

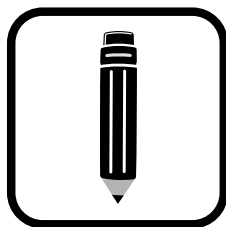
# 3

## DEBT

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*“Just as the rich rule the poor, so the borrower is servant to the lender”*  
(Proverbs 22:7, TLB).

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# DEBT

## Homework for Week 3

### Scripture to Memorize:

*“Just as the rich rule the poor, so the borrower is servant to the lender”* (Proverbs 22:7, TLB).

### Let's Get Practical!

- ☐ Begin working with the **Compass—finances God's way™ Map** on pages 73-75.
- ☐ Complete the **List Your Debts & Snowball 'em!** on pages 76-80.
- ☐ Continue **30 Day Tracking** of your income and spending on pages 44-45.

## Day One (Debt)

**Complete the Compass Map and List Your Debts & Snowball 'Em! on pages 76-80.**

1. Do you have any questions about the map or List Your Debts & Snowball 'Em?

2. What did you learn from completing them, and how will you use this knowledge?

**Read *Deuteronomy 15:4-6; Deuteronomy 28:1-2, 12 and Deuteronomy 28:15, 43-45.***

3. According to these passages how was debt viewed in the Old Testament, and what was the reason a person got into debt (became a borrower) or got out of it (became a lender)?

4. What is your view of debt and how do you feel about your debt situation?

## **Day Two (Debt)**

**Read *Romans 13:8 and Proverbs 22:7.***

1. Is debt encouraged in the Bible? Why?

*Romans 13:8—*

*Proverbs 22:7—*

2. How do these verses apply to you personally and to your business, if you have one?
  
  
  
  
  
  
  
  
  
  
3. If you are in debt, are you committed to get out of it? If you have a plan to eliminate it, please describe the plan.

## Day Three (Debt Repayment)

**Read *Psalm 37:21* and *Proverbs 3:27-28*.**

1. What do these verses say about debt repayment, and why do you think God gave us these principles?

*Psalm 37:21—*

*Proverbs 3:27-28—*

2. Is this how you repay your debt? If not, what steps will you take to begin?

## Day Four (Getting out of debt)

**Read 2 Kings 4:1-7.**

1. What principles on getting out of debt can you identify from this passage?

2. How can you apply them to your current situation?

## Day Five (Cosigning)

**Read *Proverbs 22:26-27* and *Proverbs 17:18*.**

1. What does the Bible say about cosigning (striking hands, surety) and how does this apply to you?

*Proverbs 22:26-27*—

*Proverbs 17:18*—

**Read *Proverbs 6:1-5*.**

2. If someone has cosigned, what should he or she attempt to do?

## Day Six (the Notes)

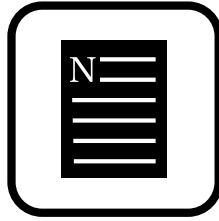
**Read the Debt Notes on pages 56-72.**

1. What did you learn about debt that proved to be especially helpful?

2. How will you implement what you learned?

3. I will take the following *action* as a result of this week's study:

Please write your prayer requests in your prayer log *before* coming to class.



# DEBT NOTES

**Please read *after* completing Day 5 homework.**

The amount of debt in our nation has *exploded*—government debt, business debt, and personal debt. We are drowning in an ocean of red ink. More than 1 million individuals a year file bankruptcy. And even more sobering, a Gallup Poll found that a majority of divorces are caused in part by financial tension in the home.

These sorts of financial tensions often result from believing the “Gospel According to Madison Avenue.” You’ve heard it ten thousand times: Buy now and pay later with easy monthly payments. We all know that nothing about those monthly payments is easy. Advertisers fail to tell us the whole truth, leaving out one little word—*Debt*.

## WHAT IS DEBT?

The dictionary defines debt as “money that a person is obligated to pay to another.” Debt includes bank loans, money borrowed from relatives, the home mortgage, past-due medical bills, and money owed to credit card companies. Bills that come due, such as the monthly electric bill, aren’t considered debt if they’re paid on time.

## WHAT DEBT REALLY COSTS

We need to understand the real cost of debt. Assume you have \$5,560 in credit card debt at an 18 percent interest rate. This would cost you \$1,000 in interest annually. Check out the chart below.



**1. Amount of interest you paid**

Year 10	Year 20	Year 30	Year 40
\$10,000	\$20,000	\$30,000	\$40,000

**2. What you would accumulate on \$1,000 invested annually earning 10 percent**

Year 10	Year 20	Year 30	Year 40
\$17,072	\$63,286	\$188,386	\$527,039

**3. How much the lender earns from your interest payment at 18 percent**

Year 10	Year 20	Year 30	Year 40
\$23,521	\$146,628	\$790,948	\$4,163,213

You can see what lenders have known for a long time: the eye-popping impact of compounding interest working *for* them. If they earn 18 percent, they will accumulate more than \$4 million on your \$1,000 a year for 40 years! Is it any wonder credit card companies are eager for you to become one of their borrowers?

Now compare the \$40,000 you paid in interest over 40 years with the \$527,039 you would have accumulated if you had earned 10 percent on \$1,000 each year. The monthly income on \$527,039 earning 10 percent—without ever touching the principal—is \$4,392!

Debt has a much higher cost than many realize. Stop to consider this: When you assume debt of \$5,560 and pay \$1,000 a year in interest versus earning a 10 percent return on that \$1000, it actually costs you \$527,039 over 40 years. The next time you find yourself tempted to purchase something with debt, ask yourself if the long-term benefits of staying out of debt outweigh the short-term benefits of the purchase.

**THE OTHER COSTS OF DEBT**

Debt often increases stress, which contributes to mental, physical, and emotional fatigue. It can stifle creativity and harm relationships. Many people raise their lifestyle through debt, only to discover that its burden then controls their lifestyle.

## WHAT THE BIBLE SAYS ABOUT DEBT

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While Scripture doesn't specifically call debt a sin, it strongly discourages it.

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Remember, God loves us and has given us these principles for our benefit. Read the first portion of Romans 13:8 from several different translations: *"Owe no man anything"* (KJV). *"Let no debt remain outstanding"* (NIV). *"Pay all your debts"* (TLB). *"Owe nothing to anyone"* (NASB). *"Keep out of debt and owe no man anything"* (AMPLIFIED). Any questions about God's view of debt?

Here's why the Lord wants you debt-free.

### 1. DEBT IS CONSIDERED SLAVERY.

Proverbs 22:7 reads: *"Just as the rich rule the poor, so the borrower is servant to the lender"* (TLB). When we're in debt, we're a servant to the lender. And the deeper we are in debt, the more like servants we become. We don't have the freedom to decide where to spend our income, because it's already obligated to meet our debt payments.

In 1 Corinthians 7:23, Paul writes, *"You were bought with a price; do not become slaves of men."* Our Father made the ultimate sacrifice by giving His Son, the Lord Jesus Christ, to die for us. And He now wants His children free to serve Him rather than lenders.

### 2. DEBT WAS CONSIDERED A CURSE.

In the Old Testament, being out of debt was one of the promised rewards for obedience.

*"If you diligently obey the LORD your God, being careful to do all His commandments which I command you today, the LORD your God will set you high above all the nations of the earth. All these blessings will come upon you.... You shall lend to many nations, **but you shall not borrow**"* (Deuteronomy 28:1-2, 12, emphasis added).

On the other hand, debt was listed among the curses for disobedience. *"If you do not obey the LORD your God, to observe to do all His commandments and His statutes with which I charge you today, that all these curses will come upon you and overtake you.... The alien who is among you shall rise above you higher and higher, but you will go down lower and lower. He shall lend to you, but you will not lend to him; he shall be the head, and you will be the tail"* (Deuteronomy 28:15, 43-44).

In God's view, then, being in debt moves you from a head position in life to the tail end!

### 3. DEBT PRESUMES UPON TOMORROW.

When we get into debt, we're assuming that we will earn enough in the future to repay it. But can we really assume such a thing? We plan for our jobs to continue or our investments to be profitable. The Bible strongly cautions us against such presumption: *"You who say, 'Today or tomorrow, we shall go to such and such a city, and spend a year there and engage in business and make a profit.' Yet you do not know what your life will be like tomorrow.... Instead, you ought to say, 'If the Lord wills, we shall live and also do this or that'"* (James 4:13-15).

### 4. DEBT MAY DENY GOD AN OPPORTUNITY.

Financial author Ron Blue tells of a young man who wanted to go to seminary to become a missionary. The young man had no money and thought the only way he could afford seminary was to secure a student loan. However, this would have left him with about \$40,000 of debt by the time he graduated. He knew a missionary's salary would never be able to repay that much debt.

After a great deal of prayer, he decided to enroll without the aid of a loan, trusting the Lord to meet his needs. Several years later, he graduated without borrowing anything. Just as important, he had grown in his faith and in his appreciation for how God could provide his needs. This was the most valuable lesson learned in seminary as he prepared for life on the mission field.

## BORROWING

The Bible is silent on when we can owe money. In our opinion, it is permissible to owe money for a home mortgage or for your business or vocation. This "permissible debt," however, should meet three criteria.

- The item purchased should be an asset, with the potential to appreciate or produce an income.
- The value of an item must exceed the amount owed against it.
- The debt should not be so high that repayment puts undue strain on the budget.

As we've seen during the financial and real estate crisis, there are no guarantees that home values will always appreciate or that businesses will always be profitable. So, here's the rule of thumb if you take on permissible debt: *borrow as little as possible and pay it off as quickly as possible!*

## HOW TO GET OUT OF DEBT

There are three basic steps for you to become debt-free: (1) pray, (2) increase your monthly surplus, and (3) follow the Compass map. Remember, the goal is D-Day—Debtless Day—when you become totally free of debt!

### 1. HOW TO GET OUT OF DEBT – PRAY!

In 2 Kings 4:1-7, we read about a widow threatened with losing her sons to an aggressive creditor. When she asked the prophet Elisha for help, he told her to borrow many empty jars from her neighbours. Then the Lord multiplied her only possession—a small amount of oil—until all the jars were filled to the brim. She sold the oil and paid her debts to free her children.

The same God who provided supernaturally for the widow is interested in freeing you from debt. And He is every bit as able of meeting your needs as He was the needs of that poor widow. *The first step is to pray.* Seek the Lord's help and guidance in your journey toward Debtless Day. He may act immediately or slowly over time. In either case, prayer is essential. A trend is emerging. As people begin to eliminate debt, even little by little, the Lord blesses their faithfulness. Even if you can afford only a small monthly repayment of your debt, *do it*. The Lord is fully able to multiply your efforts.

### 2. HOW TO GET OUT OF DEBT – INCREASE MONTHLY SURPLUS

The larger your monthly surplus, the more money you can have available to pay down your debt. How do you increase that surplus? By increasing your income, reducing spending, and selling items you no longer need.

#### *Earn additional income.*

Many people hold jobs that simply don't pay enough to allow them to pay off their debts quickly enough. A temporary part-time job—or some creative way to earn more money—can make a huge difference in how fast you can reach D-Day.

#### *Spend less by becoming content with what you have.*

Advertisers use powerful methods to get us to buy. Frequently the message is intended to foster discontentment with what we have. An example is the American company that opened a new plant in Central America because the labour was relatively inexpensive. Everything went well until the villagers received their first paycheck; afterward they didn't return to work. Several days later, the manager went down to

the village chief to determine the cause of this problem. The chief responded, “Why should we work? We already have everything we need.” The plant stood idle until someone came up with the idea of sending a mail-order catalog to every villager. There hasn’t been an employment problem since!

Note these three realities of our consumer-driven economy.

- The more television you watch or surfing the Web you do, the more you spend.
- The more you look at catalogs and magazines, the more you spend.
- The more you shop, the more you spend.

There is an interesting passage in 1 Timothy 6:5-6: “...*Godliness actually is a means of great gain when accompanied by contentment.*” When we are content with what we have and wait to buy until we can do it using cash—that is great gain.

### ***Consider a radical change in lifestyle.***

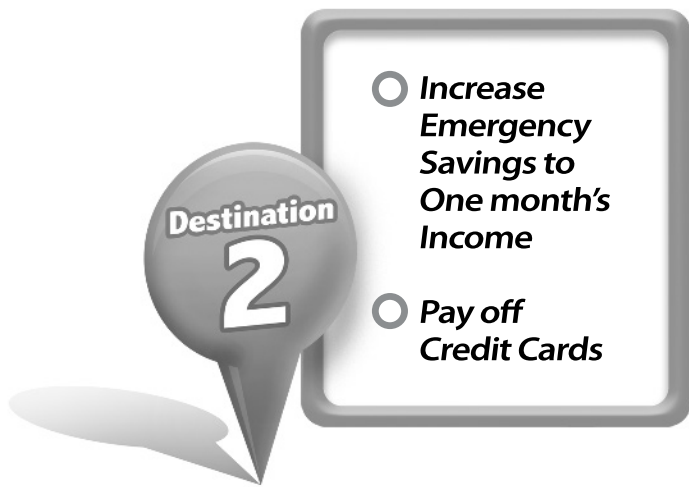
A growing number of people have lowered their standard of living significantly to get out of debt more quickly. Some have downsized their homes, rented apartments, or moved in with family members. Many have sold cars with large monthly payments and purchased inexpensive ones for cash. In short, they have temporarily sacrificed their standard of living so they could pay off debt more quickly. Radio host Dave Ramsey says it this way: “If you live like no one else, later you can **live** like no one else.”

### ***Sell what you’re not using.***

Evaluate your possessions to determine whether you should sell any of them to help you get out of debt more quickly. What about the clothes you no longer wear? Those fishing rods gathering dust? Is there anything you can sell to help you get out of debt?

## **3. HOW TO GET OUT OF DEBT – FOLLOW THE Compass—finances God’s way Map™**

The Compass map on pages 73-75 will help you determine which debts you ought to pay off first. At Destination 2, you focus on paying off your credit cards, because they usually have the highest interest rate. At Destination 3, you will wipe out your consumer debt: car loans, student loans, home equity loans, medical debts, and so forth. And at Destination 5, you begin to accelerate the payment of your home mortgage.



When the credit card statements arrived, it signaled the beginning of a verbal war between Alex and Nancy Popovich. They carried seven cards between them, and were using cash advances from some to satisfy the minimum monthly payments on others.

The Popoviches aren't alone. The average household with an unpaid balance has more than \$9,300 in credit card debt. There has been an explosion in the number of credit cards for only one reason: *The credit card companies make a ton of money charging high interest!* The more you owe, the more interest they receive—and the more likely they can whack you with late fees and over-the-limit penalties.

Following are a few simple suggestions for paying off the plastic.

### ***Snowball the plastic***

*Snowball* your way out of debt. And here's how. In addition to making the minimum payments on *all* your credit cards, focus on paying off the smallest-balance-card first. You'll be encouraged to see its balance go down, down, and finally disappear!

After the first credit card is paid off, apply its payment toward the next-smallest one. After the second card is paid off, apply what you were paying on the first and second toward the third-smallest. That's the snowball in action!

When you're on a roll like this, it starts getting exciting. Those "impossible" balances that have worried you and robbed you of your peace will begin diminishing before your very eyes. So...where do you start? Prioritize your debts on the Debt List on pages 76-80. And every time you pay one of those cards off, use it as an occasion to celebrate and thank the Lord!

### ***Perform plastic surgery***

When people use credit cards rather than cash, they spend about one-third more. Why? Because it just

doesn't feel like "real money"; it's just plastic. As one shopper said to another, "I like credit cards more than money because they go so much further!" If you don't pay the entire credit card balance at the end of each month, you may need to perform some plastic surgery—any good pair of scissors will do!

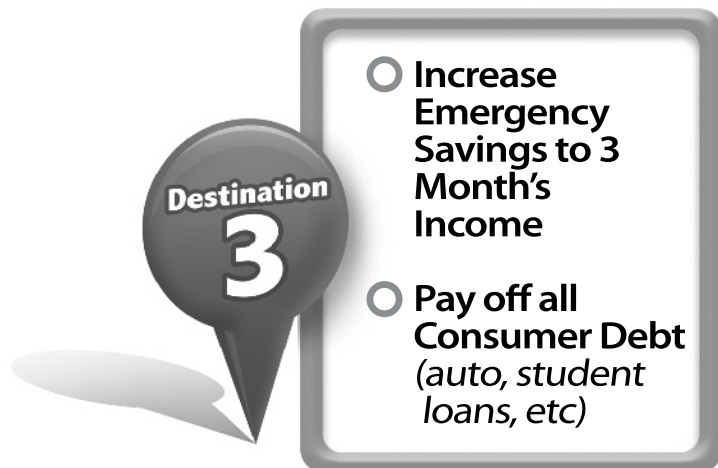
We started with nine credit cards. Today we carry two that we pay in full each month. To limit the temptations of additional cards, we opted out of receiving credit card offers by mail and telemarketing calls.

- To stop Addressed Admail, call the Canadian Marketing Association - Do Not Mail Service 416-391-2362
- Log on to the the Web site of the National Do Not Call Registry at [www.1nnte-dncl.gc.ca](http://www.1nnte-dncl.gc.ca) to stop telemarketers. Evening time will be much more peaceful without answering those irritating calls.  
**Everyone should do this!**

### ***Lower the interest rate***

There is a lot of competition among credit card companies for your business—and especially if you have a solid credit score. If your company is charging a high interest rate, phone and ask them to drop it. You may have to call several times, but 75 percent of the time, they'll lower the rate.

Another alternative is to transfer the balance to a card that charges *less* interest. Before switching to a lower-rate card, however, confirm that the new card has no transfer fee, no annual fee, and that the interest rate on transferred balances is not higher than the advertised rate. But remember, if you miss a payment or make a payment late, your interest rate will automatically skyrocket in most cases.



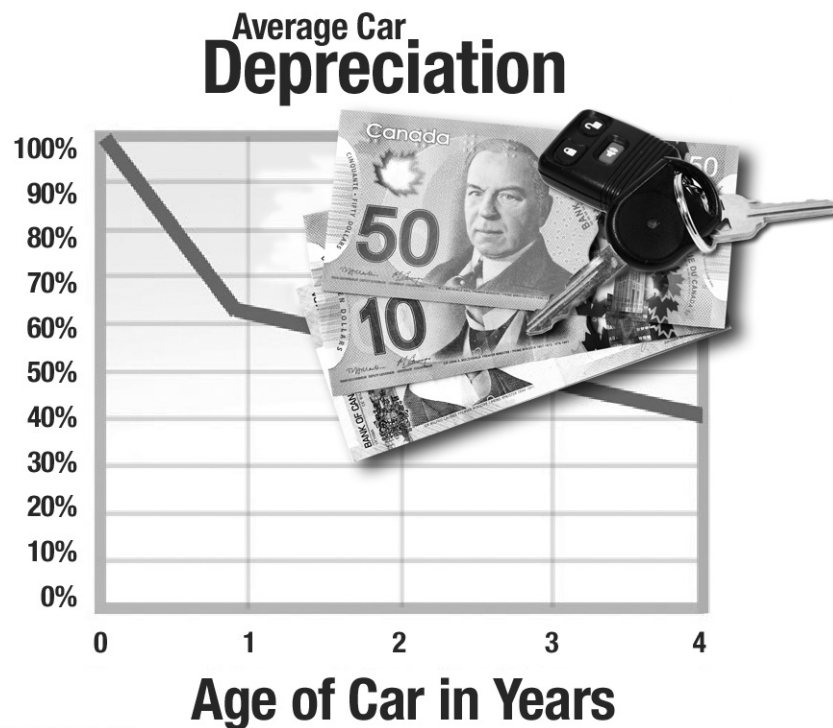
At Destination 3, you'll focus on paying off consumer loans, and one of the most common is auto debt.

Seventy percent of all cars are financed, and many people never get out of car debt. It's one of the biggest obstacles for most people on their journey of financial faithfulness. Fortunately, there's a way to get out of car debt for good by following these three steps.

- Decide to keep your car at least three years longer than your car loan—and then pay off the loan.
- After your last payment, keep making the same payment, but pay it to *yourself*. Put it into an account that you will use to buy your next car.
- When you're ready to replace your car, the cash you have saved plus your car's trade-in value should be sufficient to buy a car without credit. It may not be a new car, but a low-mileage used car is a better value anyway.

### *Upside down*

You've probably heard it said again and again: The moment you drive a car off the lot it's worth less than you paid for it. It's so true. That "new car smell" may be pleasant, but it's also incredibly expensive. Rapid depreciation is why so many new car buyers find themselves upside down on their auto loans—owing more than the car is worth. Look at the graph to see how quickly cars lose value.



SOURCE: Kelley Blue Book

Can you believe it! The average car loses a whopping 40 percent of its value the first year—and 60 percent by year four. In other words, a new \$28,000 car will lose about \$17,000 of value in the first four years you own it. To get the same result, you could toss a \$100 bill out the car window once a week!

For this reason, early in our marriage, Bev and I decided to buy only reliable **used** cars for cash—and drive them until the wheels fall off! Bev drove the same car for seventeen years. We used to call it



“Puff” because of the smoking exhaust pipe whenever she accelerated.

I once bought a truck that cost only a hundred dollars—and it looked it! A sympathetic neighbour borrowed it and brought it back, painted. (Suddenly it looked like a two hundred dollar truck!) While driving the truck one morning, I was enjoying a time of special worship and remembered Psalm 16:11: *“In the presence of the LORD is fullness of joy.”*

You know what? In that moment, it didn’t matter whether I was driving my hundred-dollar clunker or the most expensive car on the market; I could experience fullness of joy because of my relationship with Jesus Christ.

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Advertisers have led us to believe that our deepest needs can be satisfied only by purchasing the newest and the best. Nothing could be further from the truth.

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It’s hard to overestimate the financial impact of driving debt-free cars. The average monthly new car payment is \$375. If a 21-year-old drives debt-free cars and saves the \$375 a month, earning an average return, he or she will accumulate about \$4 million by age 65! Short-term spending sacrifices translate into enormous long-term benefits.

My advice: keep your cars as long as they are safe to drive, and buy low-mileage used cars to avoid new car depreciation.

### ***Snowball consumer debt***

After you have paid off your auto loans, focus on paying off your consumer debts in exactly the same way as you wiped out your plastic—snowball ’em. Make the minimum payments on all your consumer debts, but focus on accelerating the payment of your smallest consumer debt first. Then, after you pay off the first consumer debt, apply its payment toward the next-smallest one. After the second one is paid off, apply what you were paying on the first and second to pay off the third, and so forth.

At Destination 5, you will begin paying off your home mortgage. If you haven’t yet purchased a home and want to, there are two rules of thumb for buying an affordable home:

First, put a minimum of 20 percent down payment. This will eliminate the need for expensive PMI insurance, which doesn’t benefit you at all. And forget adjustable-rate mortgages; get one that’s fixed



rate. If you don't yet have enough saved for 20 percent down, renting usually is much cheaper than owning. So rent—and save like crazy.

Second, no more than 40 percent of your income should be spent for all housing expenses, including mortgage payments, insurance, real estate taxes, utilities, and maintenance. If housing costs exceed 40 percent, you'll find yourself continually robbing money from other spending categories to balance your budget.

## PAYING OFF THE HOME MORTGAGE

When Bev and I learned God's financial truths, we became convinced that the Lord wanted us entirely out of debt, even our home. We understood this to be a *really* long-term goal because of the size of our mortgage. But we also realized that if we could pay it off, it would free up a big chunk of our income, so that we could give more generously *and* save more aggressively.

We didn't start prepaying the mortgage until we wiped out all our credit card and consumer debt. Then we focused on the home by paying an extra amount each month to reduce the principal more quickly. The longer we did it, the more excited we became. Finally, we also started applying work bonuses and income tax refunds to our mortgage.

Prepaying your mortgage can save you *tons* of interest. Log on to [www.compasscanada.org](http://www.compasscanada.org) and click on "Resources" to learn how much interest you can save by paying extra toward principal each month. If you've never looked at a chart like this before, it will knock your socks off.

Once you have decided to pay off your home, let your lender know, so they can tell you how to get proper credit for your prepayment.

Some homeowners don't want to prepay the mortgage and decrease the interest payments, reasoning that interest is one of their biggest tax deductions. But this tax advantage is overrated. If you are in the 25 percent tax bracket, for each \$1,000 you pay in home interest, you save only \$250 in taxes—25 percent of the \$1,000 interest paid. So while there is a tax benefit, it's not as much as many think. Paying \$1,000 to save \$250 is not *that* great a deal.

As Bev and I discovered, paying off our home mortgage was a key step on the journey to financial faithfulness.

## INVESTMENT DEBT

Should you borrow money to make an investment? In our opinion, it is permissible to borrow for an investment, but only if the investment (along with your down payment) is the sole collateral for the debt. You should not personally guarantee repayment of the debt. At first, this may appear to contradict the biblical admonition to repay our debts. But let's explore this further.

Suppose you wanted to purchase a rental property with a reasonable down payment, making sure that the house would be the sole security for the debt. You would explain to potential lenders that at your option, you would repay the loan in one of two ways: First, by giving the lender cash—making the payments. Or second, by giving the lender the property plus the down payment and any other money you had invested in the house.

Given those options, the lender must make a decision. Is the down payment sufficient? Is the rental property of adequate value?

Some investors have responded that it's impossible to locate a lender willing to loan without a personal guarantee. That, however, has not been my experience. When I was in the real estate business, I prayed for this type of financing and then knocked on lots of doors. Eventually I got it.

Because of the possibility of difficult financial events over which you have no control, be sure to limit your potential loss to the cash you invest and the asset itself. It's painful to lose your investment, but it's much more serious to jeopardize your family's needs by risking all your personal assets on investment debt.

## BUSINESS DEBT

We also want to encourage you to pray about becoming debt-free in your business. Many business owners are recognizing the competitive advantage and increased stability they enjoy when they eliminate business debt.

Here is our rule of thumb on business debt: Use as *little* as possible and pay it off as *quickly* as possible.

## CHURCH DEBT

The Bible doesn't specifically address whether a church may borrow money to build or expand its facility. In our opinion, such debt is permissible if the church leadership clearly senses the Lord's leading to do so. If a church borrows, we recommend that it raise as much money as possible for the down payment and establish a plan to pay off the debt as rapidly as possible. A growing number of churches have chosen to build without the use of any debt. For many of these churches, the members' faith has increased as they have observed the Lord providing the necessary funds, and they have been encouraged to become debt free themselves.

## DEBT REPAYMENT RESPONSIBILITIES

### *Prompt payment*

Many people delay paying creditors until payments are past due, even when they have the money. On this practice, however, the Bible is crystal clear. In Proverbs 3:27-28 we read: *"Do not withhold good from those to whom it is due, when it is in your power to do it. Do not say to your neighbour, 'Go, and come back, and tomorrow I will give it,' when you have it with you."*

Godly people should pay their debts and bills as promptly as they can. Some try to pay each bill the same day they receive it, to demonstrate to others that knowing Jesus Christ has made them financially responsible.

### *Using your savings*

In our opinion, it's not smart to use *all* your savings to pay off debt. Follow the Compass map, and keep three months' living expenses set aside for emergencies.

### *Bankruptcy*

A court can declare people bankrupt and unable to pay their debts. Depending on the type of bankruptcy, the court will either allow them to develop a plan to repay their creditors or it will distribute their property among the creditors as payment.

Should a godly person declare bankruptcy? Generally, no. Psalm 37:21 tells us, *"The wicked borrows and does not pay back."*

However, in our opinion, bankruptcy is permissible under two circumstances:

- *When a creditor or circumstances force a person into bankruptcy.* There are occasions when bankruptcy

is the only viable option when the financial challenges become too extreme to reverse. That option needs to be exercised only after all others have been explored.

- *When the emotional health of the borrower is at stake.* If the debtor's emotional health is at risk because of inability to cope with the pressure of aggressive creditors, bankruptcy can be an option.

Declaring bankruptcy should never be a cavalier decision, because it remains on a credit report for up to *ten* years, and often impact one's ability to obtain future credit at reasonable interest rates. Potential employers and landlords are also likely to learn of a past bankruptcy. It can haunt people for years, and although it provides relief, it's not exactly the fresh start that some advertise.

After a person goes through bankruptcy, he should seek counsel from an attorney to determine if it's legally permissible to repay the debt, even though he is not obligated to do so. If it's allowable, every effort should be made to repay the debt. For a large debt, this may be a long-term goal that is largely dependent upon the Lord supernaturally providing the resources.

## COSIGNING

Cosigning relates to debt. *Anytime you cosign, you become legally responsible for the debt of another.* It's just as if you went to the bank, borrowed the money, and gave it to your friend or relative who is asking you to cosign. In effect, *you* promise to pay back the entire amount if the borrower does not.

A Federal Trade Commission study found that 50 percent of those who cosigned for bank loans ended up making the payments. And 75 percent of those who cosigned for finance company loans ended up making the payments! Those are pretty good odds that if you cosign, you'll pay. The casualty rate is so high because the professional lender knows the loan is a bad risk, and told himself, *I won't touch this loan with a ten-foot pole unless I can get someone who is financially responsible to guarantee its repayment.*

Fortunately, the Bible gives us clear direction about cosigning. Proverbs 17:18 says, *"It is poor judgment to countersign another's note, to become responsible for his debts"* (NLT). The words "poor judgment" are literally translated "destitute of mind"!

A parent often cosigns for his or her child's first automobile. We decided not to do this. We wanted to model for our children the importance of not cosigning, and to discourage them from using debt. Instead, we encouraged them to think ahead and save for the purchase of their first cars.

### ***Already cosigned?***

If you have already cosigned for a loan, the Scripture has counsel for you, too. Get out of it as fast as you can!

Proverbs 6:1-5 says, *"Son, if you endorse a note for someone you hardly know, guaranteeing his debt, you are in serious trouble. You may have trapped yourself by your agreement. Quick! Get out of it if you possibly can! Swallow your pride; don't let embarrassment stand in the way. Go and beg to have your name*

*erased. Don't put it off.... If you can get out of this trap you have saved yourself like a deer that escapes from a hunter, or a bird from the net" (TLB).*

Please use sound judgment and never cosign.

## CREDIT REPORT AND SCORE

Your credit score (FICO score) determines whether you can get credit. And your score may be high enough to get credit but not high enough to get a decent interest rate—whether you're looking for a mortgage, a car loan, or some other type of credit. Without good scores, your application to rent an apartment may be turned down. Your scores can affect your car insurance premiums and even getting a job.

Both the wife and husband have their own separate credit scores. Often, only husbands have credit in their names, with the result that wives don't have the opportunity to establish good credit on their own. This is a mistake! If a husband dies before his wife, she won't have a solid credit score—at the very time when she may need it most. Bev and I solved this problem by each securing a credit card in our name that we pay on time and in full every month. When we receive the credit card statements, we meet to review them so our communication remains intact.

A credit score is a number designed to help lenders and others measure your likelihood of making payments on time. The FICO score ranges from 300-850, with the average score around 680. Higher scores are better. FICO scores above 700 indicate a good credit risk, while scores below 600 indicate a poor risk.

A low score can lead to much higher interest rates. For example, if you apply for a 30-year home mortgage and your credit score is too low, you could pay as much as three percent more. On a \$200,000 mortgage, that three percent difference will cost you \$400 per month. Over the life of the loan, it adds up to \$144,000!

The primary things that will harm your credit score are late payments or non-payments of bills or debts, bankruptcy, foreclosure, repossession, and bills or loans sent to collection. To improve your score, the two most important actions you can take are to pay your bills on time and reduce your total debt. Once you start doing this, your score will begin to improve in about three months. Look at the factors affecting your score.

**Payment History**

For credit cards, car loans, mortgages, and similar debts.

**Amount Owed**

The number of accounts with balances, and the amount you owe vs. the amount of credit available. Maxing out credit cards lowers your score.

**Credit History**

How long you've had each account. The longer your credit history, the better.

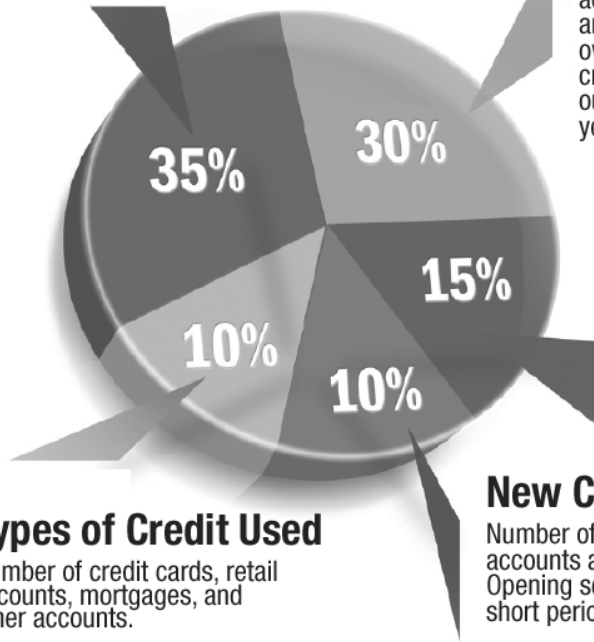
**New Credit**

Number of recently opened accounts and recent inquiries. Opening several accounts in a short period can hurt your score.

**Types of Credit Used**

Number of credit cards, retail accounts, mortgages, and other accounts.

SOURCE: USA Today Research



Late or missed payments, foreclosures or repossessions remain part of your credit report for seven years. You'll have to wait ten years for a bankruptcy to be removed, and fifteen years for a tax lien. Even though these remain on your credit report, over time they have less impact if you pay your bills on time and reduce your debt.

***Credit report***

Everyone can get a copy of their credit report and *should get a copy of their credit report* once a year from the two major credit reporting agencies: TransUnion and Equifax. You can order a free copy of your credit report by filling in the request form online **but to receive it free, you must accept it via mail or otherwise you will pay a fee.** Carefully review it to make sure there are no mistakes or that you haven't been the victim of identity theft.

For more information check out: [www.fcac-acfc.gc.ca/eng/resources/publications/creditloans/documents/understandingyourcreditreport\\_eng.pdf](http://www.fcac-acfc.gc.ca/eng/resources/publications/creditloans/documents/understandingyourcreditreport_eng.pdf)

## DON'T GIVE UP!

On October 29, 1941, Winston Churchill, Prime Minister of England, gave a school commencement address. World War II was devastating Europe, and England's very fate as a nation was in doubt. Churchill stood and said:

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“Never give in. Never give in. Never, never, never—in nothing, great or small, large or petty—never give in except to convictions of honour and good sense.”

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So I want to encourage you to *never* give up in your effort to get out of debt. It may require hard work and sacrifice, but the freedom is worth the struggle. Remember, it is on God's heart for you to become debt free.

## RECOMMENDED RESOURCES

For hints on how to accumulate Emergency Saving log on to **[www.compasscanada.org](http://www.compasscanada.org)** and click on Resources

*Free and Clear: God's Roadmap to Debt Free Living*, by Howard Dayton, Moody Publishers



## Compass—*finances God's way* Map™

The Compass map is easy to understand and follow, and is a proven, step-by-step guide that works for *everyone*, regardless of your financial situation. The map answers the three big questions—financially where am I, where do I want to go, and what do I do next? The first step is to find out where you are.

Look at the map on pages 74-75. There are seven destinations on the journey. Take a few minutes and review each destination. Check off the boxes that you've already accomplished. After you have reviewed the seven destinations and checked off the boxes you have already completed, you know where you are on your journey. The next step is to determine what to do next.

The next step is simply to focus on accomplishing the *first destination you have not yet finished*.

Destination  
**1**

- ☐ Learn God's Way of Handling Money
- ☐ Save \$1000 for Emergencies
- ☐ Start using Budget *(spending plan)*
- ☐ Begin Giving

Destination  
**4**

- ☐ Save for Major Purchases *(home, auto, etc)*
- ☐ Save for True Financial Freedom *(retirement)*
- ☐ Save for Children's Education and Save for Business *(if you want to start one)*

Destination  
**3**

- ☐ Increase Emergency Savings to 3 Month's Income
- ☐ Pay off all Consumer Debt *(auto, student loans, etc)*

Destination  
**5**

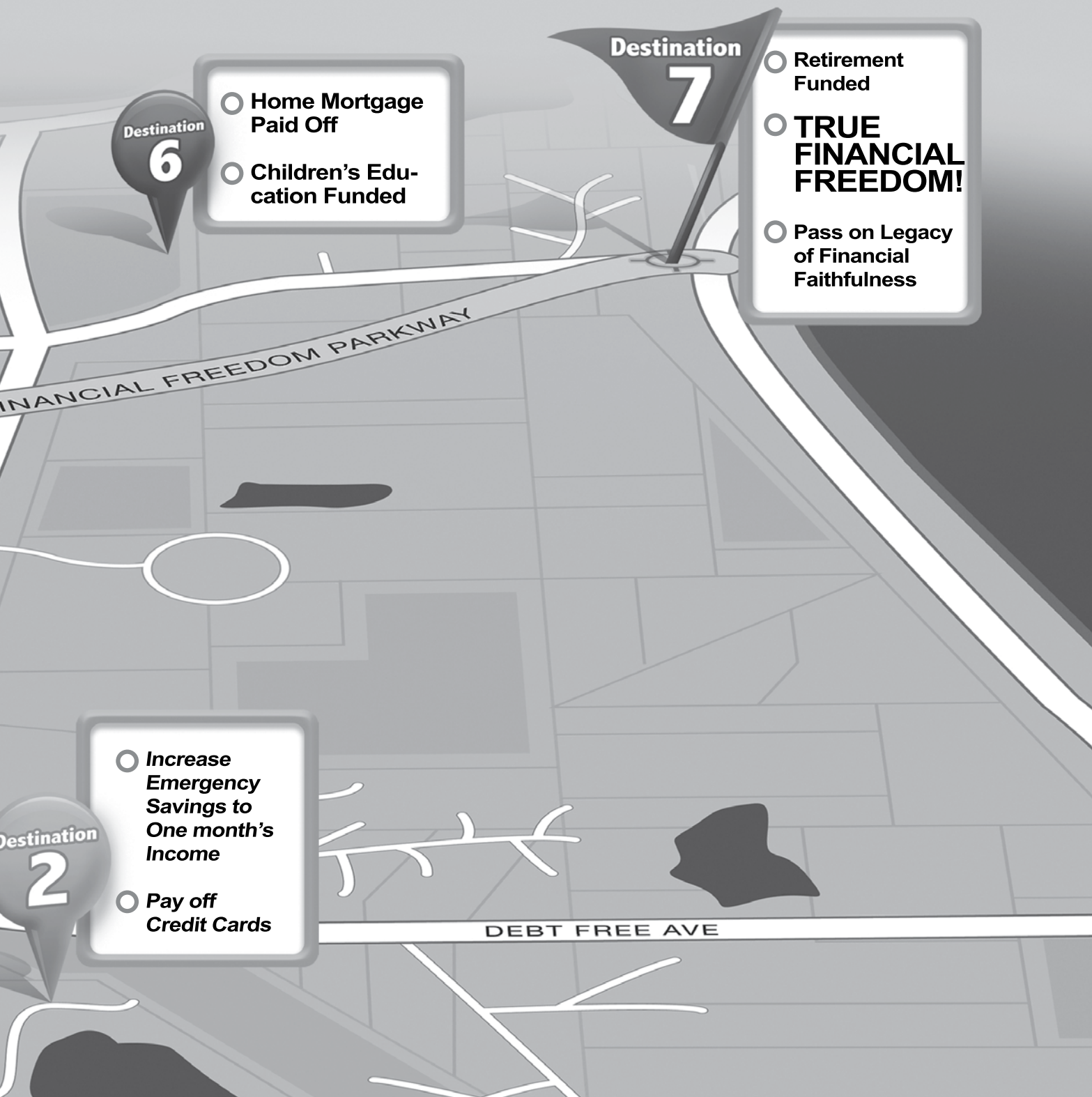
- ☐ Purchase Affordable Home
- ☐ Start Prepaying Home Mortgage
- ☐ Begin Investing

TRUE F

GENEROSITY AVENUE

FINANCIAL FREEDOM PARKWAY

INVESTMENT BOULEVARD



Destination  
**6**

- ☐ Home Mortgage Paid Off
- ☐ Children's Education Funded

Destination  
**7**

- ☐ Retirement Funded
- ☐ **TRUE FINANCIAL FREEDOM!**
- ☐ Pass on Legacy of Financial Faithfulness

Destination  
**2**

- ☐ Increase Emergency Savings to One month's Income
- ☐ Pay off Credit Cards

DEBT FREE AVE

## LIST YOUR DEBTS & SNOWBALL 'EM!

Listing your debts will assist you in compiling your debts and prioritizing repayment so you can snowball 'em! The columns are as follows:

- **Creditor** - The one to whom the debt is owed.
- **Balance Due** - The amount of the current debt.
- **Monthly Payment** - The amount of the monthly payment. If payment is due more or less often than monthly, calculate the average amount paid each month.
- **Interest Rate** - The rate of interest charged for the debt.
- **Scheduled pay-off date** - The date by which the debt will be fully paid.
- **Snowball Priority** – Number the debts in the order you are going to pay them off.

After entering each debt, add and total the monthly payment and the balance due columns.

### Snowball debt

Remember how to snowball your debt as you prioritize paying them off. Make the minimum payments on all your debts, but focus on accelerating the payment of your smallest credit card debt first. Then, after you pay off the first one, apply its payment toward the next-smallest one. After the second one is paid off, apply what you were paying on the first and second to pay off the third, and so forth.

After you pay off all your plastic debt, snowball your other debts in exactly the same way.

# DEBT

## LIST YOUR DEBTS & SNOWBALL 'EM!

Creditor	Balance Due	Monthly Payment	Interest Rate	Scheduled Pay-Off Date	Snowball Priority
<b>Credit Card Debt</b>					
Visa	\$350	\$20	12	1/2012	1
Master Card	\$4,250	\$80	9	8/2016	3
Sears	\$2,400	\$55	18	11/2014	2
<b>Auto Loans</b>					
Crazy Lou's Auto	\$5,500	\$125	10	12/2012	5
<b>Home Mortgages</b>					
2nd Nat'l Bank	\$135,000	\$850	5	7/2028	7
<b>Medical Bills</b>					
<b>Bank Loans</b>					
Last Nat'l Bank	\$1,000	\$50	12	1/2012	4

### Education Debt

Insecurity Bank	\$15,000	\$85	5	7/2020	6

### Debt Family/Friends


### Business/Investment Debt


### Life Insurance Loans


TOTAL DEBT      \$163,500      \$1,265

### Cosigned Loans (Contingent Debt)

Uncle Charlie	\$3,500				

## LIST YOUR DEBTS &amp; SNOWBALL 'EM!

Creditor	Balance Due	Monthly Payment	Interest Rate	Scheduled Pay-Off Date	Snowball Priority
<b>Credit Card Debt</b>					
<b>Auto Loans</b>					
<b>Home Mortgages</b>					
<b>Medical Bills</b>					
<b>Bank Loans</b>					

**Education Debt**

_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

**Debt Family/Friends**

_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

**Business/Investment Debt**

_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

**Life Insurance Loans**

_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

**TOTAL DEBT**      \_\_\_\_\_      \_\_\_\_\_

**Cosigned Loans (Contingent Debt)**

_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____