

8. Understanding, Avoiding and Eliminating Debt

Introduction

Attitudes toward debt have fluctuated dramatically over the last 50 years. Many who lived through the 1930s vowed never to go into debt again. Yet gradually people grew to see debt as a tool to obtain what they wanted now. In the late nineties in particular, the stock market's upward trend encouraged consumers to acquire significant additional debt. Then, when the economy faltered, people realized once again we live in a time of great economic uncertainty. The decline in the stock market and the slowing economy during those years led to a major increase in bankruptcies throughout the United States.

Advertising has been instrumental in promoting the view of debt as a tool, "Get what you want," the advertisements say. "Get it now, and pay only \$80 a month!" "Buy a car with zero down and make no payments for the next 12 months!" Get what you want now and pay it off over the next 15 years. Will Rogers summarized the current condition of our nation by saying, "We'll show the world we are prosperous, even if we have to go broke to do it."¹

Objectives

Once you have completed this chapter, you should be able to do the following:

1. Understand the principles of using debt wisely
2. Understand the debt cycle and why people go into debt
3. Understand how to develop and use personal debt-reduction strategies
4. Know where to get help if you are too far in debt

Understand the Principles of Using Debt Wisely

Debt can be a form of bondage, limiting both temporal and spiritual freedom. To help people avoid this bondage, Joseph F. Smith advised, "Get out of debt and keep out of debt, and then you will be financially as well as spiritually free."²

While some might argue that their financial situation has nothing to do with their spirituality, Marion G. Romney pointed out that self-reliance is essential for spiritual growth to continue:

Independence and self-reliance are critical keys to our spiritual growth. Whenever we get into a situation which threatens our self-reliance, we will find our freedom threatened as well. If we increase our dependence, we will find an immediate decrease in our freedom to act.³

When we are in debt, our freedom to act and our ability to grow spiritually are reduced. Staying

out of debt is not just a temporal commandment, as some suppose; it is also a spiritual commandment as well.

Is There Reasonable Debt?

Debt is necessary at times when people may need to borrow for some goals that might otherwise be impossible to achieve. Such goals may include gaining an education and purchasing a modest home; purchasing a second car or a new wardrobe on credit, however, may not be appropriate. Gordon B. Hinckley counseled, “Reasonable debt for the purchase of an affordable home and perhaps for a few other necessary things is acceptable. But from where I sit, I see in a very vivid way the terrible tragedies of many who have unwisely borrowed for things they really do not need.”⁴

When going into debt for a home or an education, you should use prayer and wisdom to make good decisions about the amount of money you borrow and the type of loans you take out. If you do go into debt, you should pay your debt off as soon as you can.

Another type of debt that may be necessary is business debt. While we will not cover this in detail, we include some cautions from N. Eldon Tanner regarding business debt:

Investment debt should be fully secured so as to not encumber a family’s security. Don’t invest in speculative ventures. The spirit of speculation can become intoxicating. Many fortunes have been wiped out by the uncontrolled appetite to accumulate more and more. Let us learn from the sorrow of the past and avoid enslaving our time, energy, and general health to a gluttonous appetite to acquire increased material goods.⁵

It is acceptable to incur debt to undertake a business endeavor if (1) the debt does not jeopardize the personal or family finances of the business owners or managers and (2) the debt is used for a valid business purpose or investment opportunity. Speculative ventures and consumption under the guise of investment should be avoided. Using debt to finance a speculative venture magnifies the risk of the investment and is simply leverage. Finally, business debt must be incurred with full commitment to repay the money. Failure to repay any debt—including business debt—is a form of dishonesty. Keeping these principles in mind will help us determine when debt may or may not be appropriate for a business investment.

There are a few important principles of effective loan use. These include:

1. Know yourself. This includes your vision, goals and plans. What is important to you, not just now, but in the future? What do you want to accomplish with your life? What is the vision of what you want you and your family to become? The key is to have the vision of your bigger “yes” in the future so you can say no to the current temptations to spend. “Where there is no vision, the people perish.”⁶

2. Know where you are in your spending and your income. If married, do not hide any

liabilities or assets from each other. How much do you owe, and what are your assets? In order to be able to get where you want to go, you must know where you are now. Have a realistic idea of your income, spending, debt and investment progress. Get on your budget and plan for the things you want to accomplish.

3. Set your priorities. Decide now the things you will do and what you will not do? Make those decisions now, so you won't have to re-decide time after time. Strive to learn from your experiences, the experiences of your family, and others. Thankfully, we have the teachings of leaders and scriptures who have given us counsel. Resolve to not go into debt except for a modest home and modest education. Be wise in your expenditures.

4. Finally, pay as you go. You cannot spend yourself into financial security. Live within your means, and do not spend that which you do not have, and follow your goals and decisions.

If you are in debt add, let me add a few points which will be discussed in the next chapter.

5. Prioritize your debts. Which are the most important? Give priority to secured debts for house or car. If the time comes that you cannot pay all your debts, determine which are most important, such as a roof over your head and food and transportation.

6. Develop a debt repayment plan. Automate it and follow it closely. A debt repayment plan is how you will pay back your debts. You must be able to continue to meet your current needs for yourself and your family, and have sufficient to repay the debt when it comes due.

7. Do not take on any new debt. Debt stops growth, both physically and spiritually. Do not add to your debt burden as you strive to pay off your debts.

Understand the Debt Cycle and the Reasons People Go into Debt

To understand the nature of debt, it is important to understand the debt cycle. The debt cycle starts when you begin to spend more than you earn. You know it's wrong, but you do it anyway, telling yourself, "It's just this once," and "I'll pay it back next month."

When you are not living within your means, you must borrow to maintain your standard of living. At first, this may mean adding a little more debt to your credit card because it is easily accessible. Although you intend to pay this debt off soon, you may find yourself continuing to spend more than you earn in order to support your lifestyle. Soon you may find that you have borrowed to the available limit on your credit card, so you get a second credit card, and your spending continues. You dig yourself deeper and deeper into debt each month.

The situation keeps growing worse. You obtain more credit cards, and soon you may find that you have as many as five—all of them used to their maximum limit. You may be able to get

another card, but the interest rate is now over 20 percent. Interest costs on your current cards are high too, and you are paying only the minimum balances on everything. In fact, most of your payments are for interest costs. With so much of your income going toward interest costs, you find yourself limited financially and unable to maintain your current standard of living.

This debt cycle can continue for only so long. Eventually you can't get any more credit, and the interest alone becomes more than you can pay each month. You have lost your money, your sense of self-worth, and your good credit history.

Some people are already so deep in debt that it will take a long time for them to get back out; others are just beginning the cycle. When I have talked with people who have been in debt, some have described the debt cycle and its results as “chains of hell.”⁷ The debt cycle starts ever so slowly, but over time the chains become as unbreakable as steel and may cause you to do things you never would have thought possible.

While there are many reasons why people accumulate debt, there are five key trends:

Ignorance: Some people don't understand interest and its costs. They may even, consciously or subconsciously, avoid learning about these things because they know they would have to change their spending habits, and change is difficult.

Carelessness: Some people understand interest but get a little careless in their spending. They think, “If I spend a little more this one time, it's OK—it won't hurt this once.” But it does hurt—even this once.

Compulsiveness: Others lack the self-control and discipline to control their spending. That is why spending, to some professionals, is considered an addiction, just like alcohol, drugs, or pornography.

Pride: Some people worry more about how they look to their neighbors than about how they look to God. Ezra Taft Benson counseled, “Pride . . . is manifest in so many ways, such as faultfinding, gossiping, backbiting, murmuring, [and] *living beyond our means*.”⁸ Some people are more interested in “keeping up with the Joneses” than in living within their means. They may overspend on brand-name clothes and other goods in order to impress others with their lifestyle, all while maxing out their credit cards and getting deeper and deeper into debt.

Necessity: Finally, some people go into debt in order to feed their families and provide for other basic needs. These people need help, and help is available. However, instead of going into debt to deal with a difficult situation, they should counsel with their church leaders to seek other solutions. Necessity should rarely be the reason people go into debt.

It is necessary to combat these trends and habits both in order to avoid debt and as part of the road to getting out of debt. As we learn, grow, and develop our financial skills, we become more self-reliant. As you humbly receive help from those who are able to give it, and as you gain

knowledge, exactness, discipline, and humility, the Lord will be able to turn your weaknesses into strengths. He has promised:

And if men come unto me I will show unto them their weakness. I give unto men weakness that they may be humble; and my grace is sufficient for all men that humble themselves before me; for if they humble themselves before me, and have faith in me, then will I make weak things become strong unto them.⁹

When you are in need, God can help you understand what you should do, show you what changes you need to make, and direct you to the knowledge you need to make those changes. As you follow His guidance, you are changed from the inside out. In the process, you become both spiritually and financially self-reliant. The Lord takes you from where you are to where you need to be. Rather than having burdensome debt, you can train yourself to replace the following vices with virtues:

Ignorance can be replaced by wisdom. Wisdom is a necessary tool for combating ignorance and may be gained as you learn about the dangers of debt, the costs of interest, and how improper debt management prevents you from achieving your goals. You must learn to understand debt, understand why we go into debt, and understand how to properly manage it. You will have to change your spending habits and possibly even your very lifestyle in order to spend money responsibly and get out of the debt you have accumulated.

Carelessness can be replaced by exactness. Exactness in your finances is essential for combating careless spending. As you learn about the dangers of the debt cycle, you will realize that once you enter the debt cycle, it is difficult to get out of it. If you are not in debt, you can set a goal now to never enter this cycle and to be exact and circumspect in financial matters in order to avoid the debt cycle. If you are already caught in the debt cycle, you can prepare a detailed plan to get out of debt and stay out.

Compulsiveness can be replaced by diligence. You can develop the self-control you need to be diligent in your financial matters. You can plan a budget and spend only on the things that are important. You can set personal financial goals and work toward them, budgeting and spending responsibly so that you can eventually reach those goals.

Pride can be replaced by humility. You can humble yourself as you recognize that your wealth isn't yours. When you see yourself as a steward of your wealth, you realize that it doesn't matter what others think about you—it only matters what God thinks of you and what you think about yourself. As you strive to do what God would have you do, pride gives way to humility.

Necessity can be replaced by self-reliance. When you are in need, God can help you understand what you should do, show you what changes you need to make, and direct you to the knowledge you need to make those changes. As you follow His guidance, you are changed from the inside out, and in the process, you become both spiritually and financially self-reliant.

Understand How to Develop and Use Personal Debt-Reduction Strategies

What if you are already in debt? Is there a process that can help you get out? The good news is that there is. The following process is essential for debt-reduction:

1. Recognize and accept that you have a debt problem.
2. Stop incurring debt. Don't buy anything else on credit. Be especially careful about using home equity to pay down debts until you have your spending under control. Will Rogers commented, "If you find yourself in a hole, stop digging."¹⁰
3. Make a list of all your bills.
4. Look for many different ways of reducing debt, not just one. Examples might include consolidating balances to a lower interest rate credit card, having a yard sale to earn money to pay down debt, or using savings to reduce debt.
5. Organize a repayment or debt-reduction strategy and follow it.

There are three basic types of debt-reduction strategies:

Personal strategies: These are strategies you can use on your own; they include the use of spreadsheets and financial management software, such as Quicken, Mint.com, or Mvelopes, or other programs to help you organize your financial situation so you can make payments to get out of debt.

Counseling strategies: These strategies require outside help and include debt consolidation and debt negotiation strategies from credit counseling agencies.

Legal strategies: These strategies require professional legal help and may consist of declaring bankruptcy.

Personal Strategies

In this chapter, we will focus on personal strategies to help those in debt organize a plan to get out of debt. Even if you are not in debt, it is still helpful to learn these debt-reduction strategies because you will probably know someone who would benefit from these suggestions.

1. Debt-elimination calendar: Most expensive debt first. In his article "One for the Money," Marvin J. Ashton discusses his debt-elimination strategy. His logic is that you should organize your debts and pay off your most expensive ones first.

He recommends that you set up a spreadsheet or ledger with a row for every month you will be making payments on your debts and a column for each creditor (see Table 1). You start by paying off the debt with the highest interest rate; this way you are paying off your most expensive debt first, which will save you the most money. Once your most expensive debt is paid off, continue applying the same total amount of money to other lines of credit until all of your

debts are paid off. This is the critical point. After you have paid off one debt, you must keep paying the same amount of money but use that additional money to pay off the next most important debt. Then, once you have paid off your all your debts, you can continue paying yourself consistent with your personal and family goals.

Counseling Strategies

Regarding counseling strategies, you may be able to get help from either nonprofit credit counseling agencies (CCAs), which can help you reduce your monthly interest charges, or for-profit agencies, which can help you consolidate and negotiate your debt. Regardless of your choice, check out the company you select with the Better Business Bureau before you spend any money.

Nonprofit credit counseling agencies are set up specifically to help people reduce their credit card debt. These nonprofit agencies have arrangements with many credit card companies, and by working with those credit card companies, you can have your interest payments reduced or even eliminated with specific creditors. The creditors give these nonprofit agencies a rebate that comes from what the creditors are able to collect from you. Creditors are generally willing to work with credit counseling agencies because they would rather get some money back than none at all.

Using these services will cost you about \$15 to \$20 for setup and about \$12 per month after that. If you work with a credit counseling agency, realize that it will likely show up on your credit reports. However, your goal is to reduce your debt—not to increase it through paying high fees. If you successfully complete the program, your success may be noted on your credit reports as well.

Nonprofit credit counseling agencies can be found by calling the National Foundation for Credit Counseling (1-800-388-2227). The following are a few questions you should ask nonprofit credit counseling agencies before you sign up to work with them:

- Is the agency licensed? (To verify their answer, ask for their tax ID.)
- Is the agency a member of the National Foundation of Consumer Credit (NFCC)?
- Is the agency accredited through the Council on Accreditation?
- Are the agency's counselors certified by the NFCC?
- What is the agency's monthly management fee? Is it tax-deductible?
- How long would I be in the program? (It should rarely be longer than five years.)
- How much would I be paying on my debts each month? (Payments are usually taken directly from a checking or savings account.)
- Will I talk with the same person every time or with many different people?

For-profit credit counseling agencies make money by helping people get out of debt. There are two main methods through which they work: debt consolidation and debt negotiation.

Debt consolidation: The goal of this strategy is to consolidate debt into a single loan with a lower interest rate. For-profit agencies make money on *loan-origination charges* and other loan fees as they help homeowners take out an interest-only home loan and use the excess cash that would have gone to pay down principal to pay off debt. Borrowers should realize, however, that interest-only mortgages have an interest-only option for a specific period, i.e., one to seven years. After the interest-only period, the loan becomes fully amortizing and the loan principal must be repaid in a shorter amount of time, increasing monthly payments.

Debt negotiation: Debt negotiators work with creditors to reduce the interest rate and principal on certain types of loans, especially credit card loans. Initially, the consumer makes monthly payments to the debt management company, which may hold those payments until the consumer's accounts are long overdue. At this point, the debt management company attempts to negotiate with the creditors to reduce the consumer's interest rate and principal. They are sometimes able to significantly reduce the amount owed; however, help from these companies is not cheap. They typically charge a two-month retainer fee up front to work with your creditors. In addition, should this strategy backfire, you may have many months of nonpayment history on your credit report even though you made monthly payments as required to the for-profit credit counseling agency.

Before you begin working with a for-profit credit counseling agency, be sure you understand how the agency makes money. If it doesn't make sense to you, go with another company. The following are a few questions you should ask for-profit credit counseling agencies before you sign up to work with them:

- What types of loans will the agency help consolidate or negotiate?
- How much will the agency's services cost?
- How does the agency get paid? Who pays the agency?
- When does the agency get paid?
- What is the monthly fee? Is it tax deductible?
- How long would I be in their program? (It should never be longer than five years.)
- How much would I be paying on my debts each month? (Payments are usually taken directly from a checking or savings account.)
- Will I talk with the same person every time or with many different people?

There are benefits to using these types of programs. First, these companies may be able to significantly reduce the interest charges and even the principal of some types of debt. Second, they may be able to help you out of extreme debt if you follow through with them.

There are also drawbacks to working with these organizations. Most importantly, they are very expensive, and there is no guarantee they will be able to help. In addition, these organizations are established mainly to make money, which means you will pay much more for their help than you will pay for the help of nonprofit credit counseling agencies. Remember, these companies stop making payments before they begin to negotiate, so working with them may have a significant

negative impact on your credit reports. Watch for the following warning signs, and go elsewhere for help if you notice any of them:

- High, up-front or “voluntary” fees
- Vague contracts that do not explain fees
- Promises that sound too good to be true (for example, a promise that creditors will cut the principal owed by 50 percent)
- Fees for just distributing payments to creditors
- Pressure to sign up for debt-repayment services immediately before fees are disclosed
- Fees for phone consultations

Remember, you are working with your money. Use it wisely, and find a program that can help you resolve your debt issues in a consistent, logical way and within a reasonable time frame.

2. Debt-elimination calendar: Smallest debt first. Others, such as Dave Ramsey, have recommended that those in debt pay off their smallest debt first. In this manner, borrowers see debts being eliminated, which shows success, and gives motivation for further debt repayment. While the “most expensive debt first” framework is better from a “total cost” point of view, both methods have the same objective and both can be helpful in eliminating debt. **Learning Tool 20: Debt Elimination Spreadsheet with Accelerator** on this website is a useful tool for determining which method will repay debts the quickest. With this tool, you have the option to pay down either the highest interest rate or smallest principal first. Most times, the difference is not significant and either method will accomplish the same objective. The key is to act now.

3. Home equity loans. You have probably heard radio and TV advertisements for debt consolidation loans. Debt consolidation loans are home equity loans, or loans against the equity in your home. Home equity loans have some benefits: because they are secured loans (credit cards are unsecured loans), they have lower interest rates, which reduces the monthly payment on your debt. In addition, the interest on home equity loans may be tax deductible.

However, there are two drawbacks to this type of loan. First, by taking out a home equity loan, you may not be addressing your real problem: the bad habit of spending money you do not have and living beyond your means. If your spending habits have not changed, your spending will continue even after you take out the home equity loan.

Second, if you take out a home equity loan and do not pay it off, you run the risk of losing not only your credit score but your home as well. Home equity loans put your home at risk because your home is used as collateral for the loan. Experience has shown that over 80 percent of those who take out a home equity loan to pay credit card debt have the same amount of debt they had at the time they took out the loan within three years. No spending changes have occurred, and the people soon find themselves back in debt. As their spending continues, they may now suffer both reductions in their credit ratings and the loss of their homes.

Should you take out a home equity loan to consolidate and pay off your debts? The answer is not

straightforward. It's likely that you will get into the same problem again in the near future if you have not changed your spending habits. If you have already addressed the spending problem that got you into debt in the first place, a home equity loan may be a useful option.

If you find yourself too far in debt for personal strategies to work successfully, you have a few choices:

Legal Strategies—Bankruptcy

Legal help should be your last resort; however, if there is no possible way that you can repay your debts, you may want to consider this option. There are two major types of bankruptcy: Chapter 7 and Chapter 13. If you declare *Chapter 7 bankruptcy*, your assets will be liquidated and used to pay creditors according to procedures outlined in the Bankruptcy Code. This is the quickest, simplest, and most frequently selected type of bankruptcy. Under Chapter 7 bankruptcy, certain debts cannot be waived, including child support, student loans, and drunk driving fines.

If you declare *Chapter 13 bankruptcy*, a repayment plan is set up in which the court binds both you and your creditors to set terms of repayment. You retain your property and make regular payments with future income to a trustee, who pays creditors slowly over the life of the bankruptcy plan.

Research on bankruptcy has shown some interesting trends. The majority of bankruptcies are caused by divorce, death, or separation; unpaid medical expenses; and loss of the primary source of employment. You can substantially reduce your risk of these events by further developing your relationships, obtaining life and health insurance and continuing your education.

Unfortunately, some have come to see bankruptcy as a way of getting out of paying the obligations they can honestly pay on their own. If you are considering bankruptcy, ask yourself the following questions:

- Is it honest, or is it just a way to get out of debt legally? Remember, things that are legal may not necessarily be honest.
- Is your integrity worth more than money?
- Is it really necessary to declare bankruptcy?

A bankruptcy filing will remain on your credit reports for up to 10 years after you make your last payment. This will hurt your chances of getting the credit necessary to purchase a home or a business. Filing bankruptcy should not be taken lightly; it should be your last resort.

Summary

You have studied what the scriptures and other leaders have said concerning debt. Avoiding debt

is important for both our temporal and spiritual well-being.

Table 1: Debt-Elimination Calendar

	Credit Card	Consumer Loan	Dentist	Piano Loan	Auto Loan	Student Loan	Total Payments
Interest Rate	16%	13%	10%	8%	6%	5%	
Amount Owed	\$215.68	\$533.66	\$613.61	\$1,399.94	\$10,006.37	\$7,002.64	\$ 19,772
Min. Payment	110	70	50	75	235	120	660
March 20xx	110	70	50	75	235	120	660
April	110	70	50	75	235	120	660
May		180	50	75	235	120	660
June		180	50	75	235	120	660
July		52	178	75	235	120	660
August			230	75	235	120	660
September			30	275	235	120	660
October				305	235	120	660
November				305	235	120	660
December				129	411	120	660
January					540	120	660
February					540	120	660
March 20xx					540	120	660
April					540	120	660
May					540	120	660
June					540	120	660
July					540	120	660
August					540	120	660
September					540	120	660
October					540	120	660
November					540	120	660
December					540	120	660
January					540	120	660
February					167	493	660
March 20xx						660	660
April						660	660
May						660	660
June						660	660
July						245	245

We discussed different personal strategies for debt-reduction as well as counseling and legal strategies for debt-reduction. Personal strategies include using debt-reduction spreadsheets and payoff accelerators. We talked about counseling strategies in terms of both nonprofit and for-profit credit counseling agencies. Finally, we talked about the legal strategy of bankruptcy, and why it should be filed only as a last resort.

Assignments

Financial Plan Assignments

The section on Loans includes three areas: Consumer Loans, Mortgage Loans, and Debt and Debt Reduction. You will include each of these three areas as you develop your plans for using debt.

If you are in debt, or know others in debt, think through the reasons for that debt. Are there things that could have been done differently or things you could have done without that would have reduced the need for debt?

Review any debt you may have, including consumer debt, mortgage debt, and student loans. Write out your debt situation for each debt, including the following: creditor, phone number, reason for the loan, principal owed, interest rate, minimum payment, additional costs, fees, and the date by which you expect to have the loan paid off. Once you have written down all your debts, plan how to reduce your debt.

Finally, as part of your Action Plan, write down your views on how you will use debt in the future. Will you use it? What type of debt is acceptable? What are your thoughts and what are the reasons you feel the way you do toward both acceptable and unacceptable debt?

Learning Tools

The following Learning Tools may also be helpful as you prepare your Personal Financial Plan:

20. Debt-Elimination Spreadsheet with Accelerator

This Excel spreadsheet gives a framework for paying off debt; it encourages you to pay off your debts in order of expense until you have paid off all your debts.

9. Debt Amortization and Prepayment Spreadsheet

This Excel spreadsheet gives a debt amortization and prepayment schedule to help you as you reduce and eliminate your debt.

18. Credit Card Repayment Spreadsheet

This Excel spreadsheet gives information on how long it will take to pay off credit cards and other debt.

Review Materials

Terminology Review

Average Daily Balance (ADB). A common way of calculating interest to charge. Computed by adding each day's balance for a billing cycle and then dividing by the

number of days in the cycle.

Cash Advance. Using a credit card to obtain cash, such as through an ATM or over the counter at a bank. This is an extremely expensive way to borrow, and carries several pricy fees.

Credit Bureau. Private organizations which maintain credit information on individuals, which it allows subscribers to access for a fee. The three major credit bureaus to know are Equifax, Experian, and Trans Union.

Credit Card. A financial instrument that allows the holder to make purchases through an open line of credit.

Credit Limit. The maximum amount that one can borrow on a single credit card. This amount is often influenced by one's credit score.

Credit Report. Information collected by credit bureaus from subscribers, creditors, public court records, and the consumer.

Credit Score. A numerical evaluation of your credit based on specific criteria determined by the credit scoring company.

Debit Card. Unlike credit cards, debit cards act like a personal check. When used, money is taken straight from the connected account to pay for the purchased item.

FICO Score. This is the most commonly used credit score. It ranges from 300 to 850.

Grace Period. The amount of time given by a credit card company to pay a due balance before interest starts to accrue. Normally 20 to 25 days, excluding cash advances. It does not apply if the card already carries a balance.

Secured Credit Card. Similar to a standard credit card, but is tied to a checking or savings account. The card cannot be used once the money in the account is gone, until more funds are added. Useful for building credit.

Smart Card. Similar to a debit card, but rather than being connected to a certain bank account, they magnetically store a certain amount of money linked to the card itself.

Teaser Rates. Very low introductory interest rates used to attract new customers to a certain credit card. They increase soon after the card is in the user's hands.

Review Questions

1. What are two debts that, according to leaders, are okay to incur?

2. What are five reasons people go into debt? How may these reasons be combated in order to get back out of debt?

3. What is the first signal that you are entering the debt cycle?

Case Studies

Case Study 1

Data

A family friend has asked you to help one of his children, who is having some financial problems. The son gave you the following information: They have four children, ages three months to 18 years. Their bills include a mortgage of \$150,000 at 6 percent, a second mortgage of \$20,000 at 7.5 percent (because they were too far in credit card debt), debts to various financial institutions of \$10,000 at between 12 percent and 28 percent (she lost her job due to the latest pregnancy), a lease on a new truck of \$18,000, a loan on her car for \$5,000, and miscellaneous Christmas bills totaling \$3,000. After some work using **Learning Tool 20: Debt-Elimination Spreadsheet with Accelerator**, you determine that debt payments represent 83 percent of their income for living expenses.

Application

What suggestions do you have to help them get out of debt?

Case Study 1 Answers

The above was a real case that occurred a few years ago. I have included below my suggested process to help (there are likely other ways to help as well).

1. Help them determine what is important to them—their personal goals.
 - I helped them think through the process of setting effective goals, and then they wrote down their goals so they would be working for the right things.
 - I didn't spend a lot of time together on this area, but I did emphasize its importance and had them do it on their own.
3. Help them realize where they are financially.
 - I helped them develop a balance sheet for the family.
 - We worked together to determine what assets were available and how much was owed. We developed an income statement.
 - We worked at finding out where the money was going so we could put it to the best use.
 - We put them on a very strict budget.
4. Help them understand why they went into debt in the first place.

- I shared with them the reasons people go into debt so they could understand why they got into this problem in the first place.
 - I talked about the spiritual reasons behind not going into debt. I told them they needed to get their spiritual house in order so that God would help them get their temporal house in order.
5. Determine individual ways of reducing debt, the more the better.
- I had them fill out their income taxes quickly so they could receive their income tax return.
 - They borrowed money against their cash-value insurance policy to reduce their debt.
 - I had them sell assets that they could do without (i.e., truck, old vehicles, etc.).
6. Help them determine a course of action and commit them to that course.
- We worked together to make a plan, and then we all worked together to follow that plan.
 - I held them accountable for their plan.
 - I enlisted other people as part of a team approach to help them with talking to creditors and paying off their debts.

Now, four years later, they are still in debt, but their debts have become much more manageable and they are working to pay them off. Has it been easy? No. Is it worthwhile? Yes. The wife commented recently, “I just didn’t realize that it would be so hard for so long. You run into debt, but you crawl out of it.”

¹ Will Rogers Legacy, California Department of Parks and Recreation at http://www.parks.ca.gov/?page_id=23998.

² Conference Report, Oct. 1903, 5

³ “The Celestial Nature of Self-Reliance,” *Ensign*, Jun. 1984, 3

⁴ “I Believe,” *Ensign*, Aug. 1992, 6

⁵ “Constancy Amid Change,” *Ensign*, Nov. 1979, 80

⁶ Proverbs 29:18.

⁷ Alma 5:7

⁸ “The Faces of Pride,” *New Era*, Oct. 2003, p. 40; italics added

⁹ Ether 12:27

¹⁰ Nina Coleman, “The Manly Wisdom of Will Rogers,” in *The Friars Club Bible of Jokes, Pokes, Roasts, and Toasts* (2001), p. 316