



Making Wise Decisions *About Debt*

The weight of debt in the United States is staggering. Last year, Americans' household debt rose to \$17.29 trillion, mainly due to mortgages, credit cards, and student loan balances.¹ Credit card debt reached a high of \$1.02 trillion, a more than 16% increase over the previous year.²

We live in a consumption-driven society and have countless options for financing and credit. For major purchases, Americans have historically let interest rates drive their decisions about whether to take on debt. However, our recent high-interest-rate environment made borrowing decisions more complex and challenging.

Used prudently, borrowing money can help you reach certain goals, like owning a home. However, it's wise to approach debt with caution because of its spiritual, economic, psychological, and personal implications.

Business debt is somewhat different and should be evaluated separately from consumer debt. Sometimes there are valid reasons to borrow when you are starting or running a business or if the funds will contribute to your company's growth.

What Does the Bible Say About Debt?

This truth may surprise some: the Bible does not directly state that debt is sinful. It does, however, warn us about the consequences that debt can cause if used irresponsibly.

First, debt presumes upon the future and our ability to repay it. None of us knows what tomorrow will bring and when circumstances, such as our health or employment, will change. The Bible tells us that attempting to predict our future financial condition is foolish. *"Now listen, you who say, 'Today or tomorrow we will go to this or that city, spend a year there, carry on business and make money.' Why, you do not even know what will happen tomorrow. What is your life? You are a mist that appears for a little while and then vanishes. Instead, you ought to say, 'If it is the Lord's will, we will live and do this or that.'"* (James 4:13-15, NIV).

"Relying on borrowing to fund household expenses and budgetary needs is a dangerous use of debt."

Second, excessive use of debt may signal a more profound spiritual dilemma. Borrowing decisions can be driven by greed, impatience, and lack of self-discipline. The U.S. lending system has made purchasing something right away easier than waiting and saving for it. The Bible warns: *"A faithful person will be richly blessed, but one eager to get rich will not go unpunished."* (Proverbs 28:20, NIV).

Third, carrying significant debt can weigh us down and limit our vocational and spiritual options. For example, you may be compelled to stay in a job that compromises your personal life and values because you rely on that income level to pay your obligations. The Bible cautions that the borrower becomes the lender's slave or servant. *"The rich rule over the poor, and the borrower is slave to the lender."* (Proverbs 22:7, NIV).

Evaluating a Debt Decision

Debt, simply stated, is a contract to pay later for what you receive now. When deciding whether to borrow or take out a loan, ask yourself the following key questions.

- » Does this debt decision make sense economically?
- » Is the economic return likely to be greater than the financial cost?
- » How will taking on this debt affect my future net worth?
- » What personal goals am I meeting by taking on this debt?
- » Am I unified with my spouse about this debt decision?
- » Do I have peace of mind about this borrowing decision?

¹ www.newyorkfed.org/microeconomics/hhdc.html

² www.experian.com/blogs/ask-experian/research/consumer-debt-study/

Guidelines for Prudent Borrowing

A prayerful and responsible approach to borrowing decisions can help us avoid negative and unintended consequences. Consider these guidelines when evaluating consumer debt decisions.

Establish a budget that allows you to spend less than you earn.

We must live within our income to save, give, pay off debt, and reach our financial goals. Relying on borrowing to fund household expenses and budgetary needs is a dangerous use of debt.

Understand how the cost of debt compounds.

Borrowers frequently get into trouble because their debt starts to compound. The impact of interest over the life of a loan can be significant. For example, if you borrow \$15,000 to buy a car at a 5% fixed interest rate for 48 months, you'll pay \$16,581 for the car due to the cost of interest. A \$3,000 credit card balance becomes \$3,491 if you pay it back over two years with 25% interest. You borrow using pre-tax dollars but repay debt with after-tax funds. A \$30,000 loan will require over \$40,000 in future gross income to repay it (assuming 25% taxes).

Avoid borrowing for depreciating assets or consumptive spending.

Using debt to buy a depreciating asset (i.e., car, motorcycle, or boat) or consumer items (i.e., clothing, jewelry, or furniture) almost always will decrease your net worth. Try to reserve borrowing for growth opportunities or necessities.

Create a solid plan for repaying debt.

Always ask, "How much does this debt presume upon the future?" When deciding to borrow money, you should have a well thought out plan of how you will repay it as soon as possible. If you have consumer debt, start a repayment plan to prioritize all high-interest, short-term debt. Consider targeting the smallest debt balances first to build momentum and more quickly gain additional cash flow margin.

Most of us will decide to borrow money at some point in our lives. The key to debt management is to wisely consider the situation, work to limit the frequency and amount of your borrowing, and always have a diligent repayment plan. Scripture reminds us that God will provide for our needs, and by prudently managing or avoiding debt, we can experience the spiritual and financial freedom to respond to His call in our lives.