Is Your Stewardship Out of Control?

by Jim Dutcher

One of the most difficult tasks facing our Christian households in a complicated financial environment is to maintain control over the finances that God has entrusted to us. This is especially true during the difficult economic times that we are experiencing. So what does it mean to be "In Control" of your finances and what do you do when things get "Out of Control?"

In Control

As an accountant and a leader in the Financial Stewardship Mentoring Program (FSMP) I have had considerable experience working with Christian households suffering financial difficulties. Through these experiences I have found that there are three major indicators of whether a household is in control of its finances. For a household with annual gross income of less than $100,000, these are the three indicators we look for:

1. Is a household timely and up-to-date on its monthly bills and loan payments?

2. Does the household maintain a financial system for handling its money, that includes:
   a. Keeping a manual or automated check-ledger with an accurate checking account balance?
   b. A record retention plan (i.e. filing system) that is kept current?
   c. Regular reconciliation of its checking account that matches the check-ledger balance?

3. Is cash flow such that a household can reasonably expect to control its finances strictly by controlling it's spending? In other words, is the cash-flow of the household sufficient that its monthly "rigid expenditures" (i.e. shelter payment(s), minimum credit card/loan payments and other payments that function like loan payments) are within 35% of that household's monthly gross income (an example of gross income is an individual's wages *before* withholding for taxes and other payroll deductions)?

Of these three indicators of financial control, the first two are usually obvious to each household and are relatively easy to verify. The "cash flow" indicator, however, is not so obvious and almost always requires some calculating. This is also the indicator that tends to be out of control and is far more difficult to remedy than the first two. So allow me to explain how the cash-flow indicator is determined and then present an example.

Determining the Cash Flow Indicator

There are certain monthly expenditures that tend to be rigid and unyielding in nature and these expenditures are almost always the payments that get a household into trouble. They fall into three categories:

1. Shelter Expenditure - This is the monthly payment that keeps the roof over your head. It tends to be either a monthly rent payment for an apartment, land rent for a trailer-home, or a monthly

mortgage payment. The mortgage payment includes escrowed property insurance, property taxes and possibly mortgage insurance if these last three items are a part of your monthly payment. It may also include a second mortgage payment if your home is collateral for secondary mortgages or home equity lines of credit. Your "Shelter Expenditure" *does not* include utility or repair expenses, or other payments that you make separately for your home, but only that monthly expenditure that immediately keeps the roof over your head.

2. Minimum Monthly Credit Card and Loan Payments - These are the minimum monthly payments that you are required to make on credit cards, car loans, student loans, overdraft loans, promissory notes, personal or family loans, consumer debts, time-share loans, loans against retirement plans, installment arrangements with tax authorities and any other minimum monthly payments that you are making against loans. Note that this *does not* include monthly payments made for bills or overdue bills unless they have been legally changed to an installment arrangement (e.g. through a contract or court decision).

3. Other Monthly Payments that Function Like Loan Payments - The most common of these are automobile leases, child support and alimony payments.

When these three categories of rigid monthly expenditures are aggregated and divided by the monthly household gross income, you end up with a ratio. We have found from experience that if a household's ratio is equal to or less than 35%, then that household stands a reasonable chance of controlling its finances strictly by controlling its spending. This is where you want to be.

Example

Roger Anderson works as manager for Hi-tech Systems, Inc. earning a biweekly gross paycheck of $1,385.28. His Wife, Jean, is a part-time account manager at Neuman's earning $14.27/hr. Jean averages about 30 hours each week and is also paid biweekly. Together their monthly gross income is:

Calculation of Monthly Household Income

Roger's biweekly salary	$ 1,385.28	Jean's hourly wage	$ 14.27
Pay periods per year	X 26 periods	Average hours per week	X 30 hrs./wk
		Total weeks per year	X 52 wks/yr.
Roger's annual salary	$ 36,017.28		
Months per year	÷ 12 months	Jean's annual wages	$ 22,261.20
		Months per year	÷ 12 months
Roger's monthly gross income	$ 3,001.44		
		Jean's monthly gross income	$ 1,855.10

Roger's monthly gross income	$ 3,001.44
Jean's monthly gross income	+ 1,855.10
Total monthly household income	$ 4,856.54

The Anderson's have the following debts with corresponding minimum payments:

Description	Balance	Min.Monthly Payment
Overdue Bills:		
Verizon - overdue phone bill	$ 257.82	$ 257.82
Park Nicollet Clinic - overdue medical bill	$ 1,387.52	$ 1,387.52
R. Fritz P.A. - overdue legal bill	$ 755.00	$ 755.00
Credit Cards:		
Target Visa #4364	$ 2,396.47	$ 110.00
HSBC #5244	$ 1,255.66	$ 48.00
Chase #7263	$ 3,732.44	$ 138.00
Kohls #4587	$ 427.61	$ 15.00
Macys #5251	$ 325.23	$ 20.00
Loans		
GMAC - Auto Loan #5557	$ 5,476.32	$ 158.95
Sallie Mae - Student Loan #0003	$ 21,233.45	$ 121.00
Wells Fargo Home Mortgage #4362 (Princ. + Int: $960.06 + Escrow: $262.50)	$ 157,492.38	$ 1,222.56
Auto Lease		
Apple Valley Ford #4444		$ 234.60

Therefore, if Roger and Jean Anderson were to calculate their total monthly rigid expenditures, they would get the following (note that overdue bills are not considered to be rigid expenditures - they are usually more negotiable with regard to the monthly amount that is paid):

Shelter Expenditure:	
Wells Fargo Home Mortgage	$ 1,222.56
Min. Mo. Cr. Card and Loan Payments:	
Target Visa #4364	110.00
HSBC #5244	48.00
Chase #7263	138.00
Kohls #4587	15.00
Macys #5251	20.00
GMAC Auto Loan #5557	158.95
Sallie Mae - Student Loan #0003	121.00
Payments that Function Like Loans:	
Apple Valley Ford Auto Lease #4444	234.60
Total Minimum Monthly Rigid Expenditures	$ 2,068.11

We are now able to obtain the cash flow indicator ratio by dividing the previously determined "Total Minimum Monthly Rigid Expenditures" of $2,068.11 by the calculated monthly household income of $4,856.54. For the Andersons, this ratio is:

$2,068.11 Monthly Expenditures ÷ $4,856.54 Monthly Revenue = 42.58%

This ratio of 42.58% is in excess of the 35% ratio that we would hope for. With households having annual income of less than $100,000, this high cash flow ratio indicates that the Andersons have most likely allowed their borrowing to get to a point where their current income is not sufficient to pay their living expenses and also pay for the debt they are carrying. Therefore, the Andersons will probably find themselves borrowing additional funds to pay their current creditors until the debt becomes so great that they cannot meet their commitments. They must make some significant changes to the way that they are living to stop borrowing and either increase their monthly income or find ways to lower their monthly rigid expenditures.

So What Should the Anderson's Do?

In the Anderson's case and situations similar to the aforementioned example, a household should attempt to do a number of things:

1. Roger and Jean should first find a quiet place and bring their financial problems to the Lord in prayer. In many cases we have made mistakes in the manner in which we have handled our stewardship of God's things. Therefore, if we have not been conducting our lives in accordance with God's Word, the first step in changing our situation is to repent by telling the Lord what we have done and how we intend to change. Then ask the Lord for help in making the changes.

2. The Andersons should then request help from knowledgeable fellow Christians. A family usually cannot fix a situation as complicated as this by using a self-help program or adjusting one or two things. Roger and Jean must attempt to get their hands around their entire financial situation and to do this, they need counsel from people who know what to do and how to do it. The Financial Stewardship Mentoring Program (FSMP) brings trained financial Mentors along-side Christian households encountering financial difficulties and assists them over a ten-week period in changing their financial lives. Part of this process is also to understand God's financial principles so a household knows the objectives of the changes that the household is making. The Financial Stewardship Mentoring Program includes a spiritual program that helps a family to release its grip on goods and services and enable that household to develop an eternal perspective of its financial goals. The Andersons must also reconcile themselves to the fact that there is no simple "rescue plan" for major debt problems and they will be facing some major changes.

3. The first major change is that the Andersons must agree to take a hard line against future borrowing. They should reassess what God says we need (i.e. only food and covering - covering meaning clothing and shelter, 1 Tim 6:6-10) and reconcile themselves to avoid making purchases of goods and services or payments against current debts by using "other people's money."

4. Next, the Andersons should put together a "Personal Financial Statement" (i.e. a balance sheet for the household) and a "Debt Terms Schedule" so they, and any people assisting them, can see their entire financial condition. It is difficult and dangerous for a household to start making major financial changes when there is an incomplete understanding of the assets the household is stewarding and debts that it is facing.

5. After determining the financial condition of the household, the Andersons should make sure they have the tools and practices in place to control their finances. Roger and Jean should assess their household financial system and begin using a check-ledger, set up a filing system and learn to reconcile their checking account, if they are not already doing this.

6. Once they have a financial system in place, the Andersons should learn to plan their spending by projecting their available cash for the week, prioritizing the expenditures that need to be made and immediately paying their highest priorities so the cash does not sit in their checking account available to be frittered away on things of lesser priority.

7. Now the Andersons are ready to attack their cash flow problem either by attempting to increase their income by such things as:

    - Taking on additional work (part-time or temporary).
    - Increasing their earning capacity at current workplaces by adding hours or increasing the rate of pay.
    - Looking for higher paying work, or focusing on increasing work skills or certifications to obtain a new job with greater pay.
    - Rent out space to others (for living or storage).
    - Utilize members of the household that are presently not fully employed to bring additional money to the household.

    –or the Anderson's could attempt to lower their rigid expenditures by doing such things as:

    - Sell assets (hopefully, assets that do not incur significant taxes or penalties) and use the proceeds to pay off debt.
    - Return assets to creditors if the assets are still in good condition and the purchase was recent.
    - Use cash surrender value of permanent life insurance policies to pay off debt.
    - Review amendable income tax returns for refundable amounts to pay off debt.
    - Bring income earning friends or family into the household to share expenses.
    - Ask members of the current household who were not previously helping with expenses to begin assisting.
    - Ask for assistance from family or friends outside of the immediate household.
    - Look for assistance programs from government, charity or private concerns to help pay for food, medical or utility expenses, then use the savings to pay down debt.
    - Consolidating or refinancing debt to bring down monthly minimum payments.
    - Consider major changes such as selling or dropping the lease on one of the family vehicles or moving to cheaper living quarters.

- Talking/negotiating with creditors to lower monthly payments until some of the debts can be repaid, and after repaying some of the debts; apply the freed-up payment amounts to other debts.

Whatever plan the Andersons choose, they must make physical changes to the way they are living and enough changes that they can bring their cash flow indicator ratio below 35%. Once this is achieved, they must plan their future spending to live within their own income.