

# Costly Credit



## *Mortgaging Your Future*

*by Harvey Armour*

Would you be interested if someone offered you a legitimate way to add thousands of dollars to the money you have available in the future?

Consider this: While using credit may temporarily raise a family's standard of living, the cost of using credit (i.e., the interest charges) will steadily reduce the ability of that family to maintain their standard of living. Because of interest charges, the use of credit can literally mortgage the future of a family, even if that family is not having difficulty now in making the required monthly payments.

Let's look at examples. In the first example, let's assume that a family purchases a new automobile every five years and finances \$20,000 of the cost with a five-year loan at the rate of about 10%. The total interest cost of the 5-year loan will be approximately \$5,500. If the family does the same thing over a 40-year period (i.e., makes eight such loans), their total interest cost will be about \$44,000. The money spent for interest is money that will not be available to the family in the future.

Now, let's look at another example. In this situation, assume that a family maintains an average balance of \$2,500 on credit cards that carry an 18% average interest rate. The family will pay total interest of approximately \$2,250 over a period of five years and about \$18,000 over a period of 40 years. (If the average balance were \$5,000, the interest cost would be twice as much.) Again, the money spent for interest is money that will not be available to the family in the future.

(Note that in both of these examples, the amounts that are shown do not include any assumption as to how much could have been earned on the money if it had been saved and invested rather than spent to pay interest. Therefore, the reduction in standard of living could be much greater than the amounts indicated.)

Most families are capable of paying cash for everything they need to purchase (except for a house), although usually they cannot begin doing so immediately. The sooner they start, the greater will be the long-term benefit in terms of additional money that will be available to them for spending

and/or for savings. The secret of how to be able to pay cash for virtually all of your purchases is actually relatively simple: In the early years, live more modestly than you otherwise would, so you can put ample money aside to enable you to pay cash when items need to be purchased later.

For instance, rather than purchasing a brand-new vehicle the next time you decide to replace an automobile, buy a lower-priced vehicle that meets your basic needs although it may not meet your desires or even your wants. You may want a brand-new Toyota Camry and you may desire a brand-new Acura, but a used Camry or Acura – or a less expensive make of used car – that is several years old may meet your basic needs.

If you want to be able in the future to pay cash for your cars, try taking the following basic steps:

1. Keep your current automobile as long as possible. After you have finished making the payments on it, begin making payments to a special savings account to be used to purchase your next

vehicle.

2. When you purchase your next automobile, try to limit the purchase price to the amount that you have already saved for it. If, however, you really need a better vehicle, finance as little of the price as necessary.

3. Repeat steps 1 and 2.

The same basic steps can be applied in making virtually any kind of major purchase, including a house. What is necessary is your willingness to defer your gratification.

One of the common tendencies of people today is to want instant gratification. Often, Christians are not content to wait for God to provide them with the money to purchase what they need. Rather than wait, they rely on credit to purchase various items, many of which they don't really need immediately. (To "rely on credit" means borrowing to pay for items, because of the inability to pay with cash. Thus, someone who pays the entire balance on their credit card statement each month is not relying on credit.)

Deferred gratification can be achieved by submitting to the authority of the Holy Spirit, to let Him give you and your spouse the ability to practice the necessary degree of self-discipline, or self-control, referred to in Galatians 5:22-23.

Philippians 4:19 tells us that "God shall supply all of your need according to His riches in glory by Christ Jesus." This suggests that Christians should wait for God to provide the money for each need before they make a purchase. The scripture also infers that relying on credit to provide for our needs may reflect a lack of faith in God. (Although a house probably is a reasonable exception, the price of the house certainly should be a matter of prayer because large mortgage payments can wreak havoc with a family's budget.) If God does not provide us with the money to make a purchase, perhaps we do not have a need – maybe it is a want or a desire. Or maybe we are out of fellowship with God.

Although many families may not be able initially to pay entirely in cash for the most costly items they need, such as an automobile, most families should be able to do so within

a period of less than 10 years and perhaps less than five years.

Philippians 4:13 says, "I can do all things through Christ who strengthens me." Why not trust Him to help you to begin immediately to take the necessary steps toward freedom from relying on credit!

*(This article and others by Harvey Armour can be found at [www.calvarybaptistchurch.org](http://www.calvarybaptistchurch.org).)*

© 2001 **Harvey Armour** has been a member of Calvary Baptist Church for close to 30 years, during which time he has taught and counseled in the area of personal and family financial matters.