

Getting out of debt

Random numbers

Nationally 88% of “90 days same as cash” contracts convert to debt with an interest rate of 24-38% back-dated to the original time of purchase.

The average American household has 13 payment cards, including credit cards, debt cards and store cards. The average carry-over balance of credit cards alone is \$5,800 from month to month. If one were to make only the minimum payment on that debt every month, it would take 30 years to pay off and include an additional \$15,000 in interest. The Consumer Reports Money Book states that the typical household has \$38,000 in total consumer debt. That's everything but the house and school loans.

Over 40% of US families spend more than they earn. (Federal Reserve)

96% of all Americans will retire financially dependent on the government, family, or charity. (U.S. Dept. of Health & Human Services) Unfortunately, many analysts are convinced that if there is anything left of the current social security system it certainly won't be enough to support those 96% of retired Americans looking to it for survival.

Payday loans – You write a check for \$225 dated one week from now (payday). They give you \$200 cash on the spot for a mere \$25 fee. This is 650% interest annually.

We want to help friends – co-signing a loan. If the banks won't give them a loan, nobody should. Of course, I have been helped by a family member co-signing a loan for me. I don't think he knows how many times that nearly backfired on him. It took me years to pay it off and I had to work hard to lower the payments (which cost me more in the long run) in order to not have to stop making payments altogether and default on the loan. Which of course, would end up on his credit report.

Car payments – These are considered part of life. Some people consider it good debt. Kind of like a house. Most people in the United States keep a car payment their entire lives because once they have paid off their car they decide they need to replace it. Let's say your car payment is \$378 /month and that's what you pay each time you get a new car. If that money were invested from age 25 to age 65 at 12% you're looking at over \$4 million.

According to the National Association of Realtors the average homeowner stays in their home for 7.1 years (1993 statistic). With an 8% mortgage, they will sell their home still owing over 90% on their mortgage. If they were to continue this trend they would NEVER pay off a mortgage in their lifetime!

Only 2% of homes in America are paid for!

As of 1995 92% of U.S. family disposable income is spent on paying debts, up from 65% in 1975. [Federal Reserve]

Foreclosures have increased 200% from 1980 to 2003. In 2001 there were 600,000 foreclosures and 1.5 million bankruptcies.

You do not need a credit card to get a mortgage. You can qualify for a Conventional 15 year fixed rate loan if you have paid your landlord on time or early for 2 year; you have been in the same career field for 2 years; You have a good down payment; you have no other credit, good or bad; and you are not trying to take too big a loan. A payment that totals 25% of take-home in conservative and will help you qualify.

"I pay off my credit card every month". CardTrak says 60% don't pay off their credit cards every month.

Over 80% of graduating college seniors have credit-card debt before they even have a job.

Debt consolidation - "You can't get out of a hold by diggoung out the bottom." - Dave Ramsey. "Debt is not the problem; it is the sympton." - Larry Burkett. 78% of the time after someone consolidates his cred-card debt the debt grows back. It feels like a solution because the payments are lowered. However, this isn't necessarily due to a lower interest rate but due to a longer repayment schedule. The longer it takes you to pay back your debt the more money the lender makes. Debt consolidation is a business.

Strategies

Make more money. This is hard but can be done in a few ways. Some of you know that Heather went back to work 9 months ago. This was a financial decision. After we atlked about it at length we also agreed that it only needed to be a part-time job because there is still a great deal in the community she wants to have time to keep doing, such as working at the food pantry. If it were necessary she would work full-time. Not permanently, but just until we could get out from under the weight of debt. I also have been more pro-active about taking side contracting jobs outside of work. This hasn't given a great deal of extra income but every dollar counts because we know that every dollar eats away our debt.

Thoughts to speak on

Scriptures

Proverbs 22:26-27 - "Do not be a man who strikes hands in pledge or puts up security for debts; if you lack th means to pay, your very bed will be snatched from under you."

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

Matthew 6:24 - "No one can serve two masers. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. You cannot serve both God and Money."

John 12:8 - " You will always have the poor among you, but you will not always have me."

Proverbs 13:11 - "he who gathers money little by little makes it grow"

Outline

Spatter stats throughout

The American outlook on debt

What scripture says about debt

Thoughts/Topics

Strategies

Today I'm going to talk about debt. I expect everyone in this room fits into one of two categories. Group one says "I have my debt under control." Group two says "I'm at my wits end and I don't know how I'm going to keep up with all of my payments." I would like to think there is a third group in this room that says "I don't currently owe any person, bank, utility or other company a single penny. I have no debts and I pay my bills on time every time and I have enough cash in the bank to cover 6 months of no income" If someone in this room did fit in that group, they would be in the top 2% of the wealthy in the United States. I'm not talking about millionaires here. I'm talking about a group of people who have actually paid cash in advance for everything they "own".

That being said, I want to make two things perfectly clear before I move forward. First, our nation as a whole is in serious financial trouble. The government's current estimated public debt is \$8.7 trillion. That's approximately \$29,000 per citizen. Second, I am worth more dead than alive. I owe in debt more than I could likely get if I sold everything I own and started back to square one with nothing. Although I can be somewhat glad to say that depending on the market and some luck I might manage to break even if I got a good purchase price on my house. Thankfully, I feel comfortable to say I'm currently moving in the right direction but only because my eyes have been opened to the lies that I have believed and been taught about debt. I want to take a look at some of those lies, reveal them for what they are, and then talk a little about what is going to be necessary to get out of debt.

We look at debt as a tool. A tool to be used to bring us wealth. It sounds counter-intuitive when you say it like that and yet we swallow that line hook line and sinker. You've heard the old adage "It takes money to make money" right? What if you don't have that money in the first place? Well you borrow it of course. You do so with the belief that you will make back what you borrowed and more. We use debt as a tool to get an education, a car, a house. It's a tool for emergencies and vacations because you'll pay it back later. Some how we have accepted the lie that we can prosper off of someone else's money. Your first credit card is like your initiation into adulthood. Isn't that sad? That a symbol of maturity and age is a piece of plastic that is intentionally marketed at people to get them to buy things they can't afford? Now some of you are saying to yourselves "But Michael, I pay off my credit card at the end of every month." That's great. I'm glad you're doing that. And it's interesting that most people I talk to say that they pay their credit card off at the end of each month. That's certainly what I was taught to do. But here's the truth.

The average American household has 13 payment cards, including credit cards, debt cards and store cards. The average carry-over balance of credit cards alone is \$5,800 from month to month. If one were to make only the minimum payment on that debt every month, it would take 30 years to pay off and include an additional \$15,000 in interest. The Consumer Reports Money Book states that the typical household has \$38,000 in total consumer debt. That doesn't even include the mortgage and school loans.

But if we all know that you are supposed to pay that credit card off at the end of the month then why do so few people actually do it? If you play with fire, eventually you'll get burnt. It's a cliché but it's

dead on. Credit cards are fire and their burning a hole in your wallet. One day a major expense or emergency is going to come up and you won't be able to pay the whole amount "this month". But it'll be OK because things will get back to normal next month and you'll catch up then. Or not. So long as we look to borrowing money instead of having our own money for life and emergencies we are setting ourselves up for failure.

Another way people use debt as a tool is by taking out a loan for a large sum of money and then invest it in a stock or other type of investment with the hope and belief that they will make more on the investment than they will pay in interest on the loan. If all works out well they will be able to make enough money to pay back the loan and any interest they pay and still make a profit off the venture. Does that sound risky to you? If so, then student loans should too. I'm not saying don't take out student loans but I am saying you need to be aware of what you are doing. When I was 19 I had been out of high school for a year and realized that I couldn't make much money with only a high school diploma. I wanted to make more money so I applied to a technical school and took out a loan assuming that when I graduated I would be able to make enough money to live better and still pay off my student loan. It was a struggle and I almost didn't make it, but I did. Now, for those of you making that choice right now I want to encourage you to think about your life after school because this is important. Some of you may be thinking about becoming missionaries, perhaps a pastor or associate pastor in a small country church, or perhaps you're just going "see what happens". How much do these positions make? I really don't know but I'm hoping you do because you are going to come out of school with possibly \$500-\$600 per month payments for the following 10 years. Have you considered that this does, in fact, limit your choices? You have to find a job that will pay enough money for you to live off of plus make that debt payment. Or, if you are going to do foreign missionary work you are going to have to find many more people willing to provide regular support so you can pay your debt each and every month.

If you are making debt payments you are not in full control of your money. If your electric bill is too high, you can turn off some lights. You could go nuts and cut power to the house altogether if you had to but you get to choose. You have control over how much you pay for that. Same with gas, food, and water. These are necessities but they are expenses that you can control to an extent. I know most of you and I know that some of the most creative and frugal people I've met in my life are here in this room. And yet, I would wager that the debt payments some of you are making are nullifying your frugality. Why is that? It's the decisions we have already made that we now have no control over. If your car payment is too high you can't use your car less to lower it. You can't use your house less to reduce your mortgage payment. We are called to be good stewards of our money but if you are making payments on debt, you are not being as effective with your money because there is a large chunk of your finances that you don't have control over.

What's ironic is that in the midst of all that lack of control you can look and feel very wealthy. I look at how much I have compared to my neighbors and I want to give my time, my money, food, whatever is needed. But what happens when the need is greater than what I have? How can I say no to giving away the food in my pantry or driving people around to where they need to go? If I get a little low on cash I can always put whatever I need on credit and I'll make up for it later. When there is less need. That time will come, right? Wrong. No matter how much I give there will always be need and if I keep giving more than I have then one day I'm going to open my my credit card bills and realize my minimum payments are more than I can afford and when I look at the total amount I owe I realize I owe more than I could possibly ever pay back. The food, the gas, the diapers, all of the things I have given away that I didn't have the money to replace at the time I still don't have. Not only can I no longer help others, I myself am now in need of help. For some of us, it will take years to recover and repay our debts by the time we reach this point. And, of course, with interest it could take years longer to get out of debt than it did to get in.

We need to be honest about the stress and weight that debt places on us individually, and as a family. Have you ever argued with your spouse about finances? Have you looked at all the bills that have to be paid and the pay check that seems to be diminishing and argued about priorities? Husbands and wives must be on the same page about this. Both must be involved in the day-to-day finances. Heather and I have struggled with this and bounced back and forth. When we first got married I was in charge of the finances. I did the best I could but was struggling. I didn't have the

courage to tell her because I was the head of the house-hold and it was my responsibility and I was going to figure it out. One day, about 3 months in, Heather said she was going to the store to get groceries. I broke down and said "Groceries?! We don't have money for groceries! We have no money left and soon we won't be able to pay our mortgage!" Not the best way to start a conversation on finances. Heather now does much of the data entry but I do a little as well from time to time but we talk weekly if not daily about how things are going and making sure we both know how much we have left in our different budget areas so I don't accidentally spend more than is allotted in any area. This can not be one person's job. It must be done as a team.

So now that I've depressed you all and we're all squirming in our seats wondering how we get out of this mess we're in, let's talk about strategies. But keep something very clear in mind here. I'm not likely going to tell you anything you don't already know. There is no magical cure for debt. Not refinancing, not bankruptcy, not a 6 week course to turn your spare time into thousands of dollars by buying and selling houses with borrowed money. Making these strategies succeed takes work, sacrifice, and prayer but it can be done.

First, don't just budget, get serious about knowing what money is coming in, what money is going out, and what expenses are coming up. Heather and I started using what's called the envelope system. It took me a bit to get used to (and I'm still working on it) but here's how it works. When you get paid you take your paycheck and put it into envelopes. Each envelope is for a different expense such as mortgage, utilities, food, auto expenses, etc. You need a budget to know how much needs to be in each envelope. When you go shopping for food, take your food envelope. When the envelope is empty you stop spending money on food. It doesn't matter how much you have in your other envelopes. You stop. If you don't have the money you don't spend it. This takes serious planning. Far more than I'm going to go into here. I will let you know though, that after creating a budget and switching to envelopes to keep track of expenses and save for long term expenses like insurance I found that not only was the balance in my checking account going up for the first time, but I was still making larger payments on my debt than I ever imagined. When Heather and I are tired and she asks if we can go out I don't just say yes. I ask how much is in the eating out budget knowing that what we spend now we can't spend later when we may be more tired. When we want to help someone out and gift someone financially we look at that envelope. We have one just for giving. If we've already given what we can then we can't give any more until we make more money. It's as simple, and as hard, as that. Now, I will put a caveat on this seemingly no-give kind of approach. We do move money from one envelope to another if we have to. A budget is a somewhat living and changing thing. However, no money can be moved from one category to another unless we both agree. We must agree that we have more money in the one envelope than we need and that it will be OK to put it into another envelope where we are short.

Next we need a strategy to start paying off our debts. Make your minimum payments on everything but then take as much excess money as you can allocate in your budget and start putting it toward the debt with the smallest dollar value. Notice I didn't say the highest interest rate. First, this will give you encouragement to see that you are making progress on this overwhelming debt. Secondly, the money that you were putting toward that first debt can be put toward the next largest debt once it's paid off and so on.