



Twins!

Newsletter of Managing God's Money Ministries



First Edition - Christmas 2001

The Economy



The terrorist attacks in the USA reduced Canadians' appetite to spend in September, contributing to retail sales falling 1.7% after being flat in August. This was the largest decline since the ice storm-related decrease in January 1998 and it was broad-based. The biggest reductions were recorded by three sectors: general merchandise (-3.2%), automotive (-2.3%) and clothing (-1.9%).ⁱ

To stimulate the economy, on 27 November the Bank of Canada lowered the Bank Rate to 2.5% - the lowest level in 41 years. Commercial banks followed immediately by lowering their Primeⁱⁱ Lending Rates to 4%, which impacted several savings and lending rates of financial institutions. Here are examples of selected rates offered by the Royal Bank of Canadaⁱⁱⁱ at 29 November 2001:

One year non redeemable GIC (\$5000 to \$99,999.99)	1.1%
Residential mortgages - open	5.4%
- closed 5 years and less	6.85%
- closed over 5 years	7.6-8.6%

In October, the 12-month rate of increase in **Consumer Price Index (CPI)** inflation fell to 1.9% per cent, from 2.6% in September.ⁱ



The Implications

What are the implications of the above on **mortgages** and **spending decisions**?

Lower mortgage rates will entice you to renegotiate your mortgage. Resist the temptation! The differences between your current mortgage rate and the proposed new rates merely **indicate potential** savings! You must consider all relevant factors before deciding to renegotiate.

First, understand why you chose your current mortgage options and decide if those reasons are valid today. Did you explore all options available before accepting your current mortgage? Did you prepare a plan, explicitly or implicitly, when you signed the mortgage agreement initially? Why did you select the current term? Did you appreciate the differences between "open" and "closed", and "fixed" and "variable" mortgages then? If you don't understand these terms now, become informed. If you have no plan, prepare one now. The major banks explain mortgage options and terms in their booklets and on their websites.



As I indicated in *Managing God's Money-The Basics*,^{iv} generally you do not benefit from renegotiating your mortgage because your bank will charge you a **penalty, directly** (for example, three month's extra mortgage payment immediately) **or indirectly** (in a "blended" rate and extended term).

Though each situation is different, each requires the same **Net Present Value ("NPV")** financial analysis^v: computation of today's value of repaying your current mortgage, versus today's value of repaying the renegotiated mortgage. If you are comfortable using computers, you can compute this **NPV figure** using most spreadsheet applications: usually they have Present Value ("PV") and Future Value ("FV") functions that will calculate these amounts. Otherwise, ask your bank officer to tell you the present values of various options, and then verify them independently.

Let's turn to retail sales and review the implications of lower interest rates and seductive advertising. Because retail sales have been falling, merchants will entice you to spend by offering incredible "deals". Not only will prices be reduced but also payment terms will be extended. Since this is the Christmas season, you may decide to buy many items to take advantage of these "bargains". However, **please remember that a "bargain" is something you NEED at a price you can afford (50% OFF is 50% too much if you don't need the item!). If you have to "charge" it (and corresponding funds are not in the bank), you can't afford it!**^{vi}

The result of buying these "bargains" is predictable: increased retail sales, increased consumer debt and increased individual and family stress!



The Suggested Response

First, if you have not established goals,^{vii} start now by answering these questions: Where would I like to be, and what would I like to be doing in five years? What do I need to do NOW to get there? Next, develop plans that will get you there. Decide on accountability and monitoring systems to help you to implement these plans. This will be a long process that requires fervent prayers, but it is necessary.

Nevertheless, for this year, decide to start a tradition to reflect the true meaning of Christmas. Consequently, to celebrate Jesus' birthday this Christmas, **emphasize giving** to further His Kingdom, as your gift to Jesus. This may be a combination of donation of funds and donation of your time, talents and abilities.

Prepare a spending plan specifically for the Christmas season based on using cash only (no credit cards) for Christmas shopping.^{viii} Separate expenses between **discretionary** (where you have a choice) and **non-discretionary** (where you don't have a choice - these should be few). Alongside each expense element in your spending plan, note how you will pay for it. If you do not have cash in the bank to pay for an item, remove it from the list, because **this Christmas you have resolved not to add to your debt-load!**

For parents who are in debt and who have children, use this Christmas as a teaching moment: first to explain the true meaning of Christmas, and second, to put in plain words the implications of being in debt. You may prefer not to explain how you got there or you may find it helpful to do so, particularly if you learned some lessons. However, irrespective of the path you choose, indicate the consequences of being in debt: you are unable to buy those toys and other items that you and the kids desire!



Spend time with the kids making simple toys with things around the home: this could release the creativity in both you and your kids! Most importantly, teach them not to borrow to purchase anything other than to buy a home.

Finally, resolve to prepare a budget for year 2002 by 15 December 2001, including an allocation for Christmas 2002. Plan to purchase these budgeted Christmas items only at "bargain" prices during 2002!

Did You Know



- ❑ Household debt in Canada increased by 80% over the past 10 years, while personal disposable income rose only 36%.^{ix}
- ❑ In year 2000, Canadians' purchases of goods and services over the Internet^x more than doubled: about 1.5 million households placed 9.1 million orders, spending approximately **\$1.1 billion**. This compares with spending of around **\$417 million** for 3.3 million orders placed by an estimated 806,000 households in 1999.
- ❑ At 31 July 2001, department stores charged between 24% and 28.8% per year on outstanding balances on their credit cards.^{xi} If you owe **\$ 2,500** on one of these cards at **28.8%** and repay **\$60 per month**, you will repay the balance in **30 years!** In addition to **\$ 2,500**, you will have to pay interest of **\$ 19,104!**

Adie's^{xii} Corner (for the kids)



Did you decide what to give your family for Christmas? Check your bank account first to see how much money is there. Then, make a budget^{xiii} for the cost of the gifts. *"If what you want to buy is more than your budget, then you have a problem!"* You cannot spend more than your budget! That's what Papa tells us all the time. This might help you:

Amount in your bank account	\$	
Amount of budget for gifts	\$	
Actual cost of gift	\$	

If you can't afford to buy a gift, that's okay. Maybe you can write a story or draw something nice for your mom and dad. They will like that.

Upcoming Events

When	What	Where/Who
10 - 14 December 2001 inclusive	Appearance on 100 Huntley Street	Michel A. Bell
9 February 2002	Focus on the Family Seminar	British Columbia/Michel A. Bell
23 March 2002	Focus on the Family Seminar	Regina/Michel A. Bell
22 June 2002	Focus on the Family Seminar	Winnipeg/Michel A. Bell

Doreen, Adrienne and I wish you and your family a Christmas focused on Jesus. May the love of Jesus fill your home in a very special way and may you experience the peace that surpasses human understanding.^{xiv}

ⁱ Bank of Montreal - Commentary November 22, 2001.

ⁱⁱ Prime Lending Rate is the rate the banks charge their "best" customers - - - those with lowest risk of default.

ⁱⁱⁱ These rates are representative only. I am not recommending the RBC. Always shop around.

^{iv} Michel A. Bell, *Managing God's Money-The Basics* (Essence Publishing, Belleville, Ontario) p.150

^v A Net Present Value (NPV) computation takes values in the future and converts them to today's value. \$1 deposited at 10% per year becomes \$1.10 in one year. Therefore, the NPV (or Present Value) of \$1.10 payable or receivable in one year is \$ 1.00.

^{vi} Use the Affordability Index at: <http://managinggodsmoney.com>

^{vii} Ibid. p.40

^{viii} I recognize that already you may have completed your spending, therefore apply this advice next year.

^{ix} Statistics Canada

^x Second annual snapshot of household electronic commerce activity from the Household Internet Use Survey

^{xi} Canadian Bankers Association - <http://www.cba.ca/eng/Statistics/FastFacts/creditCards.htm>

^{xii} Adrienne is Michel's nine-year-old granddaughter. Both Michel and Adrienne have worked on several projects over the past five years.

^{xiii} Papa (my grand father) told me once that a budget is the amount of money you can spend on something. You can't spend more than this amount.

^{xiv} Philippians 4:6-7

For more information concerning Managing God's Money Ministries visit:

<http://managinggodsmoney.com>

