

## What's going on in the World's financial system?

by Kelvin Deal, Chartered Accountant



In recent months we've watched the failure of some of the world's biggest financial institutions, and the rescue of some by their governments. As a crisis of confidence spreads worldwide, governments are having to provide billions of dollars to support the remaining ones. What's going on?

First, let's look at New Zealand which (I'm *not* proud to say), has led the world in this financial failure, although I hasten to add it's too small to have caused the world crisis.

Here some finance companies that loaned on vehicle purchases fell over because of irresponsible lending and the resultant bad debts. Then followed more companies that had loaned on high-risk property subdivisions and apartments. These finance companies still had assets (on paper at any rate) which exceeded their liabilities. But they couldn't honour their commitment to repay their debenture holders on due dates because the companies they had loaned to couldn't repay them due to the downturn in the property market. In a similar way to banks, finance companies tend to lend long term and borrow short-term – an acknowledged recipe for disaster.

It then transpired that many of our finance companies were associated with and borrowed from each other, and they also borrowed from banks in America. With the sub-prime mortgage crises beginning in the American banking industry, borrowing from there to repay the NZ debenture holders was no longer an option. And their associated NZ finance companies couldn't help out either, as they were also unable to repay the people who had invested with them for the same reasons. Thus many NZ finance companies defaulted, and each time they brought down other finance companies which had lent to them and couldn't be repaid. This led to a general lack of confidence by the public in all finance companies, as they didn't know which companies were lending to whom. And so, in fear, the public virtually stopped lending fresh money to finance companies. The newspapers describe it as a "contagion of fear".

By mid August, thirty finance companies in this country (about half the total) had collapsed or suspended repayments. The other half has largely stopped lending because the public were not investing with them either.

At the same time our banks, which normally look to American banks for extra credit because New Zealanders historically borrow more than they save, were experiencing a similar problem in borrowing from American banks. So New Zealanders are finding it hard to borrow anywhere for housing or legitimate business needs. But new commercial borrowing is crucial if we are going to increase New Zealand's productivity. Probably only lending by banks can right this crisis of confidence.

### The American Situation

In the USA the scenario is similar but there the banks themselves are in trouble. Some banks loaned to householders to buy homes, knowing that the borrowers could neither afford the repayments nor provide sufficient security because the house valuations were less than the loans. In fact banks were lending up to 20 percent more than the house's value, as an inducement to borrow. In America the government encourages borrowing by making mortgage interest a tax-deductible expense. In addition the banks gave out sub-prime mortgages on the assumption that the economy was about to take off and that both wages and house prices would rise. They were wrong. Meanwhile, in order to finance their lending, these banks sold their loans to other banks (just as NZ banks sell theirs to overseas banks.) They, in turn, sold them to other banks who moved them on, until these sub-prime mortgages were being financed by major banks around the world without their realising it.

So now the situation faced by New Zealand's finance companies is worldwide. There is a spreading "contagion of fear" by bank investors globally, as one by one major banks have discovered they have unknowingly invested on American sub-prime mortgages and are now facing bankruptcy themselves. Price hikes in the cost of food and petrol have assisted in this by causing a

recession and a fall in house prices worldwide. Again, as banks are fearful of each other's financial integrity, they won't lend to help each other. They have also heavily reduced their lending to their customers, just as the finance companies in New Zealand have. Only governments can afford to take on the risk and lend to their banks in order to restore confidence in the integrity of the banking system. Indeed they simply must in order to stop a meltdown in their economies.

Iceland's prime minister on 8 October announced his country was facing bankruptcy. New Zealand is second in the world to Iceland in its level of overseas debt, as measured against the percentage of its gross domestic product. That is, we are heavily exposed to the state of the world's financial institutions. We depend upon the financial support (rescue) they receive from their governments. If these banks want our banks to repay their loans when they fall due, or if they curtail further lending to our banks, we must comply with their demands.

In fulfilment of Proverbs 22:7, "the borrower is servant (slave) to the lender".

So far, unlike the rest of the western nations, New Zealand's government has done little to support its banks, apart from guaranteeing deposits in a move to restore confidence and move money out from "under the mattress."

But it's all very well to have governments injecting billions of dollars into banks. Inevitably that's all going to have to be paid for by increased government borrowing and higher taxes. We are indeed seeing interesting times.

### **A Christian Perspective**

The above picture of current events is simplified and doesn't mention other factors contributing to the crisis. But I hope it has given Christian intercessors some understanding of how to pray. The crisis could potentially lead to a meltdown in the world's financial systems if governments do not bolster their banks in order to prevent the contagion of fear continuing.

So what responsibility do Christians have? Well, in Genesis God gave us the responsibility to tend his garden. This world and the welfare of its people is our responsibility.

Secondly this whole situation is rooted in debt. Political leaders and borrowers have accumulated debt over decades, and lending institutions have lent aggressively in what is now a global financial village. Lenders have lent and borrowers have borrowed, until the latter could no longer afford to service their debts. A crash was inevitable. New Zealanders are among the world's highest borrowers and the world's poorest savers.

So complacent have we Christians become to the hidden cost of the interest component in every purchase of goods and services we make and tax we pay, that we've been beguiled to join "the world" in this culture of debt in order to gain instant gratification. In terms of our finances we have become, in Jesus' words, "of the world," with lifestyles that are not noticeably different.

### **What alternative do we have?**

We all know the biblical principle of sowing and reaping, but few of us apply it to our lives, except as an impetus to tithe. But Christ spoke of "sowing and reaping" as a natural principle. He said we would "reap what we sow." Too true!

Then there is stewardship. We agree this is an important principle, but we still tend to live self-indulgently and for the moment. We accumulate debt by buying "must have" toys. Then we typically buy a house and compound our debt by accepting a 25-year (or more) mortgage, spending many hundreds of thousands of dollars on interest. Most of today's teenagers will still be repaying debts when they retire. (That is, if they own anything besides a car.) How can they afford to give and serve God's purposes if they are burdened with a life-long mortgage?

In Bible times, families assisted newly-weds by lending to them interest-free to buy or build a house or start up a business. This couple in turn helped younger newly-weds.

This culture still exists worldwide, and we see it in the families of some immigrants to New Zealand. We know it's successful, but we can't apply it in our culture because our family relationships have been lost. Instead, our worldly culture prizes independence at any cost.

Jesus said at that Last Supper: “As I have loved you, so you must love one another. By this will all men know that you are my disciples, if you love one another.” (Jn.13 v 34)

This requires a vastly different lifestyle from that of “the world.”

The Israelites believed they were each a part of a unique community of God’s chosen people. One example of Israel’s distinctive community lifestyle is found in Deut. 23:19. They were free to charge interest to a non-member, but to a brother Israelite they were not to charge interest.

Lending among the Israelites was clearly widespread in Bible times, for they were commanded to lend to the poor (Deut 15:8) and were commended for lending freely (Ps 37:26, 112:5). Jesus confirmed this, saying we must not turn away those who want to borrow from us (Mtt 5:42).

As proved by many families today, a system of interest-free lending to each other *works*. Indeed it is practical to lend without interest if you also receive without interest, and the blessings to all are obvious.

Lending interest-free to fellow members of God’s community (Deut.23:19) is a Bible principle, applied not only throughout the Old and New Testaments, but also until the Middle Ages in Europe.

### **Two world systems**

The events of the last few weeks remind us that just as there are two opposed spiritual kingdoms in the world (Satan’s and God’s) so there are also two opposing financial systems.

“No one can serve two masters. Either he will hate the one and love the other, or he will be devoted to the one and despise the other. *We cannot serve both God and money*” (Luke 16:13).

In short, there is God’s system for his chosen people, and there is the world’s. God’s system is built upon sowing and reaping through his “storehouse,” and support and interest-free lending (Deut. 23:19) within his family. At its heart is the recognition that we are his chosen community.

So we are free to lend to “the world” at interest, but not to borrow from it. Jesus endorsed this (lending to banks) in the parable of the talents. We see this in Deut.28:12 - “You will lend to many nations but will borrow from none”- and sadly today in the consequence of disobedience: “He shall lend to you and you shall not lend to him; he shall be the head and you shall be the tail.”(v 44)

### **Our Experience**

In 1989, in Whakatane, a community of more than 100 families, churches, family trusts and missionaries began the charitable “Liberty Trust.” Each pledged \$20 per week to lend interest-free, and repay their house mortgages within seven to ten years. Starting only with “a Word” and no money, it has loaned 220 interest-free mortgages so far, and has had no repayment arrears. It has never borrowed, and has no debts. Its only assets are the mortgages out there helping people and churches, and some computer equipment. Although the details have changed, giving it greater flexibility, it is working according to the principles given to two original intercessors. Participants are building a storehouse to help others, becoming debt free sooner and generally saving themselves several hundred thousand dollars of interest in the process! God has allowed New Zealand to re-introduce this system to His people worldwide.

### **Summary**

Today the financial lifestyle of many Christians is no different from that of non-Christians. The world’s financial system is presently in a state of meltdown because of debt and greed, and Christians who have forsaken the Bible’s financial principles are victims of it. If they have no positive alternative to offer their non-Christian friends, how can their lifestyles be like light?

Most modern Western Christians have little concept of operating as a community, but God is about to change that. Why? I suspect we will soon find out. The world’s recent financial events give us some indication of the values it is built on. Jesus prayed at his last supper that we remain “in the world” while not being “of” it. This presents an urgent challenge to the Western church.

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