

Victory Temple

Stewardship Faith and Finance

“Debt Elimination Strategies”

(Lesson 4 of 4)



Session Objectives

- ◆ In this session, we will address:
 - The problem of debt
 - God's promises
 - Debt-elimination strategies
 - The benefits of eliminating debt



Matthew 7:24-27

- ✦ Too often we have built affluent lifestyles based upon a foundation of debt. Any financial crisis, even a relatively small one, and we are wiped out. *However*, this should not, need not, *must* not apply to those who understand and obey God's stewardship plan for our lives. God's financial wisdom is built to last (i.e., it builds His kingdom), not to impress man.

Our Despair....

- ◆ “We don’t make enough money.”
- ◆ “We make a reasonable income, but we don’t know where the money goes.”
- ◆ “We spend whatever we make.”
- ◆ “We have no savings whatsoever.”
- ◆ “We are/have not been tithing.”
- ◆ “We cannot respond to help when the opportunity presents itself.”

Our Exhortation

✦ “You therefore must endure hardship, as a good soldier of Jesus Christ. No one engaged in warfare entangles himself with the affairs of *this* life, that he may please him who enlisted him as a soldier.”

(2 Timothy 2:3-4)

Our Promise

- ✦ “Trust in the Lord with all thine heart; and lean not unto thine own understanding. In all thy ways acknowledge him, and he shall direct thy paths. Be not wise in thy own eyes: fear the Lord and depart from evil.” (Proverbs 3:5-7)

Eliminating Debt

“Mark out a straight path for your feet; then stick to the path and stay safe.”

(Proverbs 4:26)



How to Get Out of Debt

- ✦ Define your goal(s)
- ✦ Establish a timetable
- ✦ Make a list of all of your debt - largest to smallest, in descending order
- ✦ Establish a budget for everything
- ✦ Seek additional income
- ✦ Covenant with God – as He blesses you with additional income, pay off debts
- ✦ Work out a repayment plan
- ✦ Save money whenever and wherever possible

Debt Repayment Options

- ◆ Pay off balances with the highest interest rate first
 - Results in saving the most in interest payments

- ◆ Pay off smaller balances first
 - Results in seeing immediate reduction in the number of accounts owed sooner

Change Some Basic Habits

- ✦ Declare a moratorium on debt – no more credit spending.
- ✦ Begin to pay more than the minimum monthly payment or pay balances in full each month.
- ✦ Purchase depreciating items with cash.
- ✦ Reduce or cut cell-phone usage.
- ✦ Don't go grocery shopping when you are hungry.
- ✦ Track your spending.
- ✦ Avoid ATM withdrawal fees.

Change Some Basic Habits (cont'd.)

+ Absolutely DO NOT USE payday loans:

- It is usually the fastest bad solution available on short notice for a problem that has been building for a long time.
- Interest rates often excessive...solving problems with quick fixes is rarely a bargain.

+ Alternatives to payday loans:

- Skip a payment on any of your other bills except your car, rent or mortgage. Medical and utilities can be the most understanding if you tell them in advance.

Change Some Basic Habits (cont'd.)

✦ Alternatives to payday loans (continued):

- Save for emergencies. This is the best way to secure your financial future. Even if you save only a dollar or two a week, it will add up and become a habit.
- Borrow from a friend or relative -- better yet, trade a service for the money. Make sure you've paid back what you owed from before.
- Borrow from your credit card -- even with a default rate of 30 percent or more, you will come out ahead in terms of interest and fees.
- Take out a short-term personal loan from a credit union or bank. Work on your credit in advance by paying your bills on time and keeping balances below 50 percent of your limit.

Tips on Saving

- ✦ Pay your bills on time. This saves the added expense of:
 - Late fees
 - Extra finance charges
 - Disconnection fees for phone, electricity, or other services
 - Reconnection Fees
 - The cost of eviction
 - Repossession
 - Bill collectors
- ✦ Open a checking account at a bank or a Credit Union rather than paying fees for using a check-cashing service.
- ✦ Avoid using ATM's that require paying a service fee.

Tips on Saving (cont'd.)

- ✦ Save your change at the end of the day and deposit your accumulated change in the bank.
- ✦ If you get a raise, bonus, cash gift, or tax refund, try to save that extra money.
- ✦ If you have paid off a loan, apply the extra payments to another loan or keep making the monthly payments into a savings account for yourself.
- ✦ Use direct deposit or automatic transfer to regularly deposit money into savings.
- ✦ Join a retirement plan, such as a 401(k) or 403(b) plan that deducts money from your paycheck (Many employers will match a percentage of your contributions, so your retirement nest egg will grow even faster).

Foreclosure Alternatives

- ✦ If your mortgage is more than 30 days delinquent, your mortgage company is likely to begin foreclosure procedures within the next 60 to 90 days. There are steps you can take to prevent foreclosure.
 - For example, if you have the amount of money required to pay all past due payments (plus any attorney fees or foreclosure costs, if foreclosure has begun), the mortgage company will accept your payment and reinstate your mortgage.
 - You may also contact your mortgage company and work out a repayment plan to bring your mortgage current. This usually involves your regular payment, plus an additional amount to apply toward your delinquency.
 - Or, you may consider selling your home.

Foreclosure Alternatives (cont'd.)

- ✦ **Partial claim** is when the mortgage insurance company on your loan lends you the money to bring your loan current. If your loan has mortgage insurance, the insurance company stands to lose if you default.
- ✦ **Straight modification** is an agreement that actually changes the term of your loan. The modification could lower the interest rate and payments to an amount you can afford.
- ✦ **A forbearance** is a written agreement where you send a lump-sum amount to the lender. Each month thereafter you pay your regular payment plus half of your mortgage payment.
- ✦ **A permanent hardship** occurs when you can no longer afford to make the mortgage payments. Your mortgage company may agree to delay the foreclosure on your house for up to 120 days and give you time to sell the house.

Foreclosure Alternatives (cont'd.)

- ✦ **A deed in lieu of foreclosure** is when you voluntarily deed the property back to the investor (or government) in exchange for a release from all your obligations under the mortgage. Although you lose your house, it is usually preferable to foreclosure because of the cost and emotional trauma of a foreclosure. And it is less damaging to your credit rating. In some cases, the Federal Housing Administration (FHA) will even pay the borrower a stipend to execute a deed in lieu of foreclosure.
- ✦ **A short sale**, also known as a short payoff, works when property values have declined since the borrower took out the mortgage. It allows you to sell for less than the full amount you owe. On VA loans, the Department of Veterans Affairs has the authority to buy loans in default from investors and take over the servicing of the mortgage loan.
- ✦ **A quitclaim** deed transfers whatever interest you have in a particular piece of property. By accepting such a deed, the buyer assumes all the risks.

Bankruptcy

✦ What is it?

- Bankruptcy is a federal court process designed to help consumers and businesses eliminate their debts or repay them under the protection of the bankruptcy court.
- It is "a legal procedure for dealing with debt problems of individuals and businesses." (Source: U.S. Federal Courts)

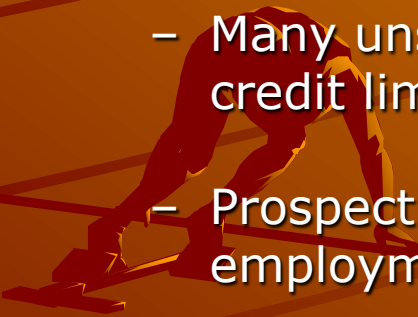
✦ How does it affect you? (Source: www.Bankrate.com)

- Legal prohibition on tithing - A quirk in the new bankruptcy law could keep filers from tithing to their churches or making any charitable donations, for that matter.
- The bankruptcy filing will remain on your credit report in some States up to 10 years thereby adversely affecting your credit score.

Bankruptcy (cont'd.)

✦ How does it affect you? *(continued)*

- Some credit underwriters may discriminate against you if you apply for a home mortgage or car loan.
- Some banks may refuse your credit card application or demand a higher rate.
- Many unsecured credit card companies may not increase your credit limit as rapidly as you might like.
- Prospective employers may discriminate against your employment application.



The Benefits of Eliminating Debt

✦ Cleaning up of the past

- Freedom from the slavery of debt (Proverbs 22:7)

✦ Confidence in the present

- Sets your foundation on sure ground (Matthew 7:24-25)

✦ Courage for tomorrow

- Dream again for the best is yet to come (1 Corinthians 2:9)



Homework

- ✦ In order to get your debt under control, start by reviewing your spending patterns and identifying needed items and unnecessary expenses.
- ✦ For three months, carefully track your spending...include that \$4 cup of Starbucks coffee that starts/ends your workday and the numerous visits to the ATM. This will clarify in black and white how much of your spending is fixed and how much is variable.
- ✦ Total all expenses on the list and compare the sum to your monthly net (after-tax) income.
- ✦ Prepare a budget for 2008 using the information developed over the last three lessons.

References

- ◆ Federal Trade Commission's Annual Free Credit Report website (<http://www.ftc.gov/bcp/online/edcams/freereports/>)
- ◆ "Credit Repair Kit for Dummies" by Stephen R. Bucci
- ◆ Microsoft personal budget template (<http://office.microsoft.com/en-us/templates/TC010233421033.aspx>)

