

Ask the Budget Guy

Submitted by Allen Gunter

MORTGAGES, LEASES AND LOANS (OH, My!!)

Hey, BG...I'm baaack! Remember me? "Seeker of the Truth?" Last month you told me the world has become one big debt trap, but you ran out of time. Tell me more...

BG: Welcome back, Seeker! This month I want to share the secret of the debt trap with you. Just look through a few ads and you'll see it. More and more things are being sold on the basis of monthly payments, not price. Notice how the monthly payment is in big type at the top of the ad, while the actual price is in the small type at the bottom. And it all started with home mortgages. Did you know that mortgages originally were for no more than seven years?

Seeker: Seven years?! No way!! Who can afford to pay off a mortgage in seven years?

BG: The seven years came right from the Bible, and it worked quite well for a long time. But then some clever soul figured out that many more houses, and much more expensive houses, could be sold to more people if mortgages were for 15 years instead of seven. Of course that made home builders and real estate agents very happy, as well as the bankers who made a lot more money in interest. No surprise, then, that mortgages continued to lengthen to the current norm of 30 years.

Seeker: Interesting story, BG, but with house prices as high as they are, who can afford to pay their mortgage off in seven years?

BG: Which came first, Seeker, the chicken or the egg? High home prices or 30 year mortgages? ("Welcome to *my* house!" said the trap.)

Seeker: Hmm...I'll bet that's what's happening with cars. Didn't car loans used to be for three years? Now five year notes are very common.

BG: Some lenders are even making eight year loans. ("Gotcha!" said the trap.) And don't forget about leasing.

Seeker: Hey, leasing's cool! You only pay for the part of the car you use. And you can get a fancier car.

BG: Leasing makes sense *IF* you absolutely have to have a new car every two or three years, and *IF* you lease the exact same car you would have bought so that you end up with a smaller monthly payment, and *IF* you invest the difference, and *IF* you are able to earn a decent rate of return on that investment. But since most people opt for a more expensive car instead of a lower monthly payment, leasing is another big debt trap. It's great for car dealers, though – a lease means you'll be back for another new car in just two or three years. ("Love that new car smell!" said the trap.)

Seeker: Wow! The debt trap's everywhere!

BG: Afraid so. And now there's the home equity line of credit trap. The equity in your home may be the largest asset you have. But you can trade it all away for a hot tub or Hawaiian vacation – just write yourself a loan...with your house for collateral! ("Su casa est me casa!" said the trap.)

Seeker: I get it! Sellers emphasize the monthly payment and we think we can afford something we really can't. So we end up with monthly payments that never seem to end, and finance charges that make what we couldn't afford in the first place even more expensive. I've *got* to be more careful – too many people want me deep in debt for the rest of my life!

("Stop him...he's getting away!" said the trap.)

Remember Proverbs 22:7 – "The borrower is servant to the lender." Set yourself free!

Want some help getting out of debt? SHPC's Financial Ministry can help. You can get personal help from the Budget Guy, Allen Gunter (892-3580, ext. 122 or BudgetGuy@SHPC.org). Not ready for that? Try one of the Crown Financial Ministries Small Study Groups. Call Ron Miller at 892-1862 for more information on these classes.