

SLAVE TO THE LENDER

Practical Tips on Dealing with Debt

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PREVIEW

4. Counting the Cost: Saving, Spending, and Budgeting

5. Trading the Talents: Principles on Investing

6. Establishing Our Plans: Comprehensive Financial Planning

FINANCIAL FREEDOM SEMINAR

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IS BEING IN DEBT A SIN?

The borrower is **servant** to the lender.

–Proverbs 22:7

Owe no man any thing, but to love one another:
for he that loveth another hath fulfilled the law.

–Romans 13:8

DEBT IS BAD!

But not a sin.

A NATION OF INDENTURED SERVANTS

- Average household debt (3/2023): **\$170,182**
- Average car loans: **\$29,107**
- Average student loans: **\$59,461**
- Average credit card balances: **\$17,956**
- Total Owed in the US: **\$17.05 trillion**

A NATION OF INDENTURED SERVANTS



MARKETS

BUSINESS

INVESTING

TECH

POLITICS

CNBC TV

INVESTING CLUB

PRO 

PERSONAL FINANCE

58% of Americans are living paycheck to paycheck after inflation spike — including 30% of those earning \$250,000 or more

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“There are only three ways a smart person can go broke: liquor, ladies, and leverage.”

–Charlie Munger

WHEN IS IT OKAY TO HAVE DEBT?

THE WIDOW'S OIL (2 KINGS 4:1-7)



- A single mother with collectors coming to take her sons as slaves.
- Elisha told her to borrow containers from her neighbors.
- The containers were filled with the miracle oil.
- The oil was sold to pay back the debt.
- **What she borrowed helped pay back the debt.**

RULES FOR DEBT

1. Borrowing is acceptable only if what you're buying can pay off the debt.
2. Never borrow money for something that only goes down in value.

DO THEY PASS THE “DEBT RULES”?

- Student Loans **YES...**
- Home Mortgage **YES...**
- New iPhone **NO!**
- Car Loan **NO!**

DO THEY PASS THE
“DEBT RULES”?

Just because it's permissible doesn't
mean you must!

STUDENT LOAN FINE-PRINT



Forgiveness?

- Federal student loans can't be discharged in bankruptcy.
- The government can even garnish your tax refunds.
- Just because you qualify, don't take the max amount.
- It ain't free money!



BUYING A CAR

Without a Loan

BUYING A CAR



Average New Car Payment = \$725 for 68 months
($\$49,000$ total with interest)

If you can afford the car payment after you make the purchase, you can afford it before you buy the car.

<https://www.nerdwallet.com/article/loans/auto-loans/average-monthly-car-payment>

BUYING A CAR

1. Drive a cheap temporary car
2. Pay yourself the car payment (i.e. save up!)
3. Use amount saved plus equity of temporary car to upgrade in cash.
4. Repeat as needed.

BUYING A CAR

1. Buy \$5,000 temporary car.
2. Save \$725/mo for 12 months = \$8,700
3. Sell temporary car, and upgrade to \$12-13,000 car.
4. Save \$725/mo for 12 months = \$8,700
5. Sell car, and upgrade to \$19-20,000 car.

BUYING A CAR

1. Buy \$5,000 temporary car.
2. Save \$725/mo for 68 months = \$49,300
3. Sell temporary car, and upgrade to entire FLEET of vehicles.

BUYING A CAR



A car, historically, is a depreciating asset. Purchase as you would a tool that does not increase in value.

CAR MARKET BUBBLE



- Used car prices increased 40% year-over-year thru 2022.
- Record high interest rates.
- Don't be caught underwater in an overpriced car loan!

PAYING OFF DEBT

- Own the debt. Don't make excuses. Don't play the victim.
- There is no alternative to making big payments. Sometimes you can negotiate with creditors, but that won't eliminate the debt.
- Make debt payoff the #1 priority in your short-term savings plan. Then squeeze every dime out of your monthly spending plan.
- Don't worry about other investments until your debt (Except your house) is paid off.
- Use the Debt Snowball Method.

DEBT SNOWBALL

- List debts from smallest to largest.
- Pay minimums on all debt except the smallest.
- Focus intense efforts to pay off the smallest, then roll all extra payments to the next one on the list.



DEBT SNOWBALL

Credit Card 1 \$1,000

Credit Card 2 \$2,500

Car Loan \$10,000

Student Loan \$25,000

\$38,500 Total

- If \$1,000/month toward debt.
- Both credit cards paid in 4 months.
- Payoff in 39 months or 3.25 years.

BALANCE VS. INTEREST RATE

- Paying off in order of highest to lowest interest rate will result in the greatest amount of money saved.
- But the psychological motivation of seeing small wins helps maintain momentum.

Paying off debt is the best investment. If you regret being debt-free, it's easy to undo it.

THOUGHTS ON CREDIT CARDS

- Credit cards are not dangerous.
- Credit card use **without self-control** is dangerous.
- You can live without credit cards.
- Credit cards do have benefits.

PROPER CREDIT CARD USAGE



- Don't use them to buy stuff you don't need. (Have a budget!)
- Credit card debt is unacceptable. Never carry a balance. Pay them off every month.
- If you violate either of these two rules, cut them up.
- Consolidate use to concentrate rewards.

LOANS AND LOVED ONES

LOANS AND LOVED ONES

- Lending money to friends and family can lead to financial problems and damaged relationships.
- Before lending money to friends and family, consider how it could affect you financially and emotionally if they fail to repay.
- Lending money can incur tax implications for both the borrower and the lender.

If you don't want to hear from someone,
lend them money.

WHAT ABOUT COSIGNING?

- Cosigning a loan for friends and family in lieu of lending money directly can also be problematic.
- Proverbs 11:15 *Whoever puts up security for a stranger will surely suffer harm, but he who hates striking hands in pledge is secure.*
- Proverbs 22:26-27 *Be not one of those who give pledges, who put up security for debts. If you have nothing with which to pay, why should your bed be taken from under you?*
- Proverbs 17:18 *One who lacks sense gives a pledge and puts up security in the presence of his neighbor.*



THE STORY OF OUR HOUSE

Paid off in 2 Years

THE NUMBERS

- \$185,000 Purchase Price
- \$85,000 Mortgage
- 15-year fixed rate at 3.49% interest
- \$607.24 Minimum payments
- \$3,700 Average actual payments
- \$100,000 Downpayment

THE SECRET

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- \$607.24 Minimum payments
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THE SECRET

- **A Big Downpayment:** My wife had a dream to buy her first house in cash and had been saving up ever since she graduated.
- **Big Monthly Payments:** Nearly all our extra savings went toward the mortgage. We averaged 6x the minimum.

IT'S ALL ABOUT THE SAVINGS RATE!

THE BENEFITS

- We get to live rent AND mortgage free, eliminating the single largest expense in our budget.
- We own our home now, instead of the bank, so no risk of foreclosure.
- More free cash for other savings. (Solar panels!)
- We paid off the mortgage the same month our first baby was born.
- One less thing to stress about!

THE BENEFITS

Oh yeah, and we saved a LOT of interest!

	15-Year Payoff	2-Year Payoff
Mortgage	\$85,000	\$85,000
Monthly Payment	\$607.24	\$3,700.00
Total Interest	\$24,301.91	\$3,344.85
Interest Saved		\$20,957.06

ISN'T A MORTGAGE GOOD FOR MY TAXES?

- Only the interest can be deducted from taxes, not the full payment.
- Only applies to those who itemize deductions (most don't).
- You save more by paying off the loan than you get back in tax deduction. (Paying \$1 to get \$.25)

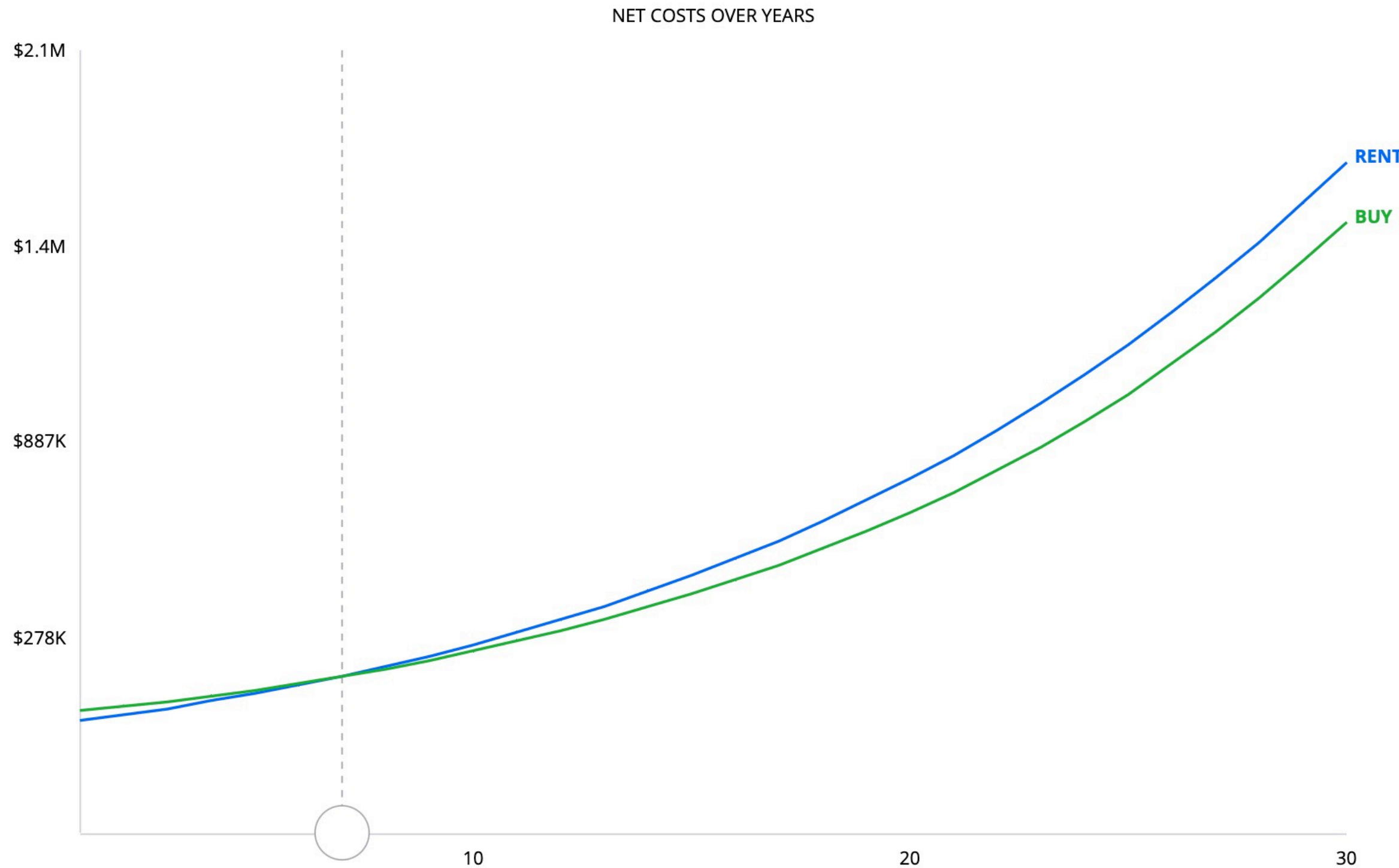
RENT OR BUY?

The Age Old Question

Rent vs. Buy Calculator

Is it cheaper for you to rent or buy? We'll show you how many years it will take before the cost of buying equals the cost of renting – the breakeven horizon. If you'll stay in your home past the breakeven horizon, consider buying; if you'll move sooner, renting might be a better option.

After 6 years and 11 months, buying will be cheaper than renting.



What is your comfortable home price?

\$350K

\$0 ————— \$1M

How much is your down payment?

20% (\$70K)

0% ————— 100%

What is your comfortable monthly rent?

\$1.2K/mo

\$0 ————— \$7K/mo

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YEAR	BUY	RENT	BUY GAIN
7	\$156K	\$157K	\$582

Other Variables:

- Mortgage rate
- Home appreciation rate
- Rent increase rate
- Closing costs
- HOA, Insurance, Property tax
- Marginal tax rate
- Maintenance
- Utilities
- Renter's insurance

RENT VS BUY

- How long will you stay?
- Do you have other debt?
- Are you ready for the responsibilities of home ownership?
- Consider your lifestyle, career, family, and other priorities.
- Be clear you know, “Why?”
- Reason over emotion!



INFLATION AND THE HOUSING MARKET

SOME GOOD NEWS

- Real estate is a good hedge against inflation.
- Locking in a fixed interest rate means we will repay with devalued dollars in the future if inflation persists.
- A home will never go to \$0.

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THE PROBLEMS

- Home prices are high
- Buyers may be aggressive
- Mortgage interest rates are high (and rising?)
- Rent is increasing with inflation

THE QUESTIONS

- When will the market cool off?
- Will home prices come down?
- Will interest rates come down?
- Will there be a market crash like in 2008?

NO ONE KNOWS!

FOCUS ON WHAT YOU CAN CONTROL

- Reconsider how much house you really need
- Save as big of a downpayment as possible (at least 10%, preferably 20% or more)
- Plan to stay in the house for at least 6 years (preferably 10 or more)
- Don't do ARM, stick with fixed rate mortgages
- Ensure monthly payment is no more than 25% of take-home pay
- Be patient
- Ask God to be your realtor

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