

DISCUSSION QUESTIONS

1. When is it appropriate to borrow money?
2. How can debt be dangerous?
3. Are credit cards friend or foe? Why?

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SLAVE TO THE LENDER

Practical Tips on Dealing with Debt

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IS BEING IN DEBT A SIN?

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

—Proverbs 22:7

Owe no man any thing, but to love one another:
for he that loveth another hath fulfilled the law.

—Romans 13:8

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DEBT IS BAD!
But not a sin.

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A NATION OF INDENTURED SERVANTS

- Average household debt (2021): **\$155,622**
- Average car loans: **\$28,882**
- Average student loans: **\$59,042**
- Average credit card balances: **\$6,006**
- Total Owed in the US: **\$15.24 trillion**

<https://www.nerdwallet.com/blog/average-credit-card-debt-household/>

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A NATION OF INDENTURED SERVANTS

MARKETS BUSINESS INVESTING TECH POLITICS CNBC TV INVESTING CLUB PRO

PERSONAL FINANCE

58% of Americans are living paycheck to paycheck after inflation spike — including 30% of those earning \$250,000 or more

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<https://www.cnbc.com/2022/06/27/more-than-half-of-americans-live-paycheck-to-paycheck-amid-inflation.html>

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"There are only three ways a smart person can go broke: liquor, ladies, and leverage."


—Charlie Munger

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WHEN IS IT OKAY TO HAVE DEBT?

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THE WIDOW'S OIL (2 KINGS 4:1-7)



- A single mother with collectors coming to take her sons as slaves.
- Elisha told her to borrow containers from her neighbors.
- The containers were filled with the miracle oil.
- The oil was sold to pay back the debt.
- **What she borrowed helped pay back the debt.**

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RULES FOR DEBT

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

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DO THEY PASS THE "DEBT RULES"?

- Student Loans **YES...**
- Home Mortgage **YES...**
- New iPhone **NO!**
- Car Loan **NO?**

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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



- Federal 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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BUYING A CAR

Without a Loan

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BUYING A CAR



Average Car Payment = \$500 for 68 months
(\$34,000 total)

If you can afford the car payment after you make the purchase, you can afford it before you buy the car.

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BUYING A CAR

1. Drive a cheap temporary car
2. Pay yourself the car payment (i.e. save up!)
3. Use amount saved plus equity of temporary car to upgrade in cash.
4. Repeat as needed.

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BUYING A CAR

1. Buy \$2,000 temporary car.
2. Save \$500/mo for 12 months = \$6,000
3. Sell temporary car, and upgrade to \$7-8,000 car.
4. Save \$500/mo for 12 months = \$6,000
5. Sell car, and upgrade to \$12-14,000 car.

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BUYING A CAR

1. Buy \$2,000 temporary car.
2. Save \$500/mo for 68 months = \$34,000
3. Sell temporary car, and upgrade to entire FLEET of vehicles.

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BUYING A CAR



A car historically is a depreciating asset. Purchase as you would a tool that does not increase in value.

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CAR MARKET BUBBLE



- Used car prices have increased 40% year-over-year
- 2008 housing crisis in car market
- Don't be caught underwater in an overpriced car loan!

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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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BALANCE VS. INTEREST RATE

- 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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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 budget!)
- Credit card debt is unacceptable. 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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LOVED ONES AND LOANS

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LOVED ONES AND LOANS

- Lending money to friends and family can lead to financial problems and damaged relationships.
- Before lending money to friends and family, consider how it could affect you financially and emotionally if they fail to repay.
- Lending money can incur tax implications for both the borrower and the lender.

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If you don't want to hear from someone,
lend them money.

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WHAT ABOUT COSIGNING?

- Cosigning a loan for friends and family in lieu of lending money directly can also be problematic.
- Proverbs 11:15 *Whoever puts up security for a stranger will surely suffer harm, but he who hates striking hands in pledge is secure.*
- Proverbs 22:26-27 *Be not one of those who give pledges, who put up security for debts. If you have nothing with which to pay, why should your bed be taken from under you?*
- Proverbs 17:18 *One who lacks sense gives a pledge and puts up security in the presence of his neighbor.*

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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

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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 first baby was born.
- One less thing to stress about!

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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
Interest Saved		\$20,957.06

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RENT OR BUY? The Age Old Question

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RENT VS BUY

- Do you have other debt?
- Are you ready for the responsibilities of home ownership?
- Consider your lifestyle, career, family, and other priorities.
- Be clear you know, "Why?"
- Reason over emotion!

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INFLATION AND THE HOUSING MARKET

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SOME GOOD NEWS

- Real estate is a good hedge against inflation.
- Locking in a fixed interest rate means we will repay with devalued dollars in the future if inflation persists.
- A home will never go to \$0.

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SOME GOOD NEWS

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THE PROBLEMS

- Home prices are high
- Buyers are aggressive
- Mortgage interest rates are rising
- Rent is increasing with inflation

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THE QUESTIONS

- When will the market cool off?
- Will home prices come down?
- Will interest rates come down?
- Will there be a market crash like in 2008?

NO ONE KNOWS!

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SUGGESTIONS

- Reconsider how much house you really need
- Save as big of a downpayment as possible (at least 10%, preferably 20% or more)
- Plan to stay in the house for at least 6 years (preferably 10 or more)
- Don't do ARM, stick with fixed rate mortgages
- Ensure monthly payment is no more than 25% of take-home pay
- Be patient
- Ask God to be your realtor

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