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Can Borrowing be Sensible?

You've probably walked into a store and been invited to apply for a credit card. You probably receive any number of invitations in the mail. You might just have a few cards in your wallet already! And click-shopping has never been easier. If you're a homeowner, you've probably needed a mortgage. Very few businesses operate without a line of credit or loans.

At MTL, one element of our mission is to help people "**borrow sensibly.**" Google's dictionary describes "sensible" as "chosen in accordance with wisdom; likely to be of benefit." The articles and tips in this edition are designed with that idea in mind. Borrowing wisely can be beneficial for our journey in this world.

My Love, I Owe

by Clarence Peters M.Div CFP®

Many people are aware of the Bible verse, "No one can serve two masters... You cannot serve both God and money" (Mat 6:24). What might come to mind is that choice between loving a hoard of wealth or loving God. We might picture how attractive a gleaming pile of gold is. We can think of those who wanted more and fell to Ponzi schemes, scams and wild risk ventures.

Problems often occur on the other side of the balance sheet as well. We may be continually on the prowl for more money because we have spent all we have at present. Our cash flow is less than our wants list, so we prepare to do business with the lender. Our hunger for more money is driven by our impulses.

When we use credit for non-essentials, we are declaring that we do not have enough. One transaction at a time, we may be limiting our future options. Over time, interest costs balloon, squeezing out other possibilities. In our desire for more we end up with less.



So how does this affect our desire to love God? Our desire for things or for pleasure may have already won the competition for our love. In addition, the increasing demands from creditors are likely to distract us and cast a long shadow over our financial well-being. Freedom to help others may be greatly reduced.

Love expresses itself in a variety of ways, including time, words, and of course, gifts. We love God by loving and helping others. Lovers of God are happiest when they carve out the priority to give. They delight to see the advances in the work of their loving God, the Source of all joy. With that Joy centered, contentment follows.

Borrowing Practice: a Sensible Principle

In general, we at MTL recommend borrowing for initiatives that are likely to retain their value or increase in value. The following infographic gives an overview of specific borrowing areas which typically serve to be beneficial or costly, depending on the circumstances.

High Benefit



Housing



Business



Education



Transport



Things & Pleasure

High Cost

**PAYDAY
LOANS!**

Emergency

Borrowing Sensibly: Seven Tips

- Save for the unexpected rather than use credit, a minimum 3 months of expenses
- Know your debt balances, monthly payments and interest rates
- Your lender's limits may stretch you too far; set your own limits
- 84 month car loan? Plan to keep your vehicle for the duration of the loan; better yet, save ahead
- Pay on time; credit scores plummet when you delay
- Pay credit cards off in full; minimum payments make purchases costly
- 0% interest is rarely free

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Congratulations to Amy Peters, the winner of our draw for a free estate plan (\$150 value) from our September draw!

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The Car or the House?

by Cory Regier, CEO of MTL

Have you ever wondered how a lender decides whether or not to approve your loan application? Sure, they will look at your credit history and what you can offer as security. But, the key to the lending decision is this: How much debt can you afford on a monthly basis? That's called your debt service ratio.

For a house loan, most lenders will look at two debt service ratios. The first, the *gross debt service ratio*, places a ceiling on how much you can spend on your housing costs. Typically, no more than 32% of your gross income can go toward housing costs, which includes your mortgage payment, your property taxes, and your heating costs. So, how much can you afford? Take your gross (pre-tax) income and multiply by 32%. If your annual family income is \$75,000 your family's housing costs can't be more than \$24,000 yearly, or \$2,000 monthly.

The second debt service calculation is related to the first and is known as the *total debt service ratio*. The total of all of your loans plus your housing costs cannot exceed 40% of your gross income. So, the total of student loan payments, car payments, and credit cards, along with housing costs, can't exceed \$30,000 yearly or \$2500 monthly. It pays to remember these limits if you're wanting to finance or re-finance your home.

House Rich, Cash Poor?

by Russell Willems, BComm, CFP®



Perhaps you find yourself in a situation like other seniors. Your mortgage is paid off. You're happily retired, but you find yourself scrambling to pay all the bills. Your first thought might be, "We have to move!" Your house is generating no cash for you. Instead, you might benefit from this thought, "Maybe I can generate income from my house without abandoning home ownership." Here are three options to do so:

- 1. Rent out a portion of your house.** A monthly rent check can be a huge help, and some seniors really enjoy tenant interaction. Remember, you'll have to collect the rent, give up some space, and manage tenants who may be less than ideal.
- 2. Take out a home equity line of credit (HELOC).** This allows you to borrow against the value of your home and use the proceeds to cover your living expenses in retirement. It's true, you will pay interest on the line of credit, and you will have less equity when you sell, but you will gain a lifestyle which may be less disruptive now.
- 3. Move to a less expensive house.** You can remain a homeowner, but invest the difference in assets which produce an income, or you can live off the difference for a time.

Your options are best discussed with a qualified financial planner. If you're younger and able to save, remember to diversify your savings to keep your options open in retirement.

Employee Spotlight - Ruth Ratzlaff

As our lending specialist, Ruth Ratzlaff enables our clients to 'borrow sensibly'. For over 20 years, Ruth's expertise and knowledge has assisted families in deciding what they can afford. Her professionalism and kindness minimize the stress often associated with borrowing. In her spare time, she enjoys canoeing, curling, spending time with family & friends, music, dancing, travelling, and boating. She attends Zoar Mennonite Church in Waldheim. Ruth also farms with her husband Dale, and each year they take a "Saskatchewan" road trip to explore our province. We are thankful for Ruth, and we always look forward to experiencing her joyful spirit in the workplace!



Thoughts to Ponder

- When vehicle payments are high it limits money available for housing or other needs.
- A 20 year camper loan might lower your monthly payment; do you really expect to own the camper for 20 years?
- Boat payments in winter and snowmobile payments in summer are hard to bear; save ahead rather than pay behind.
- Your lender is not your mother. Their lending limit may be way higher than your sensible limit.