

Case Study

Mike and Sharon are Christians. They both earn typical middle-class incomes. Over several years, they accumulated significant debt on their credit cards. With interest rates of 18% to 28%, they felt that they could solve their problem by restructuring their debt. Hence they obtained a personal line of credit from their bank at a much lower interest rate and used the funds to pay off the credit cards.

For a while, they believed that they had solved their financial problems. However, over the next few years, the balance on their personal line of credit gradually increased to its limit.

So again they met with their banker. Fortunately, their home had gone up in value and thus the banker provided a second mortgage on their home, to pay down their personal line of credit.

Over the next several years, the balances owing on their credit cards and personal line of credit again gradually increased. Since the fair market value of their home remained the same or decreased, the bank would not lend them any more money.

As a result, they were forced to withdraw money from their retirement fund which resulted in two new problems: first, a tax liability because of the retirement fund withdrawals and second, a significant concern that they would not have sufficient funds for retirement.

Questions:

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The debt restructuring did not solve their personal financial problems because the overspending continued after the debt restructuring, and they ended up with even more debt at a later date.

Questions:

2. What was the real underlying problem(s)? Hint —what biblical principles did they violate? Please provide a reference to Scripture.

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The real underlying problems for Mike and Sharon are that they have violated many biblical financial principles [perhaps unknowingly]. In a sense, their problem is spiritual in nature. Some of the biblical principles they have violated are as follows:

1. They lacked contentment, demonstrated by the fact that over many years they were spending more than they were earning. (1 Timothy 6:6–8)
2. They did not develop and implement a budget/spending plan. (Luke 14:28–30)

3. They took on too much debt (**Proverbs 22:7**).
4. There was an unwillingness to sacrifice as needed (**Luke 9:23**).
5. They did not know where they were at financially (**Proverbs 27:23**).
6. They did not plan their finances properly especially with respect to assuming debt (**Proverbs 21:5**).
7. They did not foresee future financial problems, even after they restructured their debt a second time. Proverbs 22:3 says:
A prudent man sees danger and takes refuge, but the simple keep going and suffer for it"

Questions:

3. Initially, was it wrong for them to get a personal line of credit? Did the personal line of credit provide any benefit?

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Initially, it was not wrong for them to get the personal line of credit as the personal line of credit did lower their interest costs and reduced their monthly payments. However, the line of credit did not solve their underlying financial problems–i.e. they were habitually spending more than they were earning as a result of the violation of several biblical principles.

Questions:

- 4. What course of action do you believe Mike and Sharon should take to get their finances in order? Please provide a reference to Scripture for each point if you can.**

4. What course of action do you believe Mike and Sharon should take to get their finances in order? Provide a reference to Scripture
1. Most importantly, Mike and Sharon need to learn (**Deuteronomy 5:1**) and implement (**James 1:22**) God's financial principles.
2. Develop and implement a budget to ensure that they are spending less than their income and use the surplus to pay down debt (**Luke 14:28–30**).
3. Change the way they think about money and material things (**Romans 12: 2**) by meditating on appropriate scriptures related to their problem areas (**Joshua 1:8**).

4. Learn to be content with their level of income (Philippians 4:11–13).
5. Save some money for unexpected expenditures (Proverbs 21:20).
6. Seek godly financial advice—first from God himself (1 Kings 22:5), secondly from God's word (Psalm 119:24), and thirdly from a godly financial adviser (1 Corinthians 2:14, 15).

7. Because credit cards create a temptation for Mike and Sharon to spend more than they are earning, they should perform “plastic surgery” on their credit cards by cutting them up ([1 Corinthians 10:13](#)) and use cash or a debit card.



Questions:

- 5. What do you think would be the consequences, if any of the following occurred?
 - A. One spouse out of work for some time?
 - B. Interest rates on their debt increased?
 - C. Fair market value of their home decreased significantly in value and thus unable to renew their mortgage at the same amount.

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 - A. One spouse out of work for some time?
 - B. Interest rates on their debt increased?
 - C. Fair market value of their home decreased significantly in value.

Mike and Sharon have been spending more than they have been earning for years and if any one of the above events occurred, it would be disastrous!

Too much debt combined with an unfortunate event, would likely create stress, sleepless nights, health problems. If they continue with their bad habits of spending more than they are earning they could lose their home or an automobile which would be upsetting to the family and very detrimental to their marriage relationship.

Case Study

Bill and Gail Smith were horrified when they read through the legal document that explained that the bank had just taken a major portion of their retirement fund. Without understanding the implications, Bill and Gail had cosigned a loan for their son and daughter-in-law a few years earlier. After the son and his wife had missed several payments, the bank lost patience, legally demanded the loan, and unilaterally used the cosigners' money to pay it off.

As well as losing a lot of money, Mom and Dad lost the good relationship they had had with their son and daughter-in-law, who felt guilty because of what happened. Invitations for dinner were turned down, and both parties found it awkward at best when they got together. Cosigning had put a significant strain on the relationship.

Questions

1. Did Bill and Gail violate any biblical principle in cosigning? Please explain and provide a reference to scripture.

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Yes: God's Word clearly warns of the dangers of cosigning –

Proverbs 11:15 says: *“it's a dangerous thing to guarantee payment for someone else's debts. Don't do it!” [CEV].*

And **Proverbs 22:25, 26** says: *“Don't guarantee to pay someone else's debt. If you don't have the money, you might lose your bed. “ [CEV].*

Note—this is a principle, not a law, it is not a sin to cosign, but God warns of the dangers of cosigning.

2. If someone requests that you cosign a loan, how would you now handle it?

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Generally, adopt a policy of never cosigning any loans because God warns of the dangers of cosigning and God discourages cosigning.

However, when it is a genuine need, and if you are led by the Lord, it's best to give or lend your money and expect nothing in return (Luke 6:32–38).

Then the relationship should remain intact.

3. According to **Proverbs 6:1–5**, what should you do if you have already cosigned for a loan?

“My child, suppose you agree to pay the debt of someone, who cannot repay a loan. Then you are trapped by your own words, and you are now in the power of someone else. Here is what you should do: Go and beg for permission to call off the agreement. Save yourself, just as a deer or a bird tries to escape from a hunter.” (CEV)

3. According to Proverbs 6:1–5, what should you do if you have already cosigned for a loan?

- ▶ You should “free yourself” from the cosigned obligation as soon as possible.

4. What are some practical ways you can “free yourself ” from the financial obligations of a cosigned loan?

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1. Pray and ask God for his wisdom (**James 1:5**). Some situations may require a “miracle” from God in order to free you from the obligation.
2. Find another bank that would lend money to the borrower with no cosigner. Use these funds to pay off the loan that you cosigned.
3. Encourage and assist the borrower in managing finances according to biblical principles, thus reducing the risk of default.

4. If adult children get into financial difficulty, should parents bail them out? Why or why not?

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- ▶ If the adult children have mismanaged money, the parents should not bail them out as this enables the adult children to continue with their poor financial management [**Proverbs 22:6**].
- ▶ Many times what a person needs is to learn and implement God's financial principles, not to have someone else pay off the debts.
- ▶ And it is during trials that Christians will often grow the most spiritually [**John 15**].

Case Study #1:

Jim and Jennifer are married and they both earn average incomes. Within one year of marriage, they noticed that their credit card balances had increased. They thought that this was no problem due to some one-time expenses that they incurred as newlyweds. However, over the next two years, the balances on their credit cards and personal line of credit increased substantially. They did not understand why this was occurring.

- ▶ As a result, they decided to attend a Biblical financial study. They were amazed how much God's Word had to say on finances. Jim and Jennifer realized that they had inadvertently been violating a number of biblical principles.

Over the next several months, they studied God's Word on finances and meditated on several scriptures to help change the way they think about money and material things.

Then they recorded all their expenses for 3 months, which revealed that they were spending more than they were earning. This explained why their debts had been increasing.

Jim and Jennifer developed and implemented a budget to ensure that they were spending less than they were earning. They purposely used the surplus to pay down debt.

Jim and Jennifer first focused on paying off their credit cards, as the interest rates were very high. They destroyed all of their credit cards and kept just one each. They agreed not to use the credit card unless it was absolutely necessary. Next, they paid down their personal line of credit. In the process, it was necessary to reduce their expenditures.

Although this was difficult, they prayed and trusted God to enable them to persevere with their reduced lifestyle and the reduction of their debts.

Within three years, Jim and Jennifer had paid off all their credit cards and their personal line of credit. They both felt like "100 pounds was lifted off their back". They didn't realize the burden of their debt load.

Today, they have developed a new budget where the surplus is being applied against their mortgage. They learned that by paying just \$400 per month extra against their mortgage, they will save about \$50,000 in interest and be totally debt-free within nine years. Jim and Jennifer regularly thank the Lord for the financial wisdom in His Word and how God has enabled them to be content with a reduced lifestyle.

Questions:

1. List below the actions that Jim and Jennifer originally took that were not consistent with God's principles. Please provide a reference to Scripture for each point.

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1. They did not know where their money was being spent [**Prov 27:23**].

2. Jim and Jennifer were not aware that their spending was greater than their income and that they were accumulating debt. [**Proverbs 22:7**].

3. They had not developed and implemented a budget [**Luke 14:28–30**].

4. They had not been content to live within God's provision [**1Timothy 6:6–8**].

5. Jim and Jennifer had no savings for unexpected expenses [**Prov 21:20**].

6. They were not aware of what God's Word says on finances [Psalms 119: 105].

7. They did not seek God's counsel in respect of finances [1 Kings 22:5].

8. They made financial decisions based upon their own personal judgment and personal desires rather than their "financial facts" .

► Proverbs 24:3, 4 says:

“By wisdom a house is built, and through understanding it is established; through knowledge its rooms are filled with rare and beautiful treasures.”

Questions:

2. List below, the actions that Jim and Jennifer are now taking which are consistent with biblical principles. Please provide a reference to Scripture for each point.

2. List below, the actions that Jim and Jennifer are now taking which are consistent with biblical principles. Please provide a reference to Scripture for each point.
1. **They have studied and implemented God's Word on finances** (Joshua 1:8, Psalms 119:9–11).
2. Jim and Jennifer, now understand their financial position –i.e. their debt load, and where their money is being spent etc. (Proverbs 27:23).
3. They are diligently planning their finances by using a budget (Proverbs 21:5).

2. List below, the actions that Jim and Jennifer are now taking which are consistent with biblical principles. Please provide a reference to Scripture for each point.

4. Jim and Jennifer are making debt reduction a priority (**Deuteronomy 28:1,12**).

5. They reduced the temptation of easy credit by destroying 2 credit cards and using the remaining card only when absolutely necessary (**1 Corinthians 10:13**).

6. They have sacrificed by reducing their lifestyle (**Luke 9:23**).

7. They learned to be content in dependence upon God (**Philippians 4:11–13**).
8. They persevered with debt reduction and a moderated lifestyle (**James 1:4**).
9. Jim and Jennifer trusted God to enable them to implement His financial principles (**John 15:5**).
10. They regularly thank God for His financial wisdom and for enabling them to be content with a reduced lifestyle (**Psalms 118:1, Psalms 107:8, 9**).