"Financial Freedom"

By Allan Pole

Theme: Do everything possible to avoid the lure of the loan.
Text: Proverbs 22:7

Here's a thought: A German Proverb says, "He who borrows sells his freedom."

Normally I avoid giving advice regarding the stock market, but this is important enough to share and to warn you since this predicted explosive situation might prove to be another Enron. Please review any holdings you might have in the following stocks: American Can, Interstate Water, National Gas Company, and Northern Tissue Company. I advise you to sit tight on your American Can, hold your Water, and let go of your Gas. You may be interested to know that Northern Tissue touched a new bottom today, and millions were wiped clean.

One of the richest men to have ever lived made this observation in Proverbs 22:7, "The rich rule over the poor, and the borrower is servant to the lender." NIV

When it comes to finances you can:

Carry the Ball or
Drag the Ball and Chain

Carry the Ball

Whether you think it is good or bad, the rich have had the upper hand in this world for thousands of years. Likewise the lenders have carried more weight than the borrowers. Poor borrowers far outnumber rich lenders. It is only recently that borrowing has become a widespread practice amongst the middle class in the western world. A local farmer pointed out to my wife Brenda that before farmers borrowed money to buy equipment they would work together in seeding their crops and bringing in the harvest. Now each one is on his own and the sense of community and cooperation has been lost in the farming community. Gone also are the days in the city when we borrow something from our neighbour.

The classic Biblical example of lending is found in Genesis 41:46-49:

> 46 Joseph was thirty years old when he entered the service of Pharaoh king of Egypt. And Joseph went out from Pharaoh's presence and traveled throughout Egypt. 47 During the seven years of abundance the land produced plentifully. 48 Joseph collected all the food produced in those seven years of abundance in Egypt and stored it in the cities. In each city he put the food grown in the fields surrounding it. 49 Joseph stored up huge quantities of grain, like the sand of the sea; it was so much that he stopped keeping records because it was beyond measure. NIV

While the rest of the world was living hand to mouth, from day to day with no thought about the future, Joseph was storing away 20 percent of the harvest for Pharaoh during the years of great abundance (see Genesis 41:34). This foresight and self-control would provide Joseph and Pharaoh with exceedingly great opportunities for financial advancement in the years to come.

Benjamin Franklin concluded, “Creditors have better memories than debtors.”

Just as an aside, credit cards can be like dynamite – helpful or hurtful. A credit card can be helpful if you pay the balance each month. Some credit cards offer good rewards and incentives. If you have to pay its 20% interest rate a credit card is very *hurtful*.

Even though the U.S. government can print as much cash as it likes, Apple and Microsoft have *more* cash (www.forbes.com/sites/timworstall/2014/04/13/fun-number-apple-has-twice-as-much-cash-as-the-us-government/). At the end of fiscal year 2015 the total government debt in the United States, including federal, state, and local, is expected to be $21.694 trillion (www.usgovernmentdebt.us). What does this mean? Psychologically, it means less far less debt pressure and many more opportunities for economic growth in Cupertino, California or Redmond, Washington than in Washington, D.C. It also means that future generations of Americans will have to pay for the bills being run up by this generation.

As far as I know my father borrowed on just one occasion – to buy his first farm at the age of 21 in 1947. He worked hard and paid his father back over time then paid cash for his second farm.

There are two items that typically appreciate or increase in value over time that I would consider borrowing money for today: my home and my education. However, I would encourage homeowners to pay off their mortgage as quickly as possible. I would also exhort post-secondary students to graduate with as little debt as possible, which might mean spreading out your education over a longer period of time while you work part-time.

Average Canadian student debt estimates hover in the mid- to high-$20,000 range. The Canadian Federation of Students pegs it at $27,000, which is close to the nearly $26,300 many students said they expected to owe after graduation in a recent BMO survey (from www.cbc.ca/news/canada/average-student-debt-difficult-to-pay-off-delays-life-milestones-1.2534974).

Unless you like to keep your money under your mattress we all need a bank or a credit union. Instead of borrowing money from a bank have you thought about owning shares in a bank? You might enjoy Apple products but have you thought about owning shares in the company? Banks and companies know that lenders and those that have cash on hand are in the driver's seat while those who perpetually borrow are in the back seat or in the trunk.

Thomas Stanley and William Danko wrote the fascinating book, "The Millionaire Next Door: The Surprising Secrets of American's Wealthy". Here is a sampling from chapter one, "Meet the Millionaire Next Door":

> These people cannot be millionaires! They don't look like millionaires, they don't dress like millionaires, they don't eat like millionaires, they don't act like millionaires - they don't even have millionaire names. Where are the millionaires who look like millionaires?
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> The person who said this was a vice president of a trust department. He made these comments following a focus group interview and dinner that we hosted for ten first-generation millionaires. His view of millionaires is shared by most people who are not wealthy. They think millionaires own expensive clothes, watches, and other status artefacts. We have found this is not the case.
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> As a matter of fact, our trust officer friend spends significantly more for his suits than the typical American millionaire. He also wears a $5,000 watch. We know from our surveys that the majority of millionaires never spent even one-tenth of $5,000 for a watch. Our friend also drives a current-model imported luxury car. Most millionaires are not driving this year's model. Only a minority drive a foreign motor vehicle. An even smaller minority drive foreign luxury cars. Our trust officer leases, while only a minority of millionaires ever lease their motor vehicles.
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> But ask the typical American adult this question: Who looks more like a millionaire? Would it be our friend, the trust officer, or one of the people

who participated in our interview? We would wager that most people by a wide margin would pick the trust officer. But looks can be deceiving.

This concept is perhaps best expressed by those wise and wealthy Texans who refer to our trust officer's type as “Big Hat No Cattle” (from www.nytimes.com/books/first/s/stanley-millionaire.html).

Would you rather be a lender or a borrower? What adjustments are you prepared to make to become a lender?

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For every dollar of disposable income they make, Canadians owe almost two-thirds (65%) more than that in consumer debt (from www.cbc.ca/news/business/debt-loads-remain-at-record-165-1.1336022).

Alberta has by far the highest average household debt in the country, nearly $50,000 more than the Canadian average, says a new report by BMO.

The bank’s Annual Debt Report, a survey conducted by Pollara, said average debt in the province has climbed to $124,838 from $89,026 last year. Nationally, average household debt has risen from $72,045 last year to $76,140 in 2014 (from www.calgaryherald.com/business/Alberta+tops+Canada+with+highest+average+household+debt/10079082/story.html).

Have Kathryn Seib share for five minutes about how she avoids borrowing money.

Let’s revisit Joseph in Genesis 41:53-57:

53 The seven years of abundance in Egypt came to an end, 54 and the
seven years of famine began, just as Joseph had said. There was famine
in all the other lands, but in the whole land of Egypt there was food. 55
When all Egypt began to feel the famine, the people cried to Pharaoh for
food. Then Pharaoh told all the Egyptians, "Go to Joseph and do what he
tells you." 56 When the famine had spread over the whole country,

> Joseph opened the storehouses and sold grain to the Egyptians, for the famine was severe throughout Egypt. 57 And all the countries came to Egypt to buy grain from Joseph, because the famine was severe in all the world. NIV

This reminds me of the painful experience in the classic board game of Monopoly when I have had to sell my hotels and houses to stay in the game. I know that when I reach this point I am on my way out of the game. Pharaoh didn't open the storehouses to borrowers 1,700 years Before Christ out of the goodness of his heart. He knew he had been given an opportunity to multiply his assets many times. Lending institutions do not accommodate borrowers out of the goodness of their hearts; instead, they know an opportunity to make money has walked through their doors.

Interest rates are at historic lows so why not take advantage of them? I understand the concept of leveraging - borrowing money to invest in something that has a rate of return higher than the rate of interest on the loan. In fact, I have done this myself but I have adjusted my thinking in light of what the Bible says about debt.

Leveraging and buying consumer items are two different things. Isn't it interesting how new car advertisements post the weekly loan payments in big bold print while the actual selling price is in much smaller print? I understand that car dealerships offer very low or 0% interest rates on new and used vehicles but did you know that a dealer would reduce the price if you pay cash for a vehicle? Also, let's be honest with ourselves - buying a new vehicle is never a *need* it is a *want*.

Matthew Henry observed, "Some sell their liberty to gratify their luxury."

John Fuller explains (http://auto.howstuffworks.com/under-the-hood/cost-of-car-ownership/car-depreciation1.htm):

> The standard for car depreciation is that all cars, in general, lose about 15 to 20 percent of their value each year. So a car that's three years old will become worth about 80 to 85 percent of the value the car held as a two-year-old car. The next year, when the car is four years old, it will become worth 80 to 85 percent of the value the car held as a three-year-old car, and so on.

The first year tends to be the steepest drop. In fact, the moment a new car is driven off of the lot, depreciation sets in immediately. Meg Stefanac (www.trustedchoice.com/insurance-articles/wheels-wings-motors/car-depreciation/) estimates, "The moment you drive your new car off the lot, it will depreciate by as much as 11 percent of its value."

Let's say you buy a new car for $30,000. When you get it home it could be worth $26,700. Let's track the potential value over five years with 20% depreciation:

> One year: $24,000
> Two years: $19,200
> Three years: $15,360
> Four years: $12,288
> Five years: $9,830

My father never borrowed money to buy a vehicle and I borrowed money from my father to buy my first vehicle. I have not borrowed for a vehicle since. I don't begrudge you buying a new vehicle but if you do I strongly encourage you to pay cash for it.

My uncle enjoyed buying a new vehicle every two or three years then toward the end of his life he leased his vehicles. Never, ever, lease a personal vehicle. It will do nothing but fleece you and significantly hinder your financial progress. The size of my uncle's estate was affected by his vehicle choices.

Earl Wilson suggested, "If you think nobody cares if you're alive, try missing a couple of car payments."

Thomas Stanley and William Danko note in, "The Millionaire Next Door":

> The majority of millionaires own their cars, rather than lease. Approximately a quarter have a current-year model, but another quarter drive a car that is four years old or older. More than a third tend to buy used vehicles. What is the most popular car maker among millionaires, according to Stop Acting Rich? Toyota.
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> So who's driving all those BMWs and Mercedes-es? Not millionaires. Eighty-six percent of "prestige/luxury" cars are bought by non-millionaires. In fact, Stanley writes that "one in three people who traded in their old car for a new one were upside down and owed more on the trade-in than its market value." It's tough to get wealthy doing stuff like that (from www.getrichslowly.org/blog/2011/02/09/nine-lessons-in-wealth-building-from-the-millionaire-next-door/).

I have observed people who borrow money to buy vehicles and the vast majority of them continue to do so for the rest of their lives. You might be starting out or in a bind where you need to borrow to buy a vehicle *once*. If this is the case I urge you to buy a good used vehicle that will hold its value well and make plans to get off the borrowing merry-go-round as quickly as possible.

You might want to argue with me over the numbers but the truth of Proverbs 22:7 is the trump card in our debate: The rich rule over the poor, and the borrower is servant to the lender. NIV

Avoid co-signing loans for others. Solomon warns in Proverbs 17:18, A man lacking in judgment strikes hands in pledge and puts up security for his neighbour. NIV

He goes on to explain why in Proverbs 22:26-27:

> 26 Do not be a man who strikes hands in pledge or puts up security for debts; 27 if you lack the means to pay, your very bed will be snatched from under you. NIV

Many families have been split and friendships severed when the borrower is unable to pay back the loan and creditors turn their collection efforts toward well-meaning co-signers.

Avoid debt like the plague. *Never* borrow money for a consumer item or depreciating item: no credit for a car, computer or couch!

A German Proverb says, “He who borrows sells his freedom.”

To be free is to have options and to be able to choose amongst these options. The moment you take out a loan you reduce your options – until you pay back the loan. I can’t tell you how many times I have seen people take out loans for houses, vehicles and other items then adjust their lifestyle around their possessions. The proverbial tail is wagging the dog.

There is such freedom that comes with living debt-free!

Do you own your possessions or do your possessions own you? Is that loan really worth the second job, extra shifts at work or the added pressure?

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