

COMMON ERRORS AND EXPENSES THAT LEAD TO DEBT

When evaluating family debt, a common shortcoming seems to run through all unmanageable debt experiences: the lack of thorough planning. Sometimes this deficiency is amplified even more by ignorance or indulgence. In order to recognize this shortcoming and then to change its progression, families must consider the two common errors and the three common expenses that lead to debt and seek to either avoid or control these errors and expenses. The primary method in which families can identify shortcomings and to do something about correcting the effects of the shortcomings is to develop a family budget and stick to it.

The two common errors that lead to unmanageable debt are allowing a get-rich-quick mentality to govern decisions and ignoring the advisor that God has given.¹ The three common expenses that lead to debt are: home purchases, car purchases, and scheduled disasters.²

Allowing a get-rich-quick mentality to govern decisions Symptoms of get-rich-quick mentality are evident in many of the investment schemes in the world today. Unfortunately, many Christians find themselves caught in the get-rich-quick trap before they realize what is actually happening.

If investments in get-rich-quick schemes were limited to available cash, most people would be far more cautious about losing it. But somehow it is easier to risk borrowed money because it seems to many Christians to be almost free money.³ Much like the same justification used when purchasing consumer goods on a credit card, it is easy to justify using borrowed money to invest, especially if the return is “guaranteed.” But speculating on the future not only is a practice in surety, which is warned against in the Bible, it also is presumptuous, because no one can rightly predict what will happen in the country’s financial markets over the next hour, much less the next few months or years. So, borrowing money in order to speculate on the future is both unwise and dangerous, placing the borrower in a position of potentially losing everything if the economy turns downward.

Another danger concerning get-rich-schemes is that most times investors know nothing or very little about the product, service, idea, system, or organization into which they are being solicited to invest. Christians are particularly vulnerable to being tricked by get-rich-quick schemes, because they tend to trust people who call themselves Christian, especially if they claim to have a special revelation or leading from God. So, stay with what you know and do not invest until you have completely and thoroughly investigated the product, program, or company. In addition, no decision should be made hastily. Always wait for at least one full day, and earnestly pray before making any investment decision.

Ignoring the advisor that God has provided It is very dangerous for a husband or wife to ignore the primary advisor that God has given them: their spouse. When there is a relationship as close as a husband and wife relationship, there will be problems. Since opposites tend to attract, they may not agree on a number of things and issues.⁴ But that's okay as long as they communicate and try to reach a reasonable compromise. God's Word is very specific when it comes to husband and wife relationships.

Husbands are to love their wives and listen to their advice before making any financial decisions that would change or affect the families' financial state. Wives may give their advice, but the final decision is up to the husband. And whatever the decision, whether she agrees or not, she must respect him as the head of the family. God created husband and wife to function as a single working unit, each with different but essential abilities. Without the balance that each can bring to a marriage, great errors in judgment will most likely be made.

Home purchases Nearly every family in America dreams of owning their own home. But many times they try to buy a home too soon after marriage or pay too much for a first home and end up in financial trouble. Unfortunately, quite often these families don't realize that owning the home created their financial problems, because it took too large a portion of their spendable income. Because of this, inadvisable home purchases are the number one expense that leads to unmanageable debt.

The percentage of an average family's budget that should be spent on a house payment is no more than 25 percent of Net Spendable Income (after tithes and

taxes). Add to the mortgage payment the cost of insurance, utilities, maintenance, repairs, and telephone, and the percentage climbs to about 38 percent.⁵ Unfortunately, many couples commit to as much as 60 percent or more of their budget to housing. As such, there is no way that the family can handle that cost. If a family can afford to purchase a home within their budget (budget should be based on one income only, not on the combined incomes of husband and wife), that makes sense. But to destroy the budget just to get into a home is not logical.

Car purchases The second most common purchase that leads to debt is the purchase of a new car. Quite often couples who cannot qualify to buy a home buy a new car as a compromise. This is a major debt trap for couples, especially those who have a tendency to overspend, because they are generally not concerned with the overall price of the car—just the amount of the monthly payments.

A new car debt is actually harder to deal with than overspending on a home. In most areas of the country, homes can be resold at or above their original purchase price, because the market for used housing is consistently stronger than for new housing. But a family seeking to sell an almost new car to relieve debt is shocked to discover how little the car is worth on the open market. Most families owe more on a car that is one year old than its actual value. For families who can afford to do it, saving in order to purchase a good used car is a wiser decision than financing or purchasing a new car.

Scheduled disasters In order to plan a financial disaster, all a family has to do is fail to plan for predictable expenses that haven't come due yet, such as automobile maintenance, emergency home repairs, or personal injury. Failure to plan for these is a major reason many families end up in unmanageable debt, because when the expenses occur they must be paid, so the only alternative available is often a credit card.⁶

Why do people fail to anticipate these expenses that are inevitable? Generally because when they try to work them into their budget they don't fit. So they simply ignore them until a crisis occurs. To do otherwise would require adjustments in the other areas of spending, such as housing, automobile

expense, or recreation. Therefore, credit card debt invariably grows in order to absorb these non-budgeted, but predictable, expenses.

Conclusion Without some kind of written financial plan (a budget) families will not realize that they have a financial problem until it overwhelms them. A budget balances income and expenses and reports on the status of income and expenses every month. By maintaining a strict budget couples can identify shortcomings in their family financial picture, and by working together they can capitalize on each others strengths in order to avoid errors and expenses that led to unmanageable debt.

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