Lesson 6—Bargains That Aren’t

Introduction: So-called conventional wisdom and clever marketing have conspired to convince people of numerous faulty financial maxims. Some of these are so ingrained in our thinking that we act on them almost subconsciously—not realizing that they are bringing us incrementally but steadily toward financial ruin.

Key Concept: **People who want your money are not your friends.**

I. Seven Deadly Sins of Finance (Prov. 10:4; 24:3, 4)

A. “Use debt as a tool toward ultimate prosperity.”
   1. When you use “other people’s money” you owe them their money plus interest. They win; you lose.
   2. Debt always carries considerable risk—enough to offset any perceived benefit.
   3. Proverbs 22:7 warns that the rich will rule over the poor and the borrower is always the servant to the lender. Debt always enslaves to some degree.

B. “‘Ninety days same as cash’ and ‘No interest for two years’ are smart ways to use other people’s money for free.”
   1. As Dave Ramsey says, “Ninety days is NOT the same as cash.” Cash purchasing allows you to bargain for a lower price. Credit purchases almost always assume full retail price.
   2. Nationally, 88% of such “interest free” contracts convert to debt—usually at usurious interest rates (24-38%).
   3. In addition to an outrageous interest rate, after the “interest free” period expires, you typically are charged the interest you would have paid during that period.
   4. Good intentions do not pay debts. Almost all people who enter into such agreements intend to pay the debt before the “interest free” period ends; the vast majority, however, do not. Note that furniture stores are becoming obsessed with such schemes.

C. “Great car leasing deals make driving a new car within everyone’s reach. After all, you should rent things that go down in value.”
   1. Lease agreements do not reveal the actual interest rate you’re paying because *they do not have to.* Dave Ramsey says that the average auto lease reaps the dealer an effective 14% interest rate from the consumer. That’s way too high for a car!

2. After three years of leasing a $22,000 car, the value has declined to around $10,000. Your payment must cover the lost value *and* provide a profit to the car company. In addition, you must pay for mileage over the limit and for excessive "wear and tear."
3. National Auto Dealers Association figures—
   a. New car purchases net dealers $82.00 in profit.
   b. New cars financed by the dealers net $775.00 in profit.
   c. New cars leased can net dealers $1,300.00 in profit.
4. Leasing is now the most popular way to drive; it is also the most expensive!

D. "The new '0% interest' offers on new cars make new cars a good deal."
   1. New cars lose about 60% of their value in the first four years. What does that do to "0% interest?"
   2. A $28,000.00 car will lose about $17,000.00 in the first four years. (That's the same as if you threw a $100.00 bill out the window each week for four years while driving to work!)
   3. Purchasing a new car for the sake of the warranty is like paying $17,000.00 for the warranty. How many new cars need their engines replaced three times in four years?

E. "Refinancing my home for 125% of its value is wise. By borrowing against my home, I can consolidate my debts at a lower interest rate and sometimes reap a tax advantage."
   1. Borrowing against your home is the best way to get "upside down" on your house—to owe more for it than it's worth.
   2. If you borrow against your home, you may not be able to sell it without writing a huge check at closing. (Remember, you can not sell a home without satisfying the second mortgage.)
   3. Borrowing against your home exposes you to serious market risk. If housing prices drop (as they currently are), you could end up owing *tens of thousands* of dollars should you be forced to sell your home.

F. "New multi-level marketing and work-at-home plans can make anyone rich with only three hours of work per week. Now that's the good life!"
   1. All multi-level marketing schemes are a rip off. Sometimes the products are very good, but the prices are always high. Making money—even in established schemes such as the old Amway—requires effort beyond your wildest imagination.
   2. **If it sounds too good to be true, it is! (no "probably" about it)**
   3. Real estate schemes that promise you the ability to purchase property with "little or no money down" are a debt-driven scam. The threat of default by such "mortgage investors" recently sent chills down Wall Street.
   4. If you could get rich working only three hours per week, everyone would be doing it.

G. "The lotto could make me rich! If I don't play, I can't win."—Quit dreaming! If you do play, you are almost guaranteed to lose.