Don’t Let Debt Tie You Down

The modern American is a person who drives a bank-financed car over a bond-financed highway on credit-card gas to open a charge account at a department store so he can fill his savings-and-loan financed home with installment-purchased furniture.

When Allen and Jean Hitchcock came to me for counsel they were at the end of their financial rope.

The most immediate financial problem facing Allen and Jean was pressure from their creditors. And creditors they had.

Their debts totaled more than $9,000, not including the $37,500 house mortgage. They had two loans from a bank, one from a finance company, bills from three department stores, and $3,500 owed on an assortment of 11 credit cards.

The Hitchcocks’ indebtedness started soon after they had married when they applied for their first loan. Jean, who grew up in a wealthy family, said, “Our friends had new cars, and we felt deprived. We had to have a new car too.”

Later, when they were transferred to Orlando, they impulsively bought a house in the suburbs, borrowing $3,000 from a bank for the down payment. They increased the bank loan to $3,500 when they began to fall behind on mortgage payments.

The debts piled up. Jean said, “The man from the bank told us he was going to take our house and garnishee [take over] Allen’s salary.”

Each year millions of Americans find themselves in the Hitchcocks’ predicament. More than ever, the American economy is riding on a growing mountain of debt.

The cash-on-the-barrelhead society has become the credit society, and the practice of buying only what can be paid for in cash is as out of style as the crew cut or bobby socks.

Credit was once the exclusive privilege of the well-to-do, but the consumer picture has dramatically changed.

Personal debt in the U.S. is increasing at the rate of $1,000 per second, and statistics prepared by the Federal Reserve show that consumer installment debt has mushroomed to a point where it takes approximately $1 out of every $4 that consumers earn (after taxes) to keep up the payments—not even including the home mortgage!

The Problems

“With so much credit around, you’re bound to have casualties,” Vern Countryman, a Harvard professor explains. “It’s just like auto accidents. If you’re going to have all those cars, you’re going to have accidents.”

For more than 250,000 Americans each year, the burden of debt is so great that they declare bankruptcy. And a recent Gallup Poll revealed even more serious consequences of this financial tension created by debt: 56 percent of all divorces are as a result of financial tension with the home.

The Lie

It sounds so easy, so attractive: “Introducing: the best friend your checking account ever had.” “Relax: now there’s an easy solution to those nagging money problems.” “Buy now: and pay later with a small monthly payment.”

Have these credit card companies and banks finally come up with a quick, painless answer to your financial problems? No, they are merely presenting the positive, and temporary, aspects of instant credit.

The Truth

These solutions add up to one word which the advertisers neglect to mention: debt.

With ad agencies, the government, and borrowers trying to find more attractive definitions for debt, we'd best examine an objective list of synonyms for debt from Roget's College Thesaurus: answerable for; in embarrassed circumstances; liable; chargeable; in difficulties; unrewarded; deeply involved; minus; owing; in hock; up against it; encumbered; plunged into debt insolvent.

Did you feel uncomfortable as you read this list? I have yet to see one ad that promises the good life of "buy now and pay later" balanced with one of these words that describe the reality of debt.

Are you beginning to have the feeling that the "gospel according to Madison Avenue" might not be preaching the whole truth of the abundant life as a member of the debt set?

The Cost

The advertisers also neglect to mention the real cost of debt, choosing instead to use the misleading phrase of "those easy monthly payments."

What does a $10,000 debt really mean? At the credit-card rate of 18 percent interest, a $10,000 debt means $150 a month in interest payments. If you plan on repaying the debt in four years, the required monthly payment will be $ for the next 48 months.

Can you imagine the difficulty of trying to squeeze an extra $ out of a budget that you've been unable to previously balance without making those payments?

God's View of Debt

The Bible speaks point-blank to the subject of debt "Owe no one anything, except to love one another, for he who loves another has fulfilled the law." (Rom. 13:8).

I like this translation because it reads like a road sign—Keep Out of Debt. Is there any wonder why it wasn’t too many years ago that it was considered a sin for a Christian to be in debt?

The writer of Proverbs explains the reason God speaks so directly to the principle of staying out of debt: “The rich rules over the poor, and the borrower is servant to the lender” (22:7).

The Christian has been bought with a price—the precious blood of Jesus Christ. God intends for His children to be free to love and serve Him only, but when you are in debt you have lost a degree of your freedom, and the deeper you are in debt the more freedom you have lost.

When payments drag on for months and years, when finance charges and interest rates eat away at your paychecks, when you are unable to give sacrificially to the Lord because you are paying sacrifically for your possessions, and when your paycheck is allotted to bill payments before you even get hold of it, then you are in financial bondage to the lender.

The Goal: “D-Day” (Debtless Day)

At the end of the initial conference with the Hitchcocks, Allen asked for my scissors. He wanted to perform some “plastic surgery.”

As a symbol of their vow to get out of debt, he cut their credit cards to ribbons. If they follow through in their commitment, they will be in the minority. Less than 50 percent of those who take the initial step actually follow through on their commitment and reach the goal of becoming debt-free.

The reason is that it is painful and often tedious work to get out of debt. Simply to stop overspending is not enough. A three-step reduction is required in your spending habits:

1) Stop spending more than you make.

2) Pay the interest on the debt.

3) Repay the debt.

Do you see why there is nothing easy about those “easy monthly payments”? Getting out of debt is often an awesome task.

8 Steps for Getting Out of Debt

The path for getting out of debt will be an individual one because of your own particular circumstances. The following eight steps are a guide for your journey.

The steps are simple. What is hard is the dogged persistence required to follow through, all the way, until you reach your destination—freedom from indebtedness.

1. Establish a Written Budget. A written budget is the first and most important step in getting out of debt because it is a plan for spending money. Thus you can use a budget to schedule your debt-reduction and to monitor progress.

A budget can also help you analyze your spending patterns to see where you can cut back, and it is an effective bridle on impulse spending.

A budget will allow you to break the biggest budgetbuster of them all—impulse spending. When you discover that bargain that’s “too good to pass up,” look at your budget. If it’s not in the budget, you can’t buy it.

I have never counseled anyone in debt who has actually been using a written budget. As the experts will tell you: Every month you don’t keep a budget, you will waste between $50 and $175.

2. Make a List of All Your Assets. List every asset you own: your home, car, furniture, cash, etc. See the Asset List below for a guideline.

ASSET LIST—WHAT IS OWNED

1. CASH AND ASSETS EASILY CONVERTIBLE TO CASH
   (a) Cash ________
   (b) Stocks (market value) ________
   (c) Bonds ________
   (d) Cash value of life insurance (call agent) ________
   (e) Coins ________
2. REAL ESTATE
   (a) Home (market value) ________
   (b) Other real estate ________
3. RECEIVABLES ________
   (a) Mortgage receivables ________
   (b) Notes receivables ________
4. OTHER INVESTMENTS ________
5. AUTOMOBILES (call dealer for today’s value) ________
6. PERSONAL PROPERTY*
   (a) Furniture ________
   (b) Boats ________

(c) Cameras ________

(d) Hobbies ________

(e) Other ________

7. ACCRUED RETIREMENT BENEFITS ________

TOTAL ASSETS ________

Evaluate the completed list to determine whether you should sell any assets. As we began to consider items the Hitchcocks might sell, the most obvious one was their new second car.

“I can’t do without my car, Allen,” Jean protested.

Allen looked hurt and guilty. He didn’t want to deprive his wife of anything she wanted, but they both realized that some drastic action was necessary.

By deciding to sell the car and Allen’s gun collection, the Hitchcocks cut their indebtedness $3,000 and began to use the amount of the car payment for some of their other debts.

As George Fooshee has said, “Your attitude toward things will determine your success in working your way out of debt. Don’t think about how much you will lose of what you paid for the item you are selling. Think about how much you will gain which can be applied to your debt reduction immediately.”

3. Make a List of All Your Debts. It came as a surprise to me that most people don’t have a clear picture of what they owe. List all of your debts (including those to relatives), with the monthly payment required and the annual rate of interest.

DEBT LIST—WHAT IS OWED

Mo
nthly Interest Balance

payment rate due

1. Home Mortgage _________
__________ __________

2. Credit Card Companies _________
__________ __________

3. Bank _________
__________ __________

4. Installment Loans _________
__________ __________

5. Loan Companies _________
__________ __________

6. Insurance Companies _________
__________ __________

7. Credit Union ` _________
__________ __________

8. Loans From Relatives _________
__________ __________

9. Other Personal Loans _________
__________ __________

10. Business Loans _________
__________ __________

11. Medical Loans _________
__________ __________

12. Others _________
__________ __________

TOTAL DEBTS ________

________ ________

As you will discover from analyzing the interest rates on your debt list, credit costs vary greatly: from as little as 9 percent a year for a loan from a credit union, to 18 percent for a bank loan or credit cards, to 20 percent and up for installment purchases, to 25 to 36 percent from a finance or small-loan company.

The listing of your debts will assist you in establishing a priority for reducing your indebtedness—try to retire the highest-interest rate debts first.

4. Establish a Debt Repayment Schedule. These steps for getting out of debt may seem tedious, but they are absolutely necessary. Nobody ever gets out of debt by accident.

We all need a systematic written payment schedule to reach the goal of “D-Day”—”debtless day.”

A typical repayment schedule looks something like this:

REPAYMENT SCHEDULE

Creditor____________________________________

	Balance due	Monthly payment	Months remaining
January	___________	___________	___________

February ____________ ____________ ____________

March ____________ ____________ ____________

After you have made your monthly payments, write down the amount paid and compute the balance due. Recording your payments will give you a sense of accomplishment and watching the balance diminish will give you the incentive that will help you persist in your plan.

If you are deeply in debt or have been past due on your payments to creditors, it is a good idea to take or send them a copy of your repayment schedule.

It is the rare creditor who will not go along with a person making a serious effort to systematically pay his debt. They will appreciate the fact that you have made out a schedule and have been concerned enough to share it with them.

As you pay off a creditor, begin to apply that payment to another debt to more quickly reduce your total indebtedness.

5. Apply Additional Income. Another way to expedite your freedom from debt is to agree in advance to apply any additional income to the repayment of debt. This includes such income as overtime pay, income tax refunds, garage sale earnings, odd jobs, payments or any other income.

Jean Hitchcock proved to be a very industrious and creative person. She started a “mini-nursery” in her home, baby-sitting four children from her neighborhood during the day while the parents worked. The two older Hitchcock children were also encouraged to baby-sit in the evenings, and they contributed half of their earnings to the family’s debt reduction.

In fact, Jean and the two children were able to contribute $135 a week (more than $500 a month) to the repayment of debt!

This is only one of hundreds of imaginative ways to earn additional income to get out of debt more quickly. The key when earning extra money is to ensure that it will be applied to the reduction of debt and not to a higher level of spending.

6. Accumulate No New Debts. A foolproof way to do this is to only pay for things with cash. Don’t use credit cards. There are now more than 600 million credit cards in the U.S. and somehow they give people the feeling that they’re not spending real money—it’s just “funny money.” Like the shopper who said to a friend, “I like credit cards; they go so much farther than cash!”

It has been proven that the family who uses credit cards will spend more money. Beware of plastic money!

7. Be Content with What You Have. The advertising industry has developed powerful and sophisticated tools aimed at creating discontentment in our lives. For example, advertising on television has a big impact on people because the average American watches television 20 hours a week.

By the time the typical teenager graduates from high school, he has spent 10,800 hours in class and 15,000 hours in front of the tube. The average one-half hour of television viewing has 13 commercials, which means that the average American watches between 50 and 100 commercials a day. Advertising is often designed to encourage us to buy something by creating in us a lack of contentment with what we already have.

A large manufacturing firm decided to open a new assembly plant in an underdeveloped Latin American country because labor was cheap and plentiful. The plant was successfully opened and the operation was progressing smoothly—until the first paycheck. The next day, none of the villagers reported for work.

Management waited … one, two, three days. Still no villagers came to work. The plant manager went to see the village chief to find out the problem. “Why should we continue to work?” the chief asked in response to the manager’s inquiry. “We are satisfied. We have already earned all the money we need to live on.”

The plant stood idle for almost a month. Then someone came up with the idea of distributing Sears catalogs to all the villagers. Reading the catalogs created new needs in the lives of the villagers. Since that time there has not been an unemployment problem.

Here are four axioms: 1) The more shopping we do, the more we spend; 2) The more we watch television, the more we spend; 3) The more time we spend looking through catalogs, the more we spend; 4) The more we read magazines and newspaper advertisements, the more we spend.

It is much easier to remain content with what you have if you purposely avoid the temptations caused by advertising.

8. Do Not Give Up! Recognize from the beginning there will be a hundred logical reasons why you should quit or delay your efforts to get out of debt.

Don’t! Don’t! Don’t!

Don’t stop until you have reached the marvelous goal of freedom from debt. Remember, getting out of debt is just plain hard work, but the blessings of the freedom to serve Jesus, and not your creditors, are worth the struggle.

*Personal properly is the most difficult of assets to evaluate. Appraise as conservatively as possible because the depreciated value of second-hand personal property is ordinarily quite low.