



Out of Debtors' Prison

A Roadmap for Debt-Free Living

By Dr. Kurt Grosser

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Dedication

This book is dedicated to all who are striving to live in financial freedom. Freedom from the bondage of the financial limitations imposed by our economic system. Freedom to live the abundant life and in the prosperity promised in the Word of God.

2 Corinthians 3:17 (NASB)

Now the Lord is the Spirit; and where the Spirit of the Lord is, there is liberty.

Special thanks to Kathy, my wife, and our children, for their patience, understanding and endless encouragement.

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Introduction

Spending beyond one's means has become a way of life. This is true for individual households, businesses, churches, and government units, small and large. As long as our spending habits reflect our attitude towards debt, we have nowhere to go but deeper and deeper into obligations. Often we forget that debt encumbers our future.

Debt has been around since ancient Biblical times. One was always admonished to pay back as quickly as possible if one had to borrow in the first place. Large purchases, such as land acquisitions, were financed. Every fifty years there was a year of jubilee in which all debts were settled or cancelled.

Credit cards were introduced in the 1920's. After World War II, the use of credit was accelerated to such an extent that today we seem to be beyond the point of no return.

Household statistics

Sixty percent of American families actually spend more than their after-tax income.

Even more surprising is the fact that 32 million families spend more than \$8,000 more per year than they earn.

If the average American family has over \$8,000 in credit card debt at an interest rate of 18%, it will require more than 25 years and over \$24,000 to pay it off. U.S. consumer debt, including credit card debt and auto loans, is at approximately \$18,700 per household. (Source—Federal Reserve).

Mortgage statistics

The average mortgage debt per household was approximately \$49,000 in 1993. By 2004, the average mortgage debt per household had increased to over \$100,000.

The Church has failed the followers

Let's look at the reality of the average debt level in a congregation of 100 household units. Based on the above statistics, one can assume that the congregation as a whole has an average combined sum of individual debts in the range of \$11,870,000. These numbers are staggering and scary. Debt encumbers our future. The devil has snuck in and deceived not only the individual members, but often also the pastors and the church as a whole, into believing debt is okay. But is it really?

What does the Word of God, or the Bible, say about debt? It says, "The borrower becomes the lender's slave." And it also says that "Christ came and set us FREE." It goes on to say, "Keep standing firm, and do not be subject to the yoke of slavery again."

Why is it that so many believe that borrowing is "normal" and fail to see that they have become slaves to the lender, or the system? Why have so many pastors not taught on what the Scriptures say about managing finances? Could it be that some pastors don't preach on finances because they don't want to appear to be "money hungry" (and thus fulfill the common stereotype)? Or could it be that some pastors fear offending or "running off" those who are currently giving?

Did you know that there are over 2,300 Scriptures dealing with finances? That is more than on any other subject. There are probably not more than 100 Scriptures dealing with tithing and giving. There is much said about debt, ownership versus stewardship, and God's desire to bless His people. It's not about money—it's about God. It is written that the sum of the Word of God is true and we should not be ashamed of the Gospel. In Matthew and Luke it says that we cannot serve God and mammon.

Where and how does it end?

It's time for the church of God to take its stand, or take its place. Preach the whole Word to the congregation. Our God is merciful and forgiving. As soon as we turn around from this omission, and ask for forgiveness and direction based on God's Word, we are on the road to debt-free living. After all, when the day comes that we are asked to give an account of our stewardship, we must be ready. Let's not forget that God wants to bless His people abundantly!

Is there a way out?

Yes, there is hope in the Lord. Just as He took us when we turned our lives over to Him, He will take us and lead us from this disastrous debt dilemma.

In this book, we provide a roadmap for debt-free living.



Chapter 1: Debt—A Way of Life

IN THIS CHAPTER

- BUY NOW, PAY LATER

Buy Now and Pay Later

How long do we keep buying everything we wish to have and charge it? Our economy is built on our spending habits. We are taught to buy now and pay later. We are enticed to buy things even while we stand in a check-out line. Usually, both sides of the check-out line are lined with things to buy. We must realize that sooner or later we have to pay for everything we buy on credit, plus interest. There is no free ride.

Often, we make decisions to buy, or not to buy, based on how much the monthly payment is and whether we think we can squeeze it in. We fail to examine alternatives to buying. For example, if we need a piece of equipment, many go out and buy what they need on credit. Then they use the equipment for one or two projects. The rest of the time they lie around, get older, depreciate, and become outdated. We probably would have been better off to rent the equipment in the first place.

Some rationalize that if they can squeeze in the payment, they are not overextended. They fail to consider what happens if they lose their job, or if there is some other major change. If you don't think that your level of debt is a problem, just get three payments behind and find out what happens. You will quickly realize that you are in debtor's prison. They will come after you to collect. They can repossess what you bought on credit, and sell it at a much lower and depreciated price. You will still be held responsible for the balance. These lessons are very painful.

I know of a young lady who leased a hail-damaged new car. She felt she could make the payments since she got a substantial discount due to the minor damage. Within six months, she lost her job and was unable to keep up with the payments. The leasing company repossessed the vehicle and sold it a huge discount. The proceeds were applied toward her lease commitment. She was taken to court and held accountable and a judgment was filed against her for the remaining balance.

Next time, before you are ready to buy and charge or finance whatever you think you want or need, consider alternatives. Could you rent the item first? For example, it is cheaper to rent a motor home to see whether you like it. Ask yourself how often you would have time to use it. Then consider the costs of ownership, such as license plates, insurance, parking fees, storage cost, repairs and maintenance, etc. compared to a rental cost when you would be able to use it.

Before you decide to take on more debt, you should calculate the all costs associated with the purchase. You don't want to buy something and then later find out that you must buy, or pay for, additional items which you initially failed to consider. A mistake like that could be haunting.

Instead of buying things on impulse and paying for them over a long time, learn to ask yourself why do you need this? Why do you "need" this item right now? What are some other alternatives? Ask yourself why you want to buy something now without having the money to pay for it currently. Why must I have this now? Why can it not wait until I have the money to pay for it? Soon you will conquer the "buy now and pay later" habit.

We have been taught to make minimum payments. Often times we still pay for items long after their use or benefit has expired. If you do make a decision to buy something on credit, you need to pay the debt off as soon as possible. That means make as large a payment as possible each month. By this you will save a considerable amount of interest and pay off the debt much sooner.

Another form of debt we often overlook is cosigning. When a friend or family member wants to buy on credit but is not able to qualify on their own, they ask someone to cosign. When you cosign, it is essentially letting someone else buy now and you will probably pay later. The shortest and best advice one can give regarding cosigning, is: Don't! Don't cosign! Why should you subject yourself to paying for someone else? They do not qualify by themselves in the first place. If they qualify by themselves and then lose their job, you could help them out. Consider alternatives. You might be able to help them buy and pay for a used vehicle rather than a brand new one. Usually, in every situation there are a number of alternatives to cosigning.

Refinancing Your Home – Instant Bailout

Low interest rates have fueled a “refinancing” frenzy. Some run up their credit cards until they are maxed out. Then they refinance their homes to pay off the credit cards. Twelve to twenty four months later they are in the same spot. Their credit cards are once again maxed out only this time they are still paying for the previous balance through their higher mortgage. They repeat the same over and over again until the mortgage rates rise and eventually their debt load is greater than they can carry. The end result is either they must sell their home, or lose it in bankruptcy.

Refinancing a home is good when we can lower the payments and save interest. To refinance credit card debt should at most be a one time situation. It should not be an instant bailout. You would be better off to experience the consequences of credit card debt and the difficult payoff over time than to receive a “quick fix”. There is no lesson learned in a quick fix. Without a firm understanding of why you “need” to buy on credit without having the funds, you most likely will repeat your past mistakes. You must have an understanding of what makes you buy on credit. You must conquer that problem. Only when you are firmly convinced that you will no longer “buy now and pay later”, then refinancing makes sense. Without that conviction, you are setting yourself up to repeat the same. Remember, whatever you buy on credit must sooner or later be paid for with interest. There is no free ride. Either you go through the pain of paying your debts, or you go through the pain of losing everything and start all over again until these basic principles sink in.

Unreasonable Credit Limits

Credit cards are a trap for most people. They all start out at some credit limit. Once you reach that limit, they usually increase it to the next level, then to the next, and so forth. If you continue to increase your debt limit, sooner or later you will reach a level where you cannot keep up. Then comes the next card and the next until you are in serious trouble.

It is not unusual for credit limits to exceed the annual income of the debtor. By that time it is way too late. You would be better off to stop and ask yourself why you buy something without having the money.

High Interest

Banks and financial institutions send out credit cards like cookies. They want you to transfer your balances. They promise lower rates. But you should read the fine print. Often the lower rates apply only for a limited time. The final rates could end up being higher than the rates you paid in the first place. Remember the interest is not the issue. The issue is why do you buy now and pay later and in that process become a “prisoner” to the lender.

Interest always goes in cycles. For sometime it is low, or lower, and eventually it creeps higher. It always seems to catch with you at a time when it is least convenient. Some argue that certain interest is tax deductible, therefore it is good. Don't believe that argument. Here is an example that defeats this argument. Say you are in a 28% tax bracket. Assume your interest payments are deductible. You start out with \$100.

Now you pay the \$100 out in interest. You get a tax deduction and thereby receive the tax savings of \$28. So you have \$28. Now compare this to having \$100 and paying no interest. You do not have a tax deduction and therefore pay \$28 in taxes. You still have \$72 left over. When comparing the two alternatives, you are better off paying no interest, even though it is tax deductible, because for every \$100 you have \$72 left over compared to \$28.

The Problem

Most households are overextended. They live from paycheck to paycheck. On payday the house payment or rent is paid, then comes the car payment or payments, groceries, utilities and other bills. By the time credit card payments are added, there is not enough to go meet ordinary needs before the next payday. To close the “gap” from one payday to the next, they use their credit cards. Many are two or three paychecks from bankruptcy.

When you ask any family if they could make it financially if they had no debt payment, you get the answer. If we had no debt payments, of course we would have enough. Then debt is the problem.

Reality

Reality is that debt encumbers the future. Anything that is borrowed must be returned and paid back some day. Even zero interest loans must be paid back. There is no free ride. Too many people bank on the future. They borrow blindly without considering the consequences.

The Treadmill

Often times the truth is that our spending habits or cycle is like a treadmill. People get stuck without knowing how to make changes. They accept the cycle as “normal” and without much hope. Credit cards are loaded to their maximum and other cards are added. Many have little or no hope of ever getting caught up. Then one day they refinance their home and wrap all credit cards into their mortgage. The only problem is that then the cycle begins again.

Is There Another Way Out?

There is a way out. You do not need to stay on the treadmill. Bankruptcy is not the only answer. You can pay off your debts and still have enough to live on. How can this be true? The Bible tells us to examine our ways. We need to look inward to find out why we buy on credit. Why do we keep on doing the very thing we hate to do, such as buying on credit?

We must develop a desire to change our ways. God has a divine order to our finances. But, it takes a commitment to make changes. It takes team effort. A household divided against itself cannot stand, but a household united cannot fail. You can do it. Remember, with God