

Making Life Count Ministries
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Financial Freedom, part 2 Getting Out of Debt

Proverbs 22:7 says, "The rich rules over the poor, and the borrower becomes the lender's slave." Americans are enslaved to debt.

- Americans owe \$860 billion on credit cards.
- 30 million Americans are behind in their credit card payments.
- The average credit card debt per household is \$15,920.
- If you have \$2,000 on your credit card and only make the minimum payment, it will take you 31 years to pay it off because the interest compounds over time. If it takes 31 years to pay off \$2,000, how long will it take to pay off \$15,920? It will take your entire lifetime—unless you decide to follow a plan to get out of debt.

How to Get Out of Debt

The way we spend our money will determine whether we live in freedom or financial bondage. When we surrender our lives to Jesus Christ, He becomes the owner of all that we have and we're just managing it for Him. Jesus said, "No one can be my disciple unless He gives up all his own possessions." (Luke 14:33) We give up all our possessions by transferring ownership to God. To get out of debt, it will take discipline. Here are 5 things you will need to do.

1. Stop buying on impulse.

Proverbs 21:5 says, "Everyone who is hasty comes surely to poverty." Hasty means to act quickly without thinking about the consequences. Impulse buying is the root cause of much debt. A car salesman said that 95% of the cars he sells are bought on impulse. When a customer gets excited about a particular car, it's as good as sold. Many people buy items they can't afford because their emotions are overruling their budget.

One way you can stop impulse buying is to leave the store, go home, pray about the decision, and sleep on it. This will help you make wise decisions and keep you from buying things you don't need. By the next day, your emotions have settled down and the desire is gone.

When my wife and I were newlyweds, we needed a couch for our living room. We found someone selling a couch. I told the guy I wanted to think about it overnight. He said, "Okay, but if someone else comes and wants it, I'm going to sell it."

I thought, "I'd better buy this before someone else does!" We bought it and took it home. The next day when I looked at it—I absolutely hated it. It was so ugly and it didn't fit in our house. I had bought it on impulse and regretted that I had made such a bad decision. But I learned great lesson from that couch. Never buy on impulse! Now whenever I want to buy a major purchase, I go home and sleep on it. I figure if God wants me to have it, it will be there the next day for me.

2. Don't spend more than you make.

Learn to live within your means. Hebrews 13:5 says "Be content with what you have." Someone once said that it's not how much you make that determines your debt, but how much you spend. I know a man who made \$120,000 a year but couldn't make ends meet. He lived in a small rental house but had massive debt on credit cards and didn't have enough saved to live even one month.

Financial counselor Larry Burkett said that he was counseling with three different married couples about their finances. The first couple came in and said they made \$35,000 a year but couldn't make ends meet. Larry asked, "How much do you think you need to make to pay all your bills?" They said, "\$50,000."

Later that day, the second couple came in who couldn't make ends meet. Larry asked them their annual salary. They said, "We make \$50,000 a year." Larry thought, "That's the amount the other couple said they needed to make." He asked them the same question, "How much would you need to pay your bills?" They said, "\$75,000 a year."

Later, he talked with another couple who couldn't pay their bills. When he asked how much they made, they answered, "\$80,000 a year." Larry concluded from this experience, "This just goes to show that it's not how much you make, but how much you spend. It didn't matter how much these couples made, none of them could live within their means."

How do you live within your means? By cutting your expenses and simplifying your lifestyle. You can do is stop eating out and dine at home instead of restaurants. Go to a cheaper plan on your cell phone. Drop cable TV if you can't afford it. Downsize and live in a smaller place. Make repairs on your old car instead of buying a new one. Cut out unnecessary expenses.

3. If you don't pay off your credit card bill every month, cut them up.

Psalm 37:21 says, "The wicked borrows and does not pay back, but the righteous is gracious and gives." God wants us to pay off our debts. Someone once said you know you're in debt when your credit card number and the amount you owe are the same number!

If you pay off your credit card every month, then it's fine to keep using them. But if you can't pay it off and you want to get out of debt, you need to stop the bleeding. Cutting up your cards keeps you from automatically buying things. If you'll start paying for everything in cash, you will not spend nearly as much and you'll learn to wait until items go on sale.

4. Create a written budget.

A budget is freedom plan. It's a way to plan your spending to get you out of bondage. Jesus said, "For which of you, intending to build a tower, does not sit down first and calculate the cost, whether he has enough to finish it." (Luke 14:28) Jesus said we need to have a budget. He said if you don't have enough money to finish building a tower, then don't do it.

Creating a budget starts with writing a list of all your monthly expenses. Get out all your past bills and you can see where your money has gone. Utility companies will usually figure your average monthly payment for you and you can sign up for an "even payment" plan. Write down your average monthly expenses for each category—house or rent payment, utilities, groceries, insurance, car repairs, gasoline, medical, and other expenses. You should include tithing and savings in your budget as well.

Add up all your expenses and subtract it from your monthly income. If the net amount is negative, you will either need to cut expenses or figure a way to make more income. Once you've established your budget, make sure you stick to it. It does no good to make a financial plan if you don't abide by it.

5. Reduce your debt by paying extra on the principal.

Proverbs 3:27 says, "Do not withhold good from those to whom it is due, when it is in your power to do it." The only way to get out of debt is to stop spending so much and by paying extra on the principal. Paying extra principal cuts down the time it takes to pay off the debt. Because credit cards usually charge the highest interest rates, it's best to pay them off before the lower interest debts.

Make a list of your debts and start with the smallest one first. When paying that bill each month, add an extra amount marked "extra principal." Once you get rid of that obligation, work on the next smallest debt. Add the amount you had been paying on the smallest debt to the principal on your next smallest obligation. Once you pay off that debt, work your way up the list until all debts are paid off.

You can also pay extra principal with your home mortgage. The chart below is for a \$150,000 thirty-year mortgage at 5%. When you make payment #1 (\$805.23), if you will add an extra \$180.98 to it (the principal for the second month), it will make your total payment \$986.21, but you will save \$624.25 in interest. Your balance now drops to \$149,638.78.

The next month when you make your \$805.23 payment, if you will add \$182.49 (the principal payment #4), the total will be \$987.72, but you will save another \$622.74 in interest. Your balance is now \$149,274.55. If you will continue to pay the next month's principal with each payment, you will pay off your house in fifteen years instead of thirty. Now you see how paying extra on the principal cuts down on the time that it takes to pay off your mortgage.

Example: \$150,000 thirty-year mortgage at 5%

Months	Payment	Principal	Interest	Balance due
1	\$805.23	\$180.23	\$625.00	\$149,819.77
2	\$805.23	\$180.98	\$624.25	\$149,638.78
3	\$805.23	\$181.74	\$623.49	\$149,457.05
4	\$805.23	\$182.49	\$622.74	\$149,274.55
5	\$805.23	\$183.25	\$621.98	\$149,091.30
357				
357	\$805.23	\$791.95	\$13.28	\$2,395.72
358	\$805.23	\$795.25	\$9.98	\$1,600.47
359	\$805.23	\$798.56	\$6.67	\$801.91
360	\$805.23	\$801.89	\$3.34	\$0.01

It's better to pay the most extra principal at the beginning of your loan rather than at the end. Look at payment #359, which is the month before you completely pay off your mortgage. Your monthly payment is still \$805.23, but you would have to pay an extra \$801.89 to knock off one additional month. But if you will pay an extra \$801.89 in principal with your first payment, it will reduce the time you would pay by about four and a half months! It makes no sense to pay extra on the principal at the end of your loan because most of your payment goes to principal anyway. (See payments #357 to #360).

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