

# Vineyard Columbus Financial Ministry

## DEBT RE-PAYMENT

### Introduction

Bankruptcy, delinquent debt and foreclosure rates are higher now more than they have ever been, in part due to the recession, job loss and underemployment. Some of the cause can be attributable to bad decisions such as assuming too large of a mortgage, too much consumer debt and a pay-check-to-paycheck lifestyle. Some people have faced unfortunate financial circumstances due to things beyond their control such as job loss, uninsured health care expenses, bad advice and predator lending.

The purpose of this document is to discuss the various debt relief options, resources, direction and the behavioral and moral issues - all to foster additional discussion between you, your financial and other advisors.

This doesn't cover all issues (e.g., credit ratings and credit repair) and the issues it does cover are not covered extensively. Readers would be encouraged to seek the advice of many trusted counselors and read additional resources.

### Who has this information been prepared for?

This information has been prepared to help Christians who are struggling to remain current on their debt re-payments and all other basic financial needs. Basic financial needs would be things like rent/mortgage, food, utilities, car payments and gas, and not things like cable television.

### What Questions are addressed here?

- 1 **Debt Philosophy, Moral and Behavioral Issues:** What is God's perspective on debt and the different approaches of getting out from under it
- 2 **Getting Current:** How does someone construct their personal finances so that debt payments can be maintained so that you don't fall behind?
- 3 **Debt Acceleration:** After someone does #2, how do they go about paying off debt (non-mortgage) as quickly as possible?
- 4 **Debt Remediation Options:** If someone isn't able to keep current on their debt re-payments, what options are available through...?
  - o Dealing with lenders myself?
  - o Debt counseling agency?
  - o Debt Negotiation Company?
  - o Bankruptcy?
  - o Loan modification foreclosure avoidance?
- 5 **Other Issues:**
  - o Is debt consolidation, co-signing a loan and to borrow from family okay?
  - o How does one approach tithe if one is burdened by debt?
  - o What are my rights as a creditor and what should I beware of?

This was written by Kent Irwin of the Vineyard Columbus church for church members and those we are providing financial coaching to review some options for consideration and further investigation, This is not financial advise is not intended to replace advise provided by your trusted financial, legal and tax advisors.

## Debt Philosophy, Moral and Behavioral Implications

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### What is God's perspective on debt and getting out of it?

- **Who owns everything?** God owns everything including the money we make today and tomorrow, the things we purchase and us.
- **What is debt?** It is the temporary borrowing of something with the agreement to give it back. The cost to the borrower is interest (%) paid to the lender before it is returned.
- **What is God's point of view?**
  - It is bondage - "The rich rule over the poor, and the borrower is servant to the lender." Proverbs 22:7
  - It is not good - The Bible says a ton about debt and none of it is good.
  - It should be paid back - Not paying may be like stealing "The wicked borrow and do not repay, but the righteous give generously." Psalm 37:21 the only Biblical exception appears to be the "Year of Jubilee."
  - It takes God for granted - Debt assumes that God is going to supply you with enough money in the future to fulfill the obligation for payments
  - Depending upon man - Borrowing often involves not waiting on God to supply when and what He wants to provide.
- **Is borrowing ever okay?** Some may justify it for purchasing homes, college education and to help fund a business, however counsel and moderation is strongly encouraged.
- **Is full repayment a requirement?** Scriptural principals indicate that we are obligated to keep our promises for debt payments according to the terms we agree to: Ecclesiastes 5:4-5 When you make a vow to God, do not delay in fulfilling it. He has no pleasure in fools; fulfill your vow. 5 It is better not to vow than to make a vow and not fulfill it.
- **Does God provide a way out?** God cares about us immensely, and he hates it when his children are burdened. He does provide a way out of debt. God's restoration plan usually involves time and personal growth.

### Moral and Behavioral Issues

- A few of the avenues for debt relief discussed here involve arranging stop-gap payment plans. These are excellent ways to pay creditors and to communicate and deal with difficulty in a responsible manner until full payments can be resumed.
- Since the methods of settling for a lower pay-off (e.g., negotiated settlement, credit negotiation firms or Chapter 13), or debt forgiveness (Chapter 7) seem to go against Biblical principals, it would probably be a good idea to consult with Christian advisor and pray for guidance prior, and to consider your individual situation.
- This paper provides many options the borrower can exhaust prior to having to go the bankruptcy or settlement route if someone isn't able to keep current on their debt
  - Getting current
  - Dealing with lenders myself
  - Debt counseling agency
  - Loan modification foreclosure avoidance

### Conclusion

There are many avenues for getting out of debt, so making the right decision is mission critical. Seeking counsel and transforming one's personal financial management into a Godly way will help insure we honor God, and not fall back into the same situation again later.

The most important thing that happens is the change of attitude, breaking old habits and adopting new ones. As someone works through the process of reengineering their financial and spiritual lives, which at times will be slow and difficult, much growth and maturing will result. Lives will experience much fruit and growing closer to Christ. Taking the easier or quick way out seldom produces the needed long term growth and change.

## 9 Steps to Getting Current and Debt Elimination: How does someone construct their personal finances so that debt payments can be maintained so that you don't fall behind?

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### 1. Get Counsel

*Plans fail for lack of counsel, but with many advisers they succeed. Proverbs 15:22*

#### **To Do**

- Meet with wise Christian counselors and friends to seek their advice and accountability (friend or spouse) to help you with the things mentioned in this paper and to stay on track

### 2. Transfer Ownership

*Yours, O Lord, is the greatness, the power, the glory, the victory, and the majesty. Everything in the heavens and on earth is yours, O Lord, and this is your kingdom. We adore you as the one who is over all things. Wealth and honor come from you alone, for you rule over everything. Power and might are in your hand, and at your discretion people are made great and given strength. 1 Chronicles 29:11-12*

**To Do:** Complete "Quit Claim Deed"

- In order to live this out, it takes practice and heart change. Part of this is to sign over ownership using the provided forms.

### 3. Organization - Make order when there is disorder

**To Do:** Complete questionnaire and organize records

### 4. Follow Him & Design a spending plan

*"If you are faithful in little things, you will be faithful in large ones. But if you are dishonest in little things, you won't be honest with greater responsibilities." & "Seek the Kingdom of God above all else, and he will give you everything you need." Luke 16:10 & 12:31*

#### **To Dos**

- Estimate current monthly expenses, determine if monthly income exceeds expenses
- Determine what expenses are necessary and which ones are not. Reduce or eliminate 'wants' until expenses are less than income.
- Follow your new budget by tracking and limiting expenses
- Sell unnecessary items, use cash proceeds to reduce debt
- Get a second job or work overtime
- Pay creditors the amount that you owe them until they are fully paid

### 5. No New Debt: Promise to acquire no new debt

### 6. Save \$1,000 for emergencies, then direct all extra income towards debt re-payment

### 7. Tithe

### 8. Re-pay All Debt (non-first-mortgage) using the snowball method

### 9. Accumulate money for long term need and emergencies

**Debt Acceleration:** After someone 'Gets Current' as outline above, how do they go about paying off debt (non-mortgage) as quickly as possible?

- This is relatively simple, but not easy to do. It requires sticking to the steps outlined above even though you will definitely have financial set backs.
- Continue to learn to be smart and frugal with all expenses so that you will have extra income to reduce debt
- Snowball your debt repayment. For example if you have 3 debts with a total payment of \$500, commit that amount and any additional amount that you can afford until all debt is paid off. In other words do not reduce debt payments after one account is paid off. For example assuming one debt has a payment of \$100 for 6 months, the other \$250 and the third with \$150 for payments for 5 years. When the \$100 is paid off, take that amount and pay it to the other. The order of debt payment can be either to pay off the account with the highest interest rate or the one with the smallest balance. Favoring the higher interest rate account usually provides a mathematical advantage, paying off the one with the smallest balance first provides some mental benefits.
- Online Debt Snowball calculator at VineyardColumbus.org under resources

**Debt Remediation Options:** If someone isn't able to keep current on their debt re-payments, what options are available through...?

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## Dealing with lenders myself?

### Order of payments

If you have done everything you can do to get current but you are still unable to keep current it is important to have a priority to your making of payments. This should be centered around security needs of food and shelter:

#### First Priority Needs

1. Rent or mortgage
2. Food
3. Utilities
4. Transportation
5. Health insurance

#### Second Priority

1. IRS tax payments
2. Notices from lawyers or courts, and Creditors threatening lawsuits
3. Student loans
4. All other creditors

### Communication & Negotiation

It is essential that you open all mail and communicate with your creditors. Many people simply get overwhelmed by it all and ignore what is happening. This is not a good idea and could result in creditors garnishing your wages, putting liens on your assets or forcing you into bankruptcy.

Contact your creditors and let them know what is happening. Ask to speak with their hardship department to work out a payment plan that you can afford. Keep records of every conversation including the name and number of the person you spoke to, the date and time, and what was agreed to. Hospitals and doctors are particularly agreeable in the early stages to work out a small payment plan. See your Vineyard Columbus counselor for a creditor communications log or go to <http://www.alabamaconsumer.com/CM/Forms/Collection-Communications-Log-pdf.pdf>

### Special Arrangements

If the creditor is not able to work out a plan with you that you can afford to pay each month, another option is the Pro-Rata arrangement advocated by individuals like Dave Ramsey. This program recommends, as a stop-gap measure until regular payments can be re-established, for you to pay an amount to each creditor a pro-rata share. Every month with each payment you would send a letter to each creditor with your budget, a list of creditors and an explanation of the amount you are paying them based upon you're paying them based upon their pro-rata portion. For more explanation and a worksheet go to <http://www.mdmproofing.com/iym/products/ramsey-pro-rata-debts/> .

### Settlement

Creditors may accept a lump sum payment that is less than the amount you own them: for example the amount is owed is \$3,500, but if they receive \$2,000 within 30 days they will accept that as payment in full and will not longer pursue payment on the balance of \$1,500. Sometimes these offers are sent in the mail or provided over the phone. If someone can afford to make this lump sum payment, then this might be a good option because this may enable you to pay-off your other creditors sooner and one less creditor will be bugging you for payments. Please read the section covering the moral and behavioral issues of this option before pursuing this. Always get offers in writing prior to payment.

### Credit Collections

If you do not make any or minimum payments on time the service provider (e.g., utilities) or lender, may either assign your case to a collections department, may retain the services of a bill collection company, or retain a law firm specializing in collection. Legal proceedings may lead to recovery of funds through court action, property seizure, wage garnishment, liens and bankruptcy. Individuals who receive letters or subpoenas from the court, should read documents immediately so that they respond in a timely manner. They might also want to engage legal counsel so that individuals know their rights.

Individuals should know their rights by reading information from the Federal Trade Commission by visiting [www.ftc.gov](http://www.ftc.gov), including [www.ftc.gov/bcp/menus/consumer/credit/debt.shtm](http://www.ftc.gov/bcp/menus/consumer/credit/debt.shtm).

**Debt Remediation Options:** If someone isn't able to keep current on their debt re-payments, what options are available through...?

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## **Debt counseling agencies & Debt negotiation companies**

### Debt Counseling Agencies

These companies provide assistance by providing budget counseling, negotiation of payments and interest rates with creditors. In order to qualify for their help you are required to submit a budget, keep current on the payments that they arrange, and have sufficient income to make the planned payments. Fees are usually very low from good accredited non-profit counseling agencies.

### Debt Negotiation Companies

These companies also provide assistance by negotiating payments and interest rates but also balances with creditors. These firms usually have higher fees and longer contracts.

### Criticism

The credit negotiation and counseling industry has been highly criticized by some commentators. This is in-part due to some: charging high fees, the over optimistic projections, fraud (some companies didn't forward money received to creditors), and the feeling of creditor collusion. I've found that some of the highly credentialed Debt Counseling Agencies to be very good and helpful to many people, and I prefer them over negotiation companies.

### Due Diligence

If considering this option be absolutely sure of the firms credentials (for example look at the lower right-hand corner of <http://www.apprisen.com/>), be careful of documents that you sign, and application and monthly fees. Use only firms that have very low fees, provide counseling services to prevent debt recidivism (repeat offenders), are highly credentialed, been in business a long time, and pass scrutiny by your States Attorney General and Better Business Bureau. Also research the company on the web (e.g., Google). Also be aware of the affect to credit ratings that these *might* cause.

The Federal Trade Commission has an excellent document on this topic that I encourage you to read prior to pursuing this option <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.pdf>.

**Debt Remediation Options:** If someone isn't able to keep current on their debt re-payments, what options are available through...?

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## Bankruptcy?

There are several forms of bankruptcy available to businesses and individuals, the most common forms for individuals are Chapter 7 and 13. Bankruptcy doesn't provide relief from IRS tax or student loan debt. Below is a brief explanation.

### Chapter 7

This form of bankruptcy some times referred to as 'liquidation' involves the selling off of assets for payment to creditors, however it doesn't involve an ongoing re-payment plan. The disadvantage of this option is the loss of property and the affect to credit rating. Some property may be retained (minimal) and some assets may be exempt (retained) which will vary based on state law- in some states retirement funds assets (e.g., 401{k}), life insurance, annuities and other assets may be exempt.

### Chapter 13

This form of bankruptcy some times referred to as 'wage earners plan' involves a plan of re-paying some or all debt over a period of 3 to 5 years.

### Automatic Stay

Filing a 7 or 13 petition 'automatically stays' (stops) creditor collection. Consult an attorney for how this may affect you including the affect to foreclosures.

### Resources

This is just a brief overview of a few of this issue pertaining to bankruptcy, for more information read:

#### FTC Facts before filing for bankruptcy

- <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre41.shtm>

#### Information from US Courts

- [The Process: www.uscourts.gov/bankruptcycourts/bankruptcybasics/process.html](http://www.uscourts.gov/bankruptcycourts/bankruptcybasics/process.html)
- [Discharge: www.uscourts.gov/bankruptcycourts/bankruptcybasics/discharge.html](http://www.uscourts.gov/bankruptcycourts/bankruptcybasics/discharge.html)
- [Chapter 7: www.uscourts.gov/bankruptcycourts/bankruptcybasics/chapter7.html](http://www.uscourts.gov/bankruptcycourts/bankruptcybasics/chapter7.html)
- [Chapter 13: www.uscourts.gov/bankruptcycourts/bankruptcybasics/chapter13.html](http://www.uscourts.gov/bankruptcycourts/bankruptcybasics/chapter13.html)

#### Information from Crown

- [www.crown.org/Library/ViewArticle.aspx?ArticleId=113](http://www.crown.org/Library/ViewArticle.aspx?ArticleId=113)

### Legal Counsel

People considering this would be highly advised to a Christian advisor and consult with an attorney specializing in bankruptcy. Meet several attorneys to help you find one that you feel fits your personality, is competent and charges modest fees. Read the first section of the document 'Moral and Behavioral Implications.'

**Debt Remediation Options:** If someone isn't able to keep current on their debt re-payments, what options are available through...?

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### **Loan modification foreclosure avoidance?**

#### What is foreclosure?

Foreclosure is a legal process that varies by state and county, that starts with the borrower not making monthly payments and ends with the homeowner being forced to move, the house being taken over by the bank and sold. The creditor owes the original amount borrowed minus what the house was sold for plus any associated costs that the lender is legally able to charge. The overall process can take many months and years to complete.

To avoid foreclosure borrowers could sell their home, if they owe more than they can sell it for they might qualify for a short sale (lender accepts payment and forgives the debt), or deed-in-lieu of foreclosure. Reducing expenses, working overtime, take in a renter, and/or eliminate 'wants' from their budget may also help keep you in your home.

#### What should I be aware of?

If you are in this situation explore your options (see below for a review of some of them), do not pay fees to any firm (they are usually scams) and do not move out in a panic before the foreclosure, deed transfer (e.g., deed-in-lieu of), sale or modification takes place.

#### National status

Lenders and State and Federal Governments realize that many people are struggling to maintain their mortgage payments and they know negative affect to families, business, not-for-profit organizations and the community of foreclosure. Therefore they provide these options.

#### Standard Lender Options

- Mortgage modification - is when your mortgage company alters the original mortgage through lowering the interest rate, extending the life of the loan, or reducing the principal balance.
- Refinance - is available to borrowers with good credit history to receive a lower monthly payment by refinance the loan to a lower interest rate and/or a longer term. Refinancing has fees so examined them to consider whether the money is really saved
- Repayment Plan - is for people that have missed a mortgage payment due to a temporary change in finances. The lender work with the borrowers to develop plan repay missed payments.
- Partial Claim - Under a partial claim, HUD advances a loan (FHA only) to repay the past-due interest and escrow amounts. The loan is due and payable when the borrower pays off the first mortgage or no longer owns the property.
- Forbearance Agreement - is a temporary reduction or suspension of payments, then the mortgage company a repayment plan based upon the customer's financial situation.

#### Government Sponsored Programs

- Home Affordable Modification (HAMP) - is to help keep people in their homes by lowering their mortgage payment through lower interest rates, length of term and in some instances balances.
- Home Affordable Refinancing (HARP) - for homeowners (whose loans are held by Fannie Mae or Freddie Mac) who are able pay their mortgages on time but are unable to refinance to take advantage of today's lower mortgage rates perhaps due to a decrease in the value of their home. This will help refinance into a more affordable mortgage payment.
- Second Lien Modification Program (2MP) is designed for homeowners having difficulty maintaining their monthly mortgage payments because of a 2<sup>nd</sup> mortgage. 2MP offers a lower payments on the second mortgage when their 1st mortgage is HAMP modified.
- Home Affordable Foreclosure Alternative program offers homeowners \$3,000 to help transition to more affordable housing when they complete a short sale or deed-in-lieu of foreclosure.

This information was in part taken from the following resources, for more information and to see which programs you may be eligible for contact your lender and go to <http://savethedream.ohio.gov/Workshop4.aspx> and [www.makinghomeaffordable.gov](http://www.makinghomeaffordable.gov).

## Other Issues

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### Debt Consolidation

Combining of several loans (e.g., automobile, credit cards) into one loan sometimes produces lower payments if interest rates are lowered and/or the term of the loan is extended (e.g., from 36 months to 60 months). Often debt consolidation is done with a home equity loan. Using a home equity loan may also provide additional financial benefits since some people may be able to deduct the loan interest from their taxes.

Debt consolidation can save people money, and help people to pay off their debt earlier. However it is common for many people to end up charging up the credit cards to the limit again and buying new cars etc. on credit, thus in the long-run they end up worse off, and might eat up of the equity in their home. Consolidation should never be considered if the interest rates end up being higher, or done without budget counseling and change to ones personal finance habits.

### Co-Signing

Several Bible verses recommend against co-signing a loan including Proverbs 17:18 "A man lacking in judgment strikes hands in pledge and puts up security for his neighbor."

Most loans that have been co-signed on end up being paid for by the co-signer. Unless the person that wants the loan can qualify for it, then no one should co-sign for them.

### Family and Friend Borrowing

Helping family is very Biblical. Borrowing from family changes the family dynamics, so loans between family members is usually discouraged. Help should be in the form of a gift, but repayment is okay.

Sometimes family will offer to loan the children money, as a way to consolidate debt and lower the payment. This can provide a financial advantage to the borrower and the lender. It benefits the lender because they can receive a rate of return higher than what they might get if they had money invested in the bank in a savings account. However again caution is much warranted.

### Debt and Tithe:

Many people wonder if or how much they should pay in tithes and offerings if they are severely burdened by debt. The Biblical principal of tithe means 10% and that should be the ultimate goal. One's ability to pay the full tithe during a period of financial crisis should be a matter of living by Christian principals and faith, and looking at the present situation of lifestyle, spending plan and debt. Prayer and consultation with a trained Christian financial counselor and other advisors is encouraged to help you determine a number that might work for you during financial crisis.

### Debt Collectors and Shams

If debt collectors are calling you, be sure to know your rights, see the following Federal Trade Commission documents for more information:

- Credit and Your Consumer Rights [www.ftc.gov/bcp/edu/pubs/consumer/credit/cre01.pdf](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre01.pdf)
- Debt Collection FAQs: [www.ftc.gov/bcp/edu/pubs/consumer/credit/cre18.pdf](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre18.pdf)

During economic crisis there are proliferations of companies that advertise their secret wonderful method for erasing debt, avoid foreclosure and debt repair.

Beware of businesses that... (from <http://www.savethedream.ohio.gov/Workshop5.aspx>):

- Guarantee to save your home, no matter your circumstances;
- Insist you do not contact your lender, lawyer, or housing counselor;
- Collect a fee before providing you services;
- Accept payment only by cashier's check or wire transfer;
- Encourage you to lease your home and buy it back over time;
- Want you to make your mortgage payments to them, not your servicer;
- Ask you to transfer your property deed or title to them;
- Pressure you to sign paperwork you have not read thoroughly or don't understand