



- **Overview**
  - Review of Last Week
  - Strategies for Debt-Free Living
  - Short Subjects
    - Auto Leasing
    - The Credit Card Bankers Hate
    - Reverse Mortgages
    - Poverty
    - Unions, Labor Laws & Employment
  
- **“Debt elimination is not a financial exercise; it is a spiritual battle.”**
  
- **Why is the love of money the root of all evil? Because love of money is based on the falsehood that our happiness comes from material things.**
  - Scripture tells us a million different ways that is not true. At noon on Sundays, we know this. By Monday morning, many of us forget.
  
- **The cure for debt bondage** is not short-term, and it is not financial. It is long-term & spiritual.
  - Understand where true happiness comes from.
  - Value financial sanity more than instant gratification, status, or convenience.
  - If we can’t control our spending, we must name it what it is — compulsive over-spending — and seek treatment for our disease.
  
- **Identifying Excessive Debt or Over-Commitment**
  - Key measure: *Not* how much debt you have at the moment, or what form it is in.
  - Key measure is: how has your debt load *changed* over the past 1-2 years, and why?
  
- **Recovery Plan**
  - Step 1: **Spend *significantly* less than you earn**
  - Step 2: **Attack your debt via “Cascading Payoffs”**
  - Step 3: **Establish reserves and sinking funds**
  - Step 4: **Save and invest for the future.**



- **Strategies for Debt-Free Living**
- **Foundation: Valuing Freedom more than Stuff**
  - “So when the woman saw that the tree was good for food, and that it was a **delight to the eyes**, and that the tree was **to be desired** to make one wise, she took of its fruit and ate, and she also gave some to her husband who was with her, and he ate.” (Gen 3:6)
  - “But every man is tempted, when he is drawn away of his own lust, and enticed.” James 1:14
  - Recovering alcoholics never lose their desire for a drink; they just discover there is something that they want more — a sane life.
  - We will always want things. The trick is to truly value financial freedom more than current pleasure.
- **Bootstrapping**
  - Discipline + patience + sinking fund = Control over our circumstances. But how do we get started?
- **Auto example**
  - Budget guidelines tell us how much we can devote to a car.
  - Find an ugly-but-reliable car you can pay for in 1 year, but drive 3 years. In years 2 & 3, pay into your sinking fund (= double price of the car).
  - After 3 years (longer if you are blessed), put auto sinking fund + 1 year loan into a less-ugly-but-very-reliable car. Repay loan in 1 year. For next 3 years pay into *sinking fund*. (Why that fund?)
  - After 7 years, replace cars whenever it makes sense, spending only the available balance in the *auto portion* of the sinking fund. The longer a car lasts, the more you have to spend on the next one.
  - If at any time you lust after a snazzier car, increase your sinking fund contributions ... and *wait*.
- **Housing example**
  - Budget guidelines tell us how much we can devote to housing. That is our monthly mortgage payment.
  - Use Loan Calculator to determine how large a mortgage you can afford with that payment with a *10-year pay-off*.
  - When a banker or realtor says “Oh, you can afford *much* more than that”, recite Matthew 16:23b. “Get thee behind me, Satan: thou art an offence unto me: for thou savourest not the things that be of God, but those that be of men.”
  - Buy a modest home with that mortgage. Live in it for 10 years.
  - After 10 years, sell your home (mortgage-free), use proceeds plus a new 10-year mortgage to buy a comfortable home.
  - After 20 years, your home is debt-free. Your second 10-year mortgage was probably bigger than your first one because your income went up. But you weren’t saddled with a back-breaking mortgage your first 10 years.



- At this point you'll wonder what to do with all that extra money. Then your kid will be accepted to M.I.T. Hold that thought 4 years.
- **Objections**
  - “But if I buy a bigger house the first time (with a longer mortgage amortization), I can ride the real estate wave on a bigger home and make more money in the long run.” *True*. If the market goes up. If it goes down, you lose more money. And there are *lots* of other factors: rate of appreciation in different neighborhoods & price ranges. If you tweak the strategy to suit your needs and views, GREAT!
  - Why should I buy less house than I can afford?
  - But I *want* it .. You choose: bondage or freedom
- **The “extras”**
  - Perhaps fancy cars and huge houses don't tempt you at all. But a really nice vacation! Wow! That would be *worth* a little debt bondage, wouldn't it? Well, would it?
  - There is *no conflict* between a strategy for debt-free living and nice vacations, or boats, or summer camps for the kids.
  - Only one restraint: when plotting how to acquire what you desire, borrowing is not an option. Aside from that, *go for it!* The truth is, if you pursue debt-free living, you will have financial discipline and the habit of planning. You'll probably be more capable of having the extras than your debt-ridden friends. And you'll enjoy that cruise more, knowing that you paid for it before you left home.
- **The Heintz ketchup principle**
  - The American credit industry is built on instant gratification. Buy now, pay later. It profits from human weakness. And we all understand there is a certain childish pleasure in venting our inner 2-year-old: “I want it, and I want it *now*.”
  - There is a contrary principle in human psychology: the pleasure of anticipation. A goal achieved through patient effort takes on an extra luster.
  - The bedroom suite.
  - The old commercial for Heintz ketchup made a good point. “It's slow good.” Something really good is worth waiting for. And it *really does* taste better.
  - The ultimate irony is this: we get into debt bondage when we indulge our craving for instant gratification. But that deprives us of an even greater pleasure. A wise person who seeks great satisfaction in life learns patience. The wise man builds his house on a rock, and is safe, free and happy.



- **The First Step**
  - *Must* begin by bringing spending under control. *Stop the Bleeding!*
  - Compulsive over-spending is a disease. Millions of Americans have it. Quote from AARP Magazine: “Consumer debt for car loans and credit cards reached \$2.18 *trillion* by 6/30/06. Americans for the first time have more debt than disposable income, and households carry an estimated average of \$7,253 in credit card debt alone. Meanwhile, the savings rate in the second quarter 2006 was the second lowest since the Depression.”
  - There is help.
  
- **There is help**
  - Debtors Anonymous
    - <http://www.debtorsanonymous.org/>
    - 1-877-717-DEBT
  - Overcomers Support Group
    - Tenth Presbyterian Church, Thursday at 7:00pm
  - Deacons’ Financial Counseling
  
- **Deacons’ Financial Counseling**
  - [jroberts843@earthlink.com](mailto:jroberts843@earthlink.com) = Contact Point for Deacons
  - Describe your situation:
    - Parish & Location
    - Age & Marital Status
    - Contact info & schedule constraints
    - Any details re: the financial issues
  - You *will* receive help.



- **Short Subjects**
  - Auto Leasing\*
  - The Credit Card Bankers Hate\*
  - Reverse Mortgages
  - Poverty
  - Unions, Labor Laws & Employment
  
- **Auto Leasing**
  - What is leasing? <http://www.leaseguide.com/>
  - Leasing vs. Auto Financing
  - When Is Leasing Preferred?
  
- **“Leasing is Easier and Cheaper Than Purchase”**
  - No haggling over price.
  - Only pay for the portion of the car you use up.
  - Lower monthly payments.
  - Guaranteed value at end of lease.
  - Fully tax deductible for a business.
  - Avoid burdens of ownership
  - Save your capital for other uses.
  
- **Is It Really Different From Buying?**
  - ~~No haggling over price~~
  - ~~Only pay for the portion of the car you use up~~
  - Lower monthly payments.
  - Guaranteed value at end of lease.
  - Fully tax deductible for a business.
  - ~~Avoid burdens of ownership~~
  - ~~Save your capital for other uses.~~
  
- **Buying Involves ...**
  - Negotiate the price of new car
    - Rebates, incentives, market forces, lunar phases
  - Negotiate value of trade-in
    - “Blue Book” adjustments
  - Arrange financing (you pick source)
    - 0.0% or Credit Union or ...
  - Sales tax up front
  - Insure it (you decide coverage)
  - Maintain & repair it (or not)
  - Uncertain value at trade-in time



- **Leasing Involves ...**
  - Negotiate the “capitalized cost”
  - Negotiate value of current trade-in
  - Set “residual value” at lease-end
    - Educated guess in contract
  - “Money Factor”
    - *Not* computed like APR
    - It *is* financing cost. Depends on your credit rating, etc.
    - MF \* 2400 = APR
    - .00297 sounds like 2.97% interest. It is really 7.13% APR
  - Sales tax on each monthly lease payment.
  - Security deposit, other fees up front.
  - Insure it
    - Minimum coverage in contract protects lease co.
    - No option to waive collision coverage
  - Maintain & repair it
    - Contract requires “good working order” at lease-end.
    - Non-warranty costs are your responsibility
    - Cash payment for un-repaired items at lease-end.
  - Fixed value at lease-end
    - If Blue Book is higher – tough!
    - Excess mileage incurs big charges. Lower mileage earns no bonus.
  - You have no trade-in for next car. Walk away empty handed. I.E. your first lease has cost reduced by 2 trade-in values: current car + leased car.
- **Leasing vs. Auto Loan**
  - Lease has lower payment than loan because no equity is purchased.
  - At end of 3-year auto loan you own an “asset.” You can sell it, trade it, or keep it.
  - At end of 3-year lease you own nothing. Buy or lease next car at full market price.
  - Either way, you paid interest on purchase money for 3 years. Cash purchase from sinking fund is *much* cheaper.
  - Leasing provides “gap coverage” which auto loans & cash purchase do not.
- **Bottom Line**
  - Short-term costs of leasing are less. Lower monthly payments.
  - Medium-term costs of leasing vs. buying are roughly the same.
    - Trade every 2 vs. lease for 2 years
  - Long-term, leasing costs more



- **The Credit Card Bankers Hate**
  - No magic in the card. “The beauty is in the (steely) eye of the holder.”
  - Obtain any card with no annual fee and a rebate plan you like.
    - Don’t care about the interest rate charged.
    - Cash is wonderful rebate – no related expenses.
  - Set up auto-payment:
    - Full balance deducted from checking account each month.
    - Average 45 day lag. Minimum 30 days notice.
  - Iron Rule: Never charge *anything* unless the money is in checking.
  
- **Reverse Mortgages**
  - New concept; late 90’s. Federally guaranteed.
  - Way to tap home equity for living expenses.
  - Special disbursements for emergencies.
  - “Reverse” – *receive* monthly payments; mortgage balance *grows* each month
  - HUD guidelines and minimum standards nationwide.
  - [www.hud.gov](http://www.hud.gov)
  - Ceiling amount of mortgage limits total payouts.
  
- **Costs of a Reverse Mortgage**
  - Appraisal fee = \$300 - \$400
  - Origination fee (“points”) \$4,000 - \$7,000
  - Closing costs up front \$800 - \$1,000
  - Mortgage Insurance Premium
    - 2% of home value up front
    - 0.5% pa of loan balance
  - Bank rate interest – accrual method, fixed rate.
  - Servicing Fee (\$30 - \$35 per month)
  
- **Case Study – Mom**
  - Home value \$75,000 – no mortgage (2002)
  - Up front costs > \$5,000
  - Fixed rate of 5.25%
  - Need = \$225/month + special costs (roof, car, sewer)
  
- **Alternative for Mom**
  - Children formed a Lending LLC.
  - Children lend, getting funds from HELOC or other sources.
  - LLC holds first trust on Mom’s home.
  - LLC claim satisfied before estate distribution.
  - Up front costs = \$500 (legal & filing fees)
  - Interest rate = pass-through of kids’ source’s rates
  
- **Pros & Cons**
  - HUD Reverse Mortgage has fixed rates,
  - Kids’ HELOCs have variable rates
  - LLC eliminates many fees & costs



- **Poverty -- BE CAREFUL**
  - “God must really love the poor – because He made so many of them.”  
Abraham Lincoln
  - “We can wipe out poverty in this generation.” - Lyndon Johnson
  - “For ye have the poor with you always, and whensoever ye will ye may do them good: but me ye have not always.” - Mark 14:
  
- **Poverty**
  - Which president’s statement agrees with Jesus’ words?
  - Poverty is *relative*, and therefore has only one cure
  
- **Poverty**
  - Poverty sometimes results from circumstances; but it usually results from talents and choices.
  - Bill Cosby’s Cure for Poverty (B.A. Temple, Ed Ph.D. U-Mass)
    - Don’t do drugs.
    - Stay in school until you graduate.
    - Don’t have kids until you’re married.
  - Overwhelming majority escape poverty.
  
- **Poverty**
  - At bottom, all Scriptural teaching about poverty is identical to its teaching about Lending, Mercy, & Justice.
  - Read everything Jesus said about poverty.
    - Who is He talking to?
    - Not the poor, but the rich.
  - Combine His words with His truth that poverty is permanent – what do you get?
  
- **The Triangle.**
  
- **Unions, Labor Laws & Employment**
  - Scripture speaks only of slaves, masters, & workmen.
  - “Social gospel” supported labor, poor, tenants. Cited Scripture.
  - Fair treatment of slaves required. This is “pro labor.”
  - Obedience to authority is clear teaching. This is “pro management.”
  
- **Unions, Labor Laws & Employment**
  - Authority of government to regulate society is clearly supported by Scripture.
  - Work & vocation are blessings.





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- “So I saw that there is nothing better than that a man should rejoice in his work, for that is his lot. Who can bring him to see what will be after him? Eccl. 3:22



- **The Two-Income Family**
  - Providing for family is required. Assumed fatherly role. 1 Tim 5:8
  - “Traditional family” was norm – and often assumed -- in Bible times.
  
- **But working women are mentioned favorably.**
  - Ruth
  - Lydia, a seller of purple. Acts 16:14
  - Priscilla & Aquila were both tentmakers. Acts 18:3
  - Proverbs’ “model wife” is a businesswoman. Prov. 31:13-24
  
- **The Two-Income Family**
  - Practical considerations require careful examination.
  - Scripture does not take a stand either way.
  
- **Questions?**
  
- **Pop Quiz**
  - Sam & Susie