000

**\$38,500 Total**

- If \$1,000/month toward debt.
- Both credit cards paid in 4 months.
- Payoff in 39 months or 3.25 years.

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## SNOWBALL VS. AVALANCHE

- Paying off in order of highest to lowest interest rate will result in the greatest amount of money saved.
- But the psychological motivation of seeing small wins helps maintain momentum.

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Paying off debt is the best investment. If you regret being debt-free, it's easy to undo it.

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# THE 2 BIGGEST DEBT SCENARIOS

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# THE 2 BIGGEST DEBT SCENARIOS

- Student Loans
- Home Mortgage

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## DO THEY PASS THE “DEBT RULES”?

- Student Loans
- Home Mortgage

**YES...**

**YES...**

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## DO THEY PASS THE “DEBT RULES”?

Just because it's permissible doesn't  
mean you must!

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# STUDENT LOAN FINE-PRINT



- Student loans can't be discharged in bankruptcy.
- The government can even garnish your tax returns.
- Just because you qualify, don't take the max amount.
- It ain't free money!

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# SOME SENSIBLE QUESTIONS

- What career do I wish to pursue?
- How much do I expect to earn?
- How much will I owe?
- What must I do to be debt free ASAP?

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# INCOME VS. DEBT

Occupation	Approx. Starting Income	Average Debt
Teacher (BS)	\$35,424	\$35,000
Pastor (MDiv)	\$46,000	\$40,000
Nurse (RN)	\$49,920	\$35,000
Dentist (DDS)	\$120,000	\$400,000

# INCOME VS. DEBT

Occupation	Average Monthly Income	Payoff in 5 Years at 7%	Payoff in 10 Years at 7%
Teacher (BS)	\$2952	\$693/month (23% income)	\$406/month (14% income)
Pastor (MDiv)	\$3833	\$792/month (21% income)	\$464/month (12% income)
Nurse (RN)	\$4160	\$693/month (17% income)	\$406/month (10% income)
Dentist (DDS)	\$10,000	\$7920/month (79% income)	\$4644/month (46% income)

# INCOME VS. DEBT

Occupation	Payoff in 10 Years at 7%	Payoff in 20 Years at 7%	Payoff in 30 Years at 7%
Payments	\$4644/month (46% income)	\$3101/month (31% income)	\$2661/month (27% income)
Interest Paid	\$157,321	\$344,288	\$558,036

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DENNIS THE DENTIST  
LLU Grad

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# DENNIS THE DENTIST

- **Lifestyle Inflation:**

- Big house
- Fancy cars/toys
- Expensive clothes
- Country Club membership
- Higher taxes/insurance

- **Family Expenses:**

- Having kids
- Private schools
- Music/Sports/Art lessons
- Vacations
- Supporting parents

# CAN DENNIS DO IT?

Annual Salary		<b>\$120,000</b>
Tax	-\$36,000	30%
Tithe	-\$12,000	10%
Mortgage	-\$18,000	\$300,000 mortgage
Car Loans	-\$9,600	\$45,000 car
Annual Vacations	-\$6,500	Travel with the family
Private School	-\$7,000	Tuition for 1 child
Kid's Lessons	-\$2,000	\$40/week
<b>What's Left?</b>		<b>\$28,900</b>

## CAN DENNIS DO IT?

- At a rate of \$28,900/year, it will take Dennis **50 YEARS** to pay off his student loans.
- In total for his \$400,000 loan, he will pay **OVER \$1.4 MILLION.**
- Any less than this and his payments won't keep up with the interest, meaning he would never pay it off.
- This does not even take into account his regular living expenses!

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## A TRUE DENTIST ~~SURVIVAL~~ SUCCESS STORY

- LLU Graduate in 2000.
- \$200,000 in student loans.
- Paid off in 5 years.
- Completely debt-free in 8 years.
- How?

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# A TRUE DENTIST ~~SURVIVAL~~ SUCCESS STORY

- Determined to pay off loan ASAP.
- **Year 1:** \$200k in dental school debt. Bought a small practice 4 months out of school.
- **Years 2 & 3:** Worked hard, got married, bought a condo.
- **Year 4:** Started a 2nd practice from scratch. \$70k left in debt.
- **Year 5:** Sold 1st practice and condo, profit paid off remaining student loan.
- **Year 8:** Sold 2nd practice for nearly \$1 Million, moved to the country 100% debt free.

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# A TRUE DENTIST ~~SURVIVAL~~ SUCCESS STORY

“Yes, dentists make pretty decent money, but what was most helpful to us was God's blessings on the right investments at the right time.”

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## STUDENT LOAN DEBT-FREE COMMITMENT

- **Goal:** To be debt free \_\_ years after graduation.
- **Pledge:** To pay at least \$\_\_ each month until it is paid off.
- **This Means:** I will work hard until my debt is paid off!

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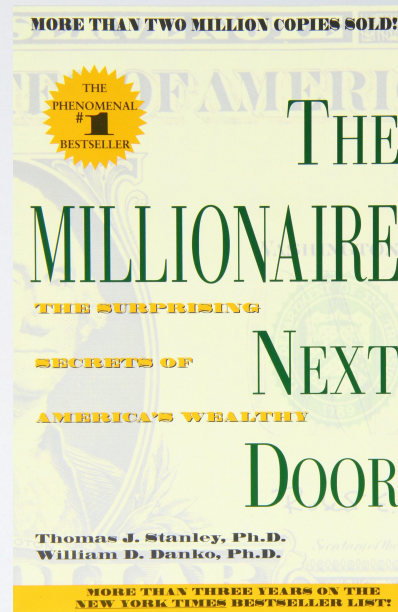
## STRAIGHT TALK TO STUDENTS

If “students are so poor” why do many not live like it?

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# ECONOMIC OUTPATIENT CARE

- Junior feels entitled to same standard of living as Mom and Dad.
- So Mom and Dad subsidize Junior's lifestyle or Junior racks up debt.
- Mom and Dad don't want Junior to have to work. They are trying to give him a better life than they had.
- Ironically, they take away the one thing that was the source of Mom and Dad's success.
- Junior feels victimized when he can't have what he wants.



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## MILLION STUDENT MARCH

1. Free college tuition
2. Cancellation of all student debt
3. \$15 Minimum wage for all campus workers

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“Give a man a fish and he will eat for a day,  
teach a man how to fish and he will eat for a  
lifetime.”

–Chinese Proverb

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In acquiring an education, many students would  
gain a **most valuable training if they would  
become self-sustaining. Instead of incurring  
debts**, or depending on the self-denial of their  
parents, let young men and young women  
depend on themselves.

-Education 221.2

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They will thus learn **the value of money, the value of time, strength, and opportunities, and will be under far less temptation to indulge idle and spendthrift habits.** The lessons of economy, industry, self-denial, practical business management, and steadfastness of purpose, thus mastered, would prove a **most important part of their equipment for the battle of life.**

-Education 221.2

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LEARN TO WORK.  
Students.

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# LEARN TO WORK. HARD.

Students.

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## WAYS TO MINIMIZE LOANS

- **Live Your Wage** – Which is none. So don't pretend.
- **Apply for Scholarships** - The closest thing there is to free money.
- **Consider Cheaper Options** - Community college, state schools, at least temporarily.
- **Dump the Car** – Walk, ride a bike, carpool, live on campus.
- **Eat in the Cafeteria** – Eating out is beyond your pay grade.
- **Remember Your Education Is Priority** – Not a relationship, not parties, not sports.
- **Get a Job (Or 2)** - The work experience may be worth more than your classes.
- **Interview Your Future Self** – He/ she's the person you're really borrowing from.

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# LIFEHACK FOR STUDENTS

- Once graduated or after student loans are paid off, live on 40% of earnings and invest the other 60%. Assuming 8% returns, in 10 years, the amount you've invested will be enough to cover your annual living expenses.
- **Example:** If you earn \$50,000, live on \$20,000 and invest \$30,000 each year for 10 years at 8%. In 10 years, you would have right around \$500,000. Using the 4% safe withdrawal rate, your investment will net you \$20,000 each year—equivalent to your yearly expenses.
- You could theoretically “retire”!

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# BUYING A HOUSE

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## THE STORY OF OUR HOUSE

Paid off in 2 Years

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## THE NUMBERS

- \$185,000 Purchase Price
- \$85,000 Mortgage
- 15-year fixed rate at 3.49% interest
- \$607.24 Minimum payments
- \$3,700 Average actual payments
- \$100,000 Downpayment

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## THE SECRET

- \$185,000 Purchase Price
- \$85,000 Mortgage
- 15-year fixed rate at 3.49% interest
- \$607.24 Minimum payments
- **\$3,700 Average actual payments**
- **\$100,000 Downpayment**

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## THE SECRET

- **A Big Downpayment:** My wife had a dream to buy her first house in cash and had been saving up ever since she graduated.
- **Big Monthly Payments:** Nearly all our extra savings went toward the mortgage. We averaged 6x the minimum.

**IT'S ALL ABOUT THE SAVINGS RATE!**

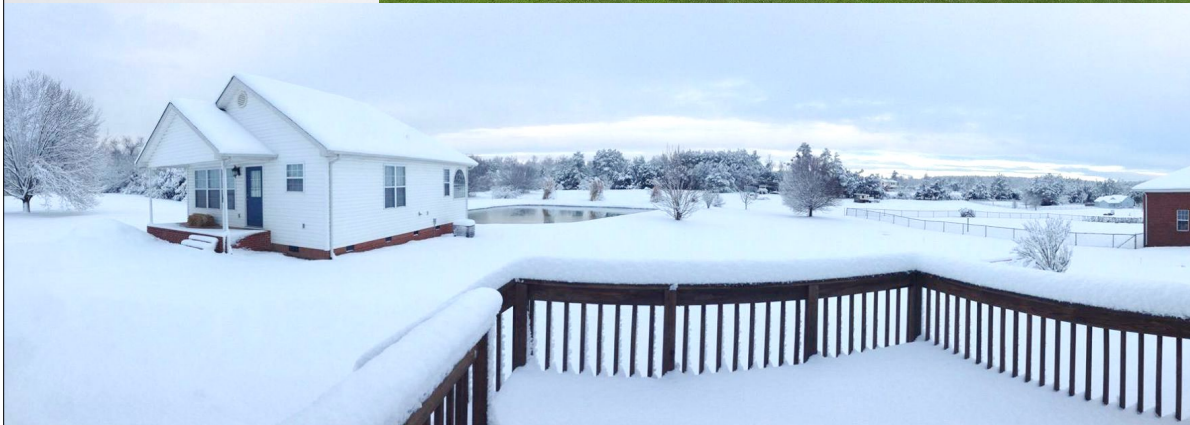
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# THE BENEFITS

- We get to live rent AND mortgage free, eliminating the single largest expense in our budget.
- We own our home now, instead of the bank, so no risk of foreclosure!
- More free cash for other savings. (Solar panels!)
- We paid off the mortgage the same month our baby was born.
- One less thing to stress about!

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# THE BENEFITS



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# THE BENEFITS

Oh yeah, and we saved a LOT of interest!

	15-Year Payoff	2-Year Payoff
Mortgage	\$85,000	\$85,000
Monthly Payment	\$607.24	\$3,700.00
Total Interest	\$24,301.91	\$3,344.85
<b>Interest Saved</b>		<b>\$20,957.06</b>

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ISN'T A MORTGAGE GOOD  
FOR MY TAXES?

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## ISN'T A MORTGAGE GOOD FOR MY TAXES?

- Only the interest can be deducted from taxes, not full payment.
- Only applies to those who itemize deductions (most don't).
- You save more by paying off the loan than you get back in tax deduction. (Paying \$1 to get back \$.25)

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## GETTING THE DREAM HOUSE

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# GETTING THE DREAM HOUSE

- Suppose our dream home is a \$300,000 house out in the country. What's the best way to purchase that house?
- Is it better to get a small house first and pay it off early?
- Or is it better to go straight for the bigger house if I can afford the payments?

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# GETTING THE DREAM HOUSE

The Biggs	<i>1st Decade</i>	The Smalls
\$300,000	<b>House Price</b>	\$150,000
\$30,000	<b>Down Payment</b>	\$30,000
\$270,000	<b>Balance</b>	\$120,000
30 years @ 4.5%	<b>Terms</b>	10 years @ 4.5%
\$1,368.05	<b>Monthly Payment</b>	\$1,243.66
\$164,166	<b>10 years total payments:</b>	\$149,239

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# GETTING THE DREAM HOUSE

The Biggs	<i>2nd Decade</i>	The Smalls
-	<b>Upgrade House Price</b>	\$300,000
-	<b>Down Payment</b>	\$150,000
-	<b>Balance</b>	\$150,000
30 years @ 4.5%	<b>Terms</b>	10 years @ 4.5%
\$1,368.05	<b>Monthly Payment</b>	\$1,554.58
\$164,166	<b>10 years total payments:</b>	\$186,549.14

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# GETTING THE DREAM HOUSE

The Biggs	<i>3rd Decade</i>	The Smalls
30 years @ 4.5%	<b>Terms</b>	-
\$1,368.05	<b>Monthly Payment</b>	-
\$522,498	<b>Total Amount Paid</b>	\$365,788
\$0	<b>Amount Saved</b>	\$156,710

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# GETTING THE DREAM HOUSE

- Both families ended up in their dream home.
- But the Smalls ended up paying off their dream home a full **TEN YEARS** before the Biggs.
- The Smalls' mortgage payment was lower for the first ten years, slightly higher for the second ten years, and they had **NO** payments in their third ten years.
- The Smalls saved enough money in total that they could have gone back and bought their first house back in **CASH** with the surplus.
- **By buying smart, the Smalls can own TWO HOUSES and have them both paid off TEN YEARS before the Biggs finish paying off their first.**

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# GETTING THE DREAM HOUSE

Buy smart and don't let it become a nightmare!

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## SESSION 4 SUMMARY

- Never borrow money for anything that goes down in value.
- Borrowing is acceptable only if the purchase will increase in value or generate income.
- Credit cards aren't dangerous, credit card use without self-control is.
- Paying off debt is the best investment, and use the debt snowball.
- Minimize student loans upfront then pay them off as soon as you can. Don't inflate your lifestyle!

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## SESSION 4 SUMMARY

- Don't take the maximum student loan/mortgage you qualify for.
- Buy only as much house as you need.
- Pay the biggest downpayment you can muster.
- Pay as large monthly payments as you can.
- Buy a smaller house with a shorter mortgage and work up to a bigger one.

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# BEYOND THE TITHE

Practical Lessons on Personal Finance

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## RESOURCES

- If We Woke Up \$200,000 in Debt! (<http://www.savingthecrumbs.com/woke-up-200000-in-debt/>)
- If We Had a Million Dollars...(<http://www.savingthecrumbs.com/if-we-had-million-dollars/>)
- Credit Cards: Friend of Foe? (<http://www.savingthecrumbs.com/credit-cards-friend-or-foe/>)
- Driving Off a Cliff with a New Car Loan (<http://www.savingthecrumbs.com/driving-off-a-cliff-with-a-new-car-loan/>)
- How to Tell If Something is Truly Cheap (<http://www.savingthecrumbs.com/something-truly-cheap/>)
- Retirement: The Best Graduation Gift (<http://www.savingthecrumbs.com/retirement-best-graduation-gift/>)

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## RESOURCES

- The Art of Having Your Cake and Eating It Too (<http://www.savingthecrumbs.com/art-of-having-cake-eating-it-too/>)
- 7 Lessons as One Year Homeowners: And Paying it Off in less than 3 Years (<http://www.savingthecrumbs.com/7-lessons-as-one-year-homeowners-and-paying-it-off-in-less-than-3-years/>)
- How to Pay Off the House in 2 Years (<http://www.savingthecrumbs.com/pay-off-house-2-years/>)
- Paying Off the House: Smart Move or Silly Mistake? (<http://www.savingthecrumbs.com/paying-off-house/>)
- Is a Home the Best Financial Investment? (<http://www.savingthecrumbs.com/home-best-financial-investment/>)
- Is Borrowing from the House a Good Idea? (<http://www.savingthecrumbs.com/borrowing-from-house-good-idea/>)