

Stewardship of Faith and Finance

“Understanding and Managing Debt”

(Lesson 3 of 4)

Session Objectives

- In this session, we will address:
 - The definition of debt
 - Types of debt
 - Principles of borrowing
 - Credit scores

It is a great concern that Christian soldiers are relying on the world in money management. Yet, we are committed to follow the Bible as our guide for faith and life.

Debt

- Debt is what is owed to someone else for goods or services received.
- A person or family living in debt is living today on funds expected to be earned tomorrow. A change in family circumstances (e.g., pregnancy, layoff, illness) could result in a financial crisis.

The Bible Cautions Believers

- The debtor is a slave (Prov 22:7)
- Learn contentment (Phil 4:11-13)
- Diligently manage your affairs (Prov 27:23-27)
- Do not be covetous (Luke 12:15)
- Do not co-sign for another (Prov 6:1-5)

What is a distant relative?

The family member who owes you money, perhaps even the one you co-signed for.

Types of Debt

- Unsecured, open-ended credit (e.g., credit cards)
 - A line of credit that is available for a specific limit, backed only by a borrower's creditworthiness.
- Unsecured, closed-end loans (e.g., home improvement loan)
 - A loan that is made based on a borrower's creditworthiness; payments are for a specific amount for a specified period of time.
- Secured, closed-end loans (e.g., car or home loan)
 - A loan that is backed by collateral; terms include a specific number of payments scheduled for a specified period of time.
- Secured, open-end loans (e.g., home-equity loan)
 - A loan that is backed by the borrower's home as collateral; the amount of the loan is based on the equity in the home.

Questions to Ask Before Borrowing

- Can the debt be avoided?
- Can I do this by some short-term savings?
- Will this debt strain my finances?

Should I never borrow?

Debt is not always a bad thing...there are instances where the leveraging power of a loan can actually place you in a better overall financial position

Good Debt Examples

- First mortgage loans at fixed interest rates where the borrower has made an investment of their own resources to purchase the property
- Automobile loans where the loan balance never exceeds the value of the car. In this way, a sale of the car will always be able to satisfy the debt
- Education loans used to pursue career enhancement for courses taken at reputable (preferably accredited) institutions

Principles of Borrowing

- Borrow as little as possible
- Obtain the shortest pay-back terms
- Get a fixed interest rate – the borrower is at less risk.
- Be sure there is no pre-payment penalty – let the lender show you where this is written in the contract.
- Make a sizeable down-payment.
- Shop around for the best loan terms.
- Do not purchase credit life insurance on consumer goods.

What is a FICO Score?

- A FICO score attempts to condense a borrowers credit history into a single number.
- Credit scoring is a method of determining the likelihood that credit users will pay their bills.
- Fair Isaac began its pioneering work with credit scoring in the late 1950's and since then scoring has become widely accepted by lenders as a reliable means of credit evaluation.

Know Your FICO Score

- Range:
 - 720-900 Excellent
 - 680-720 Good
 - 620-680 Average
 - 620 and under Poor
- Any score under 600 could be considered a risk to “some” lenders.

Factors that Determine Your Score

- Payment History (35%)
- Amounts Owed (30%)
- Length of Credit History (15%)
- New Credit (10%)
- Types of Credit (10%)

What is not Considered in Your Score

- Your race, color, religion, national origin, sex and marital status
- Age
- Your salary, occupation, title, employer, date employed or employment history
- Where you live
- Interest rates being charged on credit cards
- Rental agreements. Child/family support obligations
- Whether or not you are participating in credit (legitimate) counseling of any kind

What Your Score Affects

- Whether or not you get a loan
- How much the loan costs you (e.g., interest rate)

Auto Loans	500-589	590-624	625-659	660-689	690-719	720-850
36-month new auto loan	18.597 %	16.206 %	12.225 %	9.498 %	7.386 %	6.674 %
48-month new auto loan	18.598 %	16.206 %	12.226 %	9.500 %	7.390 %	6.678 %

How to Improve Your FICO Scores

- Pay your bills on time, before time.
- If you have missed payments, get current and stay current.
- Be aware that paying off a collection account will not remove it from your credit report.
- If you are having trouble making ends meet, contact a legitimate credit counselor.
- Keep balances low on credit cards.
- Your balance should never exceed 1/3 of your available credit line.
- Pay off debt rather than moving it around.
- Don't close unused credit accounts.
- Don't open a number of new credit cards that you do not need just to increase available credit.

What's in Your Credit Report

- Identifying Information – Your name, address, Social Security number, date of birth and employment information.
- Trade Lines – Credit Accounts. Lenders report on each type of account you have established. Examples (bankcard, auto loan, mortgage, etc.).
- Inquiries – When you apply for a loan you authorize your lender to ask for a copy of your report. This is how an inquiry appears on your report. This is a section that normally appears at the end of the report. It contains a list of everyone who has accessed your credit within the last two years.
- Public Record and Collection Items – Credit reporting agencies also collect public record information from state and county courts. Also information on overdue debt from collections agencies is also reported. Public record information includes bankruptcies, foreclosures, suits, wage attachments, liens and judgments.

A Final Thought on Debt

"Through wisdom a house is built, and by understanding it is established; by knowledge the rooms are filled with all precious and pleasant riches." (Proverbs 24:3-4)

Homework

- Annually obtain a free copy of your credit report from all three major depositories.

Experian
PO Box 2002
Allen, Texas 75013
(888) 397-3742

Trans Union
2 Baldwin Place
P.O. Box 100
Chester, Pennsylvania 19022
(800) 916-8800

Equifax Credit Info.
P.O. Box 740256
Atlanta, Georgia 30374
(800) 685-1111

- Review credit reports for accuracy and challenge all information that is invalid.
- Make a list of all your debt obligations, the outstanding balance and the interest you're charged for each.
- Develop plan for improving credit scores.

References

- Federal Trade Commission's Annual Free Credit Report website (<http://www.ftc.gov/bcp/online/edcams/freereports/>)
- U.S. Department of Housing and Urban Development (<http://www.hud.gov/>)