

V. Get out of debt.

A. Money myths (and debt traps).

1. Debt is a tool to create prosperity.
2. What you can spend is determined by how much credit you have.
3. You need to have some debt so that you can establish a good credit rating.
4. Everyone has to borrow money to buy a car.
5. So long as you make your minimum payment on your credit cards you are OK.
6. People should shop with credit cards so they won't have to carry cash.
7. Credit is nice when you see a great deal, or there is something you just must have.
8. Ninety days same as cash and zero percent financing lets you use other people's money for free.
9. Rent to own is a good way for people who can't afford new appliances or electronic devices to get what they need.
10. Student debt can easily be paid back after one graduates and gets a great job.
11. Friends and family show their love for one another by co-signing loans.
12. Borrowing money from family and friends is a good idea because the lender gets more interest than the bank pays and the borrower pays less interest than the bank charges.
13. Sometimes cash advance/payday loans are a necessary convenience.
14. Debt consolidation services are a great way to get your finances back in order.

B. Debt is folly! Rom. 13:8

1. Debt produces bondage to men – slavery. Pr. 22:7 II Ki. 4:1-7 Neh. 5:5 Ex. 21:2ff
2. Debt is an indication of the absence of God's blessing. Deut. 28:44,12 15:6
3. Debt presumes upon the future. Pr. 16:9 19:21
4. Debt is often incurred because we are not content with what God has given us.
5. Debt can keep us from fulfilling our obligations to God and our family. I Ti. 5:8
6. Debt lingers – it is very hard to get rid of.
7. Debt lowers your standard of living.

C. Our whole economy is built on debt -- government, business, and families. Mt. 7:26f

D. Practical wisdom regarding debt.

1. What you can spend is determined by what you have, not your credit limit.
2. Pay your obligations promptly (i.e. your credit cards). Pr. 3:27-28
3. If you can't control your use of credit cards, tear them up. Mt. 5:29
4. NEVER borrow on depreciating items or on an item which cannot be quickly sold for more than you owe on it.
5. Never make yourself liable for someone else's debt (co-signing/surety)! Pr. 6:1-5 22:26-27 17:18 11:15 20:16
6. Don't lend money to (or borrow from) friends and relatives!!!

E. Is it legitimate to borrow to buy a home? Prov. 24:27

1. Housing money myths.
 - a. You can't go wrong buying a home.
 - b. Your investment return in your home is maximized when you make the minimum down payment.
 - c. Adjustable rate mortgages are the best deal because they offer the lowest interest rates.
 - d. As long as you qualify for a mortgage, you can afford to buy a home.

- e. It is important to buy because renting is like throwing your money away.
 - f. Do whatever you can to stretch yourself financially to get in a home.
 - g. If your home is upside down (worth less than you owe), then you can just walk away and let the bank worry about it.
 - h. Wise investors take money out of their home's equity and invest it at a higher rate of return than their mortgage interest.
 - i. It is foolish to pay off your house because you lose the interest tax deduction.
2. This is the one area in which debt may be appropriate under certain conditions.
- a. You don't want to put yourself in a position in which you are not able to meet your obligations. Pr. 22:27
 - b. Maximize your down-payment (25% or more).
 - c. Make sure your monthly payment is affordable and can't go up.
3. Home ownership is not a surefire investment.
- a. Homes can be expensive to repair and maintain.
 - b. Housing markets can go down and stay down for quite a while.
 - c. Historically, housing has gone up at approximately the rate of inflation (the Case-Schiller index), with exceptions in certain hot and cold markets.
 - d. Houses can be hard to sell in down markets for years at a time, thus making it very hard to move (i.e. a job change to a different city).
 - e. Transaction costs for buying and selling homes are high (as much as 10% including real estate, loan fees, title fees, inspections, appraisals, etc.).
 - f. It is best to look at your house as a home rather than an investment.
4. The current housing crisis is due to foolishness and greed.
5. This could be a very good time to buy a home.
- a. Prices have come down.
 - b. Interest rates are low.
 - c. It is a buyers market with distressed sellers and foreclosures.
 - d. It is good to have hard assets if inflation is coming.
6. This could be a very bad time to buy a home.
- a. There could be a further decline (double dip) in housing prices due to the large number of upside down and foreclosed homes yet to come on the market.
 - b. The house you buy today may be very hard to sell tomorrow (or for the next several years).
7. If you want to buy a home:
- a. First get your financial house in order. Pr. 24:27
 - b. Make a large down payment (at least 25%).
 - c. Get a fixed interest rate loan (ideally for 15 years).
 - d. Make sure you can afford your house payment in the long term.
 - e. Be prepared for the extra expenses of owning a home – higher utilities, taxes, maintenance and repair costs, HOA, insurance, etc.
 - f. Plan to be in the home for several years (otherwise you may be much better off with the flexibility renting allows).
8. Your goal is to own your house free and clear.
- a. What about borrowing against your equity for emergencies?
 - b. What about borrowing against equity for investments with higher returns?

F. What about borrowing for an education?

1. Training in the right field can produce significant income (i.e. medicine).
2. Some degrees, however, don't result in increased earning power.
3. Student debt can be a burden which holds you back for many years.
4. Explore other options: scholarships, less expensive local colleges, and ROTC.

G. How should debt be used in your business?

H. Are we ever allowed to walk away from our debts?

1. The wicked borrow and do not pay back. Ps. 37:21 Pr. 3:27-28 Ecc. 5:4-6
2. If you can pay, you should pay, even if it isn't in your personal interest to do so. Ps. 15:4c
3. There may be situations in which you may plead with your creditors for relief. Pr. 6:1-5
4. There may be situations in which you are forced into bankruptcy or foreclosure.
5. Don't go deeper into the hole by borrowing more money in order to pay debts.
6. Our obligations may extend beyond what the civil law demands.

I. How can you get out of debt?

1. Repent of the sins which led to your being in debt.
2. Use Dave Ramsey's debt snowball.
 - a. Make a list of all of your debts.
 - b. Stop borrowing.
 - c. Use a budget.
 - d. Pay off the smallest debt first. Then work your way down the list.
3. Take radical steps to get out of debt.
 - a. Lower expenses - cut iphone, cable TV, etc.
 - b. Increase income - second job, overtime.
 - c. Sell things.
4. You often can negotiate with your creditors for more favorable terms.
5. Get godly counsel.
 - a. Beware of commercial debt counselors and consolidators.
 - b. Seek help from wise believers who have nothing to gain from your situation.
6. The benefits of being debt free.

J. Tough counseling questions.

1. Should I borrow money in order to pay off debts?
2. What should I do when my spouse keeps running up debt?
3. When should I bail my grown kids out of debt?

K. Case study: Upside Down.