

DEBT AND CREDIT

During the last 50 years nothing in the area of finances has dominated or influenced the direction of our society as much as debt. It's amazing when you consider that only a generation ago credit cards were unknown, car loans were a rarity, and mortgages were for GIs who were getting their starter homes. No one in our parents' or grandparents' generations would have believed that any banker would be foolish enough to lend a teenager money to go to college. Their counsel would have been (and was), "Get a job."

Today it is not unusual for a young couple to owe nearly \$100,000 within the first two years of marriage. A profile of a young couple's debt often reveals their financial training—or lack of it—including a home mortgage of approximately \$80,000 to \$100,000; college loans (his and hers) of \$30,000 to \$40,000; and car loans (his and hers) of \$15,000 to \$18,000. Often the list extends even further to include consolidation loans, finance company loans, and parental loans. And why not? If it's good enough for the country, it's good enough for the family. Right?

Christians would obviously say no, not necessarily. We're supposed to take our direction from God's Word, not from the world. So the logical decision would be to observe what the church is doing and use that as our guide. However, in doing so we will find that the average American church is as deeply in debt as the average American business and with about the same rate of delinquent payments and bankruptcies.

The only reliable source of wisdom is the Word of God. Only by going back to the true source of all wisdom can we possibly hope to find the right balance today. God's Word tells us that His plan for us is to be debt-free and, even better, that we should be lenders rather than borrowers. *"The Lord will open for you His good storehouse, the heavens, to give rain to your land in its season and to bless all the work of your hand; and you shall lend to many nations, but you shall not borrow"* (Deuteronomy 28:12).

I believe that debt-free living is still God's plan for us today. The blessings of becoming debt free go far beyond the financial area. They extend to the spiritual and marital realms as well. No one who is financially bound can be spiritually free. The problems must certainly spill over into prayer and study time. And the effects of financial bondage on a marriage relationship are measurable in the statistics of failed marriages. Approximately 50 percent of all first marriages fail, and finances are listed as the leading cause of divorce by a factor of four to one.

But what about the individual who is already in debt? What can a person do to break out of that cycle? How much debt/credit can a family practically handle? Is there a balance? The purpose of this pamphlet is to address those questions, but I would like to state the conclusion now—at the beginning: **Anyone can become debt free and stay that way. It depends on the desire, discipline, and time.**

What Is Debt?

Most simply put, a debt is something that is owed. The Bible does not prohibit a person from borrowing, but it does warn against surety: assuming a debt without an absolutely sure way of repayment. Therefore, debt is "a condition that exists when a loan commitment is not met or inadequate collateral is pledged to unconditionally satisfy a loan agreement."

Although the terms “debt” and “credit” are often used interchangeably in our society, they are definitely not the same. Credit is “the establishment of a mutual trust relationship between a lender and a borrower (or potential borrower).”

What Does the Bible Say About Borrowing?

The Bible gives some very practical principles concerning borrowing, although it must be remembered that these are principles, not laws. *Principles* are instructions from the Lord to help guide our decisions. A *law* is absolute. Negative consequences may follow from ignoring a principle, but punishment is the likely consequence of ignoring a law God has given us.

The *principle* of borrowing given in Scripture is that it is better not to assume surety on a loan. “*A man lacking in sense pledges and becomes guarantor in the presence of his neighbor*” (Proverbs 17:18). Again, surety means that you have taken on an obligation to pay without a specific way to pay it.

The law of borrowing given in Scripture is that it is a sin to borrow and not repay. “*The wicked borrows and does not pay back, but the righteous is gracious and gives*” (Psalm 37:21). The assumption in the verse is that the wicked person can repay but will not, as opposed to an individual who wants to repay but cannot.

Principles are given to keep us clearly within God’s path so that we can experience His blessings. To ignore them puts us in a constant state of jeopardy in which Satan can cause us to stumble at any time.

Some have taught that Romans 13:8 is a scriptural injunction (law) against all forms of borrowing, “*Owe nothing to anyone except to love one another; for he who loves his neighbor has fulfilled the law.*” However, I believe that, taken in context, the apostle Paul is not giving a new teaching on the subject of borrowing. Rather, he is summing up the prescribed duty for all of us: to pay our taxes and to respect government officials.

To put it simply, although the Bible does not prohibit borrowing, it certainly does not recommend it.

How Does a Person Establish Credit?

Many young people get into trouble with credit because they are desperate to establish credit and because it is easy for them to qualify for more credit than they can manage.

The very best way to establish credit initially is to borrow against an acceptable asset. For example, if you have saved \$1,000 and want to borrow the same amount, almost any bank will lend you \$1,000 using the savings as collateral. Usually the lender will charge from 1 to 2 percent more for the loan than the prevailing savings rate. So, in essence, it costs about 2 percent interest to establish a good credit history. For a one-year loan of \$1,000, the net cost would be approximately \$20.

Then, by using the bank as a credit reference, almost anyone can qualify for a major credit card, although the credit limit normally would be the minimum amount. Of course I am not advocating that everyone should rush out and apply for a credit card or that everyone is able to manage a credit card properly. The point is that credit is relatively simple to establish, if you have already acquired the discipline of saving.

Having someone (a relative or friend) cosign for a loan is a common way to establish credit, but it is also a major form of surety and, as such, should be avoided. *“Do not be among those who give pledges, among those who become guarantors for debts”* (Proverbs 22:26).

How Can a Person Borrow and Not Assume Surety?

You’ll remember that surety is taking on an obligation without an absolutely certain way to repay. For example, suppose you want to buy a car costing \$10,000. You put \$2,000 down and sign a note for \$8,000, pledging the car as collateral and guaranteeing the note by signing a deficiency agreement. You have assumed surety, because if you are not able to make the payments and default on the loan, the car is repossessed, sold (usually at a loss), and you are required to make up the difference (the deficiency).

If, on the other hand, you don’t sign a deficiency agreement and say that you won’t guarantee the contract beyond the car as total collateral, you would not be in surety. However, you would find that you also would not have a car, because the lender would not make the loan under those conditions.

Of course, if you had a substantially larger down payment (and thus a smaller loan), you could conceivably pledge the car as total collateral (since its sale would fully cover the deficiency and solve the problem of surety). If you could not pay the note, all you would have to do is surrender the collateral and you would be released from the note—free and clear.

Common Attitudes That Lead to Debt

- 1. Ignorance**—Many of us simply never were trained, either formally or by example, to manage money. Our society is no help; its philosophy is spend, spend, spend. If you don’t have it, get it. If you can’t afford it, get it anyway; you deserve it. That type of attitude leads to . . .
- 2. Indulgence**—We tend to think we need everything NOW. Somehow it has become our “right” to have at least two new cars, a nice home, exciting vacations. The whole concept of starting out small and patiently building our lifestyles one step at a time has certainly flown out the window. That is a symptom of . . .
- 3. Poor planning**—No matter how noble our intentions may be, a person without a plan that gauges income versus expenditures is on the road to debt and financial troubles.

How to Get Out of Debt

Proverbs 22:3 says, *“The prudent sees the evil and hides himself, but the naive go on, and are punished for it.”* As was said at the outset, everyone can become debt free and stay that way, if they have the desire, discipline, and time. Here are some important steps to take to get out of debt and stay out.

- 1. Stop any form of borrowing**, including credit cards, no matter what. I sometimes share this recipe for getting out of debt: Preheat your oven to 425°, grease a cookie pan, toss your credit cards on it, and cook 10 minutes or until done! (It’s a joke. Don’t try it.) Consumer credit is the most common source of indebtedness for Americans, and the sooner you stop borrowing the sooner you will get out of debt.

2. **Develop a budget.** A budget is a plan for managing money in your home. If you are in debt, it will need to be a fairly restrictive budget for at least a year, maybe more. A good place to start is to obtain “A Guide to Family Budgeting” at no cost from Crown Financial Ministries.
3. **Work out a payback plan** with your creditors. Most creditors are more than willing to work with people who honestly want to repay them.
4. **Learn to trust God** for the things you truly need but can't afford. It may well be that God does not want you to have an item that you thought was a need but really could do without.
5. **Exercise self-discipline as a lifestyle.** Curb your impulses to buy. If you haven't budgeted for it, don't buy it.
6. **Seek counsel.** Many of us need assistance with establishing and maintaining a budget and working with creditors. Crown Financial Ministries operates a referral counselor network to link families in need of financial counsel with trained volunteer counselors in their local areas.

In summary, when considering the whole subject of debt and credit, Christians should base their decisions on the principles of God's Word—not the world's conventional “wisdom.” God wants us to live debt free in order to serve Him to our utmost. If you are in debt, determine now to get out and stay out. With the Lord's help you can do it!

Answers to Questions About Debt and Credit

We owe money to several creditors and are having trouble deciding which to pay first—we just can't pay them all. Do you think a bill consolidation loan would help our situation?

Consolidation loans are tempting because you are able to pay off your creditors with the loan and then make only one payment instead of several. The problem is that a consolidation loan may treat the “symptoms” for a while, but unless a disciplined and diligent lifestyle is adopted even greater bondage can be created if past habits have not been corrected. The result is owing several creditors, in addition to having to pay the consolidation loan.

Consolidation loans never should be the first step in resolving a debt problem; budgeting and discipline should be. Begin by paying off the high-interest debts first. If all are at a high rate, pay off the one with the smallest balance. Then pay off the next and so on. A lower interest consolidation loan might be considered but only after a workable budget has been firmly established.

According to the Bible, aren't I released from my debts after six years?

In Deuteronomy 15:1-2, there is an admonition not to lend money for a period of more than six years, but I believe this does not apply to those who borrow. If you borrow, you must repay, regardless of how long that debt extends.

I fully pay my credit card bills each month and have no debts other than my home mortgage, but my brother says that Christians should not use credit cards at all. Is he right?

Proverbs 22:3 says, “*The prudent sees the evil and hides himself, but the naive go on, and are punished for it.*” Credit and credit cards are not the problem; it is the misuse of credit that creates the problems. There are some simple rules for using credit cards.

1. Never use your credit cards for anything except budgeted purchases.
2. Pay your credit cards off every month.
3. The very first month you have a credit card bill that you cannot pay, destroy that credit card and never use it again.
4. Finally, keep in mind that just because you can afford something, you don’t necessarily need to buy it.

My bank offers an “overdraft protection” feature that includes a line of credit. Wouldn’t it be wise to take this option and save money by avoiding overdraft charges?

I’ve counseled too many couples who have abused that type of system to believe it’s a very good idea. It encourages people not to keep their checking accounts balanced, and it encourages them to use credit when they really should be disciplining themselves. Although there may be some who would make wise use of this feature, the majority of people need to distance themselves from easy credit, rather than the other way around.

I’ve resolved to get out of debt and am paying off my creditors the best I can, but I know my past financial problems make me a poor credit risk. How can I regain a good credit rating?

The difficulty you are experiencing in regaining credit reinforces an important truth taught in Proverbs 22:1: “*A good name is to be more desired than great wealth, favor is better than silver and gold.*” It takes a long time to build up a good reputation but very little to destroy it. If you have already contacted your creditors personally and asked them to review the credit rating they gave to the credit bureau, there is little else you can do. Although God is faithful to forgive us when we ask for forgiveness for violation of His principles of finance, this does not mean we will avoid the consequences of our actions. There is no quick fix to bad credit.

Unless you can prove to the credit bureau, through cancelled checks and receipts, that your creditors have misrepresented your credit history, the only way to salvage your name is through disciplined use of whatever remaining credit you have over a long period of time.

Our son is going off to college next fall. Since the school is several hundred miles away, would it be a good idea to give him a credit card to use to travel home and for emergencies?

Proverbs 22:6 says, “*Train up a child in the way he should go, even when he is old he will not depart from it.*” Putting a credit card into the hands of a young person who has not been properly trained in money management and who has not displayed the ability to handle its use over an extended period of time is definitely not a good idea. Too many times I have seen young people succumb to the temptation to indulge themselves at their parents’ expense. Even worse, the false security provided by “easy money” through credit often translates into undisciplined spending habits later in life.

On the other hand, children who have been taught early the basic principles of money management and who have proved their ability to use credit wisely could be trusted to handle a card with no problem. It's up to you to evaluate your son using these criteria.

I am working with a financial counselor to set up a plan to pay off my creditors, but I am still being hounded by collection agencies. Is there any way to get these guys off my case?

The Consumer Protection Act of 1986 gives a measure of relief from harassment by unscrupulous collection agents. Calls late at night or very early in the morning are prohibited, as well as calls to your place of employment if you have notified the agency that your employer disapproves. A collection agent may not misrepresent himself or provide false information or threaten legal action when none is intended. If you believe an agent or agency is in violation of this Act, contact the Federal Trade Commission in Washington, D.C. for further information on any recourse you may have.

My wife and I are so far in debt that we see no way out other than bankruptcy. Does the Bible prohibit us from filing?

This is not a simple question to answer. God's Word clearly says that a believer should be responsible for his or her promises and repay what he or she owes. *"When you make a vow to God, do not be late in paying it; for He takes no delight in fools. Pay what you vow! It is better that you should not vow than that you should vow and not pay"* (Ecclesiastes 5:4-5). Does that mean that in the interim a person should not take the legal remedy of court protection until he or she has the ability to repay? Often that will be an individual decision. First and foremost, though, a Christian must be willing to accept the absolute requirement to repay everyone he or she owes.

Additional information about bankruptcy is contained in Crown Financial Ministries' pamphlet, "Answers to Your Questions About Bankruptcy."

My husband is owner of a small business. Due to the economy in our area, we have suffered terrific losses and the business owes a lot of money. We have been counseled to file for bankruptcy. Is that right?

Psalms 37:21 says, *"The wicked borrows and does not pay back, but the righteous is gracious and gives."* I do not believe God's Word distinguishes between a personal debt and a business debt. When you borrow money for any purpose, you make a vow (or promise) to repay what you borrowed. In the short run, you may have to live a very frugal life, and it may not seem to be fair, but in the long run you will have obeyed God, and that is all that will be important 100 years from now.

Again, that is not to say that you should not seek court protection until you are able to set up a repayment plan. That is an individual decision between you and the Lord.

Why should I try to be debt free when my home mortgage carries a low 6 percent interest rate and I can make almost twice that by keeping my mortgage and investing my money elsewhere?

I believe everyone should own his or her home debt free. If I had to choose either to invest my money and earn 10 percent or to pay off a 6 percent mortgage, I would pay off the

mortgage. Who knows what might happen in the economy that could destroy your investments? And yet the mortgage payments would keep right on going. Remember, what you own belongs to you, and nobody can take it from you.

On a related subject, I've heard the argument that it's illogical to pay off your home because you lose the interest from tax write-offs. That really doesn't make much sense. Let's assume you're in a 30 percent tax bracket right now. If you pay \$1,000 in interest, you'll get back approximately \$300 in refunded tax. What happened to the other \$700? That's not such a good deal. Anytime you pay interest you lose.

Does the Bible prohibit a Christian from borrowing money from a non-Christian?

God's Word simply says that whatever is borrowed must be repaid. It doesn't specify whether a believer should borrow from another believer or from a nonbeliever. It doesn't make any difference, as far as repayment is concerned. A caution appears in Proverbs 22:7 in which we are told that a lender becomes an authority over a borrower. That might be particularly important if a church or another ministry is involved.

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