Twins!

Managing God's Money
Quarterly Letter - Summer 2004

The Debt Explosion...Is There Hope?

Money Happiness And Debt

University of Southern California economist Richard Easterlin surveyed 1,500 people over nearly three decades and decided that money can't buy happiness, mainly because ***people with more money usually want more things***. American social researcher David Myers reached similar conclusions. He found that between 1960 and 1993 average Americans doubled real incomes and doubled what money bought; but ***have less happiness, more depression, more fragile relationships, less communal commitment, less vocational security, more crime, and more demoralized children.***

Yet, we continue to pile up massive consumer and mortgage debt as we buy more stuff, and expand and improve those we already have! So, personal debt, including mortgages and credit card balances **in the USA now stand at 115% of disposable income[i]!** What's disturbing is that with interest rates certain to rise, this debt-level seems acceptable to many folks.

Not so in Britain! The 3 June edition of the Herald newspaper reported that personal debt in the UK is about to reach the unprecedented figure of £1,000 billion (CAD 2,500 billion)—about the size of the UK's annual Gross Domestic Product[ii] ("GDP"). Total **personal debt is now about 130% of annual disposable income**. Citizens Advice Scotland described this debt level as alarming. Indeed, last February, it said that a record number of **Scots were now so seriously in debt they would never be able to repay what they owed.**

The Herald report included this profound quote by a major commercial bank's economist: ***"The overall appetite for credit shows no sign of waning. If anything, it is picking up sharper than it was at the end of last year." He warned: "The Bank of England is worried about the appetite for debt."***

Not to be outdone, in Canada, the ever-increasing hunger for more 'stuff' continues unabated! Between 1981 and 2000, real consumer spending grew at 2.6% yearly. From 2000 to 2003, it accounted for 75% of the real annual GDP growth of 2.3%. Two of the fastest growing items during the earlier period were *office machines and computer equipment* increasing by 21.8% each year, and *new trucks and vans* by 10.4% each year.

The result of this spending spree is that **personal debt as a percent of disposable income has grown to around 115%,** from about 100% three years ago. Since 1999, total personal debt excluding mortgages, has risen by 40% to $238 billion at the end of 2003. Over the same period, residential mortgages grew by 26% and stood at $ 517 billion at December 2003.

So where does all this leave us? Mr. Greenspan of the Federal Reserve in the USA doesn't see rising personal debt as an issue because it's driven largely by mortgages, backed by physical assets with increasing values! Certain Canadian banks postulate that current debt levels are not bad because earning potential is good; therefore, they say, consumers will repay loans! However, what I would like to know is how much debt is enough? And, when will we start to use funds we receive more wisely? Probably not soon, since an Ipsos Reid poll in October 2003 found that 75% of Canadians believe debt is an acceptable expense!

We have had unprecedented access to cheap money, which has fueled our spending. We have bought homes, taken out consumer loans, and bought or leased cars and trucks, most of which many folks couldn't afford? What will happen when interest rates rise and we must renew mortgages at higher rates?

Already bankruptcies have begun to increase in Canada: In 2003, the number of consumer bankruptcies rose to 84,251 from 78,232 in 2002. Also, compared to the same period last year, bankruptcy filings for the first quarter of 2004 increased by 5% from 20,664 to 21,745.

Now banks are taking precautions. But is it too late? Recently I received an innocuous-looking "important notice" in the mail with my Visa statement. It said the bank will increase the rates on cards for card users who don't make the minimum monthly payment two or more consecutive times, or three times (or more) a year. The interest rate on their balances will rise by five percentage points yearly, from 18.5% to 23.5% calculated daily. The higher interest rate will continue until the cardholder pays the minimum payment for six consecutive months.

I have always paid my bill in full, so this doesn't apply to me. However, I hope it will make folks realize credit cards are not sources of funding, but merely checks!

I will focus the rest of this letter on folks in debt, and point to the hope that exists for all of us.

The Alternative

The increasing mountain of debt has created and is causing havoc within families; but there is hope!

Statistics show clearly that stuff we buy will never produce happiness. Bigger, faster, or smaller doesn't do it! Neither does changing location or spouse!

Nevertheless, the best statistic is your personal experience! How are you doing? Are you happier now with more 'toys' and more debt? Are you more contented and at peace with you and your family? You probably are not!

Folks, 22 years ago at age 35, I was 'successful' in the eyes of the world. I didn't have debt other than a small mortgage. I had my family, and I was on the treadmill of 'success'! I had no wish to hear about church, religion, or God. Indeed, I was so disgusted with scandals about televangelists that their behavior convinced me they were the problem and not part of any solution.

Eventually the Spirit of God led me to the truth and I understood that I was looking in the wrong places and at the wrong items for direction and hope. I knew I was a sinner. I also knew my 'big job' defined me. Further, that my possessions gave me security. Also, I realized the lifestyles of many 'Christians' disillusioned me. They just didn't live up to what I believed was 'the Christian life'—whatever that meant. I didn't realize 'they' were merely imperfect humans like me!

In 1985, I responded to the hope about which I now speak. After admitting I was a sinner and confessing and surrendering my life to Jesus, I started a personal relationship with Him. I didn't join a religion or denomination. I entered a personal relationship with a perfect, loving, Heavenly Father. I encourage you to ask yourself these two questions:

1. When I die, what will happen to all the stuff I own now, including my 'big job', nice car, and my other 'crutches'?
2. Where will I spend eternity? Your two choices are heaven or hell! It's not politically correct to ask this question, but it's a choice **each of us must make.**

Once Jesus told a story about a rich man whose possessions consumed him. He built bigger barns to store the 'more' that he got, exactly what we are doing today by borrowing to get 'more'. In that story, Jesus reminds us that we will leave these items behind when we die. Read these words from Luke 12:20-21 carefully:

> "But God said to him, 'You fool! This very night your life will be demanded from you. Then who will get what you have prepared for yourself?' "This is how it will be with anyone who stores up things for himself but is not rich toward God."

The late Colonel Sanders' advice is equally graphic: *there's no reason to be the richest man in the cemetery.*

I urge you today to stop and reflect on **where you are** and **what you are doing** with your life. Are you where I was in 1983? On the treadmill, caught up in striving to please people, to get 'ahead' to that unknown and moving destination, while neglecting your family and being progressively more stressed?

You have a **choice**; of which, I realize, **doing nothing probably is the easiest today!** Nevertheless, ask Jesus to take control of your life! Think about it: what's the worst outcome of this choice?

Even though the decision embarrassed me initially, I surrendered to Christ. Then, I was an executive absorbed with my job, and wasn't sure of the future journey. I wasn't even certain I understood the implications of my decisions! However, I was positive that by surrendering my life and entering this relationship, I would go to heaven, and I would always be able to talk with Jesus Christ!

Afterwards I became more contented and changed my view of success. I stopped trying to achieve that undefined and moving target. Instead, I determined to 'work unto the Lord always' (Colossians 3:23), doing my best and accepting and learning from the results. After that, I would have paid to work! Yes, that's how much this right view affected my attitude. Happily I became less stressed!

I set up God's priorities for me: God, wife, children, and work— in that order. Besides, I realized I had enough time to do everything God needed me to do. So, I devoted time to my wife and children, and most of all to my loving Heavenly Father. Folks, this was a freeing act! Will you take this step today? Just ask Jesus to take control because you can't do it on your own. Visit www.managinggodsmoney.com and click the **'Invitation'** button for more information.

Below are some practical matters to help you deal effectively with your financial debt. However, please understand that Jesus paid the final debt by dying on the cross for each of us. He is available to receive your **'debt burden'** now and be with you as you erase the financial debt. I assure you that without a personal relationship with Christ, these practical matters will be meaningless:

1. Debt from a biblical perspective
2. A spending fast
3. The opportunity
4. Debt restructuring choices
5. Accountability

Debt From A Biblical Perspective

The bible doesn't forbid borrowing, but it does project borrowing negatively. A good example of this is Proverbs 22:7: *… the borrower is servant to the lender.* However, when you borrow, you must repay your debt. According to Proverbs 37:21, *the wicked borrow and do not repay, but the righteous give generously.*

In Romans 13:8 Apostle Paul gives this advice about paying taxes and keeping the Law: *"Let no debt remain outstanding, except the continuing debt to love one another, for he who loves his fellowman has fulfilled the law."*

Debt enslaves and robs us of joy, time, talents, and energies so we don't feel free to love and serve our neighbors. For example, we constantly look inward and not outward at God, friends, neighbors, and family's needs when we take that second or third job to pay our debts; or when one spouse goes to work outside the home just to repay debts!

To carry out these biblical guidelines, let's accept our roles as managers of God's resources. Thus, the key question before borrowing is, WWJD, *What Would Jesus Do*?

Borrowing has two significant costs. The first is emotional and affects you and your family, and is a "joy killer": you worry and lose sleep. The second is financial and "robs the storehouse": each dollar of interest you pay, escapes His Kingdom.

Thus, save for all purchases. What about a home? The principle is the same[iii]. However, given the high cost, save for a down payment, which doesn't need the extra cost of mortgage insurance—25% in Canada, and borrow the balance, if affordable. It's essential you appreciate the added costs and risks associated with owning a home versus renting, and the nuances of mortgages. However, seek the Lord and ask Him to direct you. I know folks whom God clearly told not to own a home but to be available to serve Him in different places at short notice!

A Spending Fast

Having understood the biblical teachings on borrowing, apply it to the future. Meantime, ask the Lord to show you where you need to repent and seek His forgiveness. To get a great picture of a repentant heart, read the words of King David in Psalm 51. As you reflect on this Psalm, consider going on a food fast. After that, start a 30-day 'spending fast': spend only on legal, moral, and ethical commitments, and items necessary to continue life. Don't eat out, or spend on discretionary items. At the end of these 30-days, ask the Lord to show you needed permanent lifestyle changes.

The primary objective of the spending fast is to help you distinguish necessary from discretionary items. Before starting this fast, read Matthew Chapter 6 to understand how Jesus provides for us.

The Opportunity

When in debt you have a great opportunity to experience the love, mercy, and grace of Jesus, to depend on Him, and to 'test[iv]' Him. First, you need to understand that although God loves you, still there are consequences for your actions. Second, you don't know His timing for you to be debt free. Therefore, be patient and experience each moment in His presence.

Third, realize also you don't have a financial problem but an attitudinal issue. More money will not solve the debt problem. Only changed attitudes will! Moreover, we will not 'fix' this debt challenge alone, that's why it's essential to be communing continually with God!

Daily, we must ask the Lord to guide us as advertisements tempt us by appealing to our sin nature. Remember we live in a fallen world, and each of us has a sin nature. We must accept the reality of sin. However, we should be confident that believers in Christ have the Holy Spirit living in us to be victorious over sin. Jesus can help you change bad attitudes and develop new and healthy mind-sets; invest time with Him.

Often folks 'test' Jesus by various means, all of which would result in reducing debt, or increasing income or other positive outcome to them. However, that's not testing God, but speculating about outcomes based on conditions we create. 'Testing' God means we trust Him for an outcome that brings Him glory. When you are down to your last $100 and He says (not the guy trying to manipulate you on TV) give this to me, respond with a cheerful heart, not needing anything in return. That's trusting Him!

Sometimes our financial position needs to worsen before we will get with the program. Even then, we should give God the glory!

Debt Restructuring Choices

Having gotten your attitude under God's control, examine your specific financial position. Start to practice "keeping"[v]: ask Him to teach you to be a good steward!

The home is a small business. Manage it well! For example, in 2002 the average Canadian household spent about $60,000, 70% of which went to food, clothing, shelter, transport, and taxes. This household of about 2.5 people will spend almost one million dollars over 15 years. Thus, set up a system, under God's direction, such as the *Family Council*[vi] to manage household finances.

Try to understand how you got into debt. What did you buy? W**hat spending approval procedures, if any,** did you use **before spending?** However, **don't examine the reasons** you spent! This will merely help you rationalize your decisions*!* This review should include *an* analysis of your spending over the past six months, and a thorough examination of your debts: cost, payment options, and the date when current payments will remove each debt[vii].

Explore the feasibility of selling your home, buying a less expensive one, and then using the equity released to reduce debt. So, if your home has a value of say $200,000 and your mortgage is $ 150,000, explore the feasibility of buying a home for more than $150,000. After that consider using $ 50,000 released, first to repay consumer debt, and then to apply to your new, lower mortgage. Don't act without a thorough knowledge of the financial and other implications of studied actions.

Also, if you have savings and investments, get advice on the feasibility and cost-effectiveness of selling investments to lessen debt. Sometimes the numbers may not be as simple as you think because of tax implications.

Most importantly, pray and ask the **Lord to guide you in all decisions**. Remember that a mortgage is a loan, which you should repay with the same zeal as other consumer loans.

Accountability

Recognize your stewardship responsibilities. Covenant with the Lord to manage His money for His glory, and to practice "keeping". Ask a trusted friend to hold you accountable to apply these principles consistently.

Conclusion

Interest rates will rise, the housing 'bubble' will burst, and consumer spending will decelerate. Nobody knows when; but these events will happen!

Meanwhile, we must take control of spiraling debt by **changing our *attitudes* and *behavior* toward money and surrendering every area of our lives to the Lord.** Unless we do this, among the many challenges we will meet in Canada and other nations with similar personal debt, will be significant 'homeless crises' as folks default on mortgages and credit card debts.

This letter is for informational purposes only. Before making any financial decision, consult an independent (fee-only) professional financial adviser.

Managing God's Money teaches individuals, couples, and groups to manage God's resources so they may use them for His Glory and to further His Kingdom. It is not a charity, does not seek funds, and does not sell financial products. Visit www.managinggodsmoney.com for more details.

Dollar figures quoted above refer to Canadian dollars.

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[i] **Disposable income** represents income after taxes—your take home pay.
[ii] Gross Domestic Product "GDP": The total of goods and services produced by a nation over a given period, usually one year.
[iii] Refer ***Managing God's Money-The Basics*** for discussion of debt ratios (page 42); the Capital Fund to assist with saving for purchases (pages 82-84); and the exception of borrowing to buy a car for work (pages 114-116)
[iv] **Malachi 3:10:** Bring the whole tithe into the storehouse, that there may be food in my house. Test me in this," says the LORD Almighty, "and see if I will not throw open the floodgates of heaven and pour out so much blessing that you will not have room enough for it.
[v] **"Keeping,"** acknowledges that God owns everything (Psalm 24:1-2) and we are mere stewards. Thus, our goal is to maximize what God "keeps" in His Kingdom and minimize amounts we use for ourselves.
[vi] See **March 2004 Quarterly Letter**, and May 22nd **Weekly Meditation** at www.managinggodsmoney.com for elaboration of the Family Council.
[vii] According to a 2003 Ipsos Reid poll, *almost half (46%) of Canadians 25-64 years of age, who are the main or joint decision-maker of the household have not structured their debt so that they pay the lowest amount possible*.