



solutions that transform

October 1, 2008

Gleanings

Gerald R. Chester, Ph.D.



Gerald R. Chester, Ph.D.
President

Strategies@Work, LLC

solutions that transform

Services

Management Consulting
Strategic Planning
Executive Coaching
Training

Financial Meltdown: Sin Amok

For the second time in my business career, the government is stepping in to execute a major cleanup of the financial industry.

The first time was in the 1980s. The problem was overdevelopment of commercial real estate funded with loans largely from savings and loans whose deposits were insured by the FSLIC (the savings and loan equivalent of the FDIC). Many times these loans were made for 100 percent or more of the value of the property. This enabled real estate developers and investors to build commercial buildings with virtually no down payment. With little to no requirement for a down payment, many investors without deep pockets were able to obtain loans. After a few years of reckless lending, the commercial market was overbuilt, leading to a glut of vacancies. This meant that the income from most of the properties was inadequate to cover the mortgages. Because many of the investors did not have deep pockets, they were unable to pay the mortgages. The result was a rapid drop in property values and a glut of foreclosures.

This time the problem is residential real estate. During the past decade the financial industry made mortgages using a concept known as an "adjustable rate mortgage," also known as an ARM. An ARM starts with an interest rate below market. In a few years, the rate is adjusted up to market or, in some cases, above market. It is this adjustment that caused dramatic increases in mortgage payments that many borrowers could not pay. Since many sought to sell their homes to escape the escalating mortgage, the residential real estate market was flooded with houses for sale. As a result it became a buyers market, which drove down the values of the homes causing many people to be unable to sell their homes for enough money to pay off their mortgages. The result was a glut of foreclosures.

For more than a year, the mortgage crisis has impacted the financial markets. Financial institutions participate in the mortgage industry in a variety of ways including securitizing mortgages, buying and selling these securities, and insuring mortgage payments for borrowers with marginal credit. Furthermore, many financial service companies invested in mortgage-backed securities. As a result of these various activities, the financial industry was exposed to the risks of the mortgage industry, which until the summer of 2007 was not deemed to be significant. Today we know differently.

During the past fifteen months, the problems in the mortgage industry have become increasingly evident. For the past year, financial institutions have frequently stated that they did not know the full extent of the impact of the mortgage meltdown. In recent days the picture has become clearer. Three of the top five investment banking firms have failed. The largest mortgage company was barely saved from failure by an acquisition. Fannie Mae and Freddie Mac, quasi-government agencies, whose charter is to facilitate an orderly secondary market for mortgage paper, were nationalized. And most recently, a leading insurer of mortgages was bailed out by the taxpayers through a loan from the federal government.

The financial crisis is so dire that many people are in a state of near panic. For example, some recent headlines from FastCompany's daily e-mails were: "China could easily end up owning the lion's share of the US and UK's financial systems" and "We are in the most serious crisis since World War II."

As I am writing this, Congress is debating whether or not to approve new legislation to buy impaired

mortgage-backed assets from financial institutions. The effect of this would be to move bad loans from the private sector to the public sector. To allow for this expenditure, the ceiling on the public debt would be raised to more than 11.3 trillion dollars. Also, undoubtedly part of this new legislation would be more regulation of the financial industry.

In the midst of the panic, the blame game is in full swing. Who is to blame? Is it President Bush, lawmakers, government regulators, borrowers, Wall Street, management of the financial companies, or the mortgage industry?

Secretary of the Treasury Henry Paulson said that the root issue is the irresponsible lending practices of the mortgage industry. Lawmakers blame the president, the mortgage industry, and the regulators. One of the presidential candidates blames everyone. The finger pointing is ubiquitous.

Whoever is to blame, there is plenty of blame to go around. But we need to go deeper than blame. All blame does is identify a scapegoat, which frequently impairs our ability to see the root issue. We need to understand the real root issue. Why did this mortgage meltdown happen?

May I suggest that the root issue is sin? Sin is anything inconsistent with the character and nature of God. Furthermore, the Scripture makes it abundantly clear that sin has economic consequences. For example, note the following:

"Ill-gotten gain . . . takes away the lives of those who get it." Proverbs 1:19 (NIV)

"The wicked man earns deceptive wages." Proverbs 11:18 (NIV)

"Ill-gotten treasures are of no value." Proverbs 10:2 (NIV)

It may seem strange that economics is coupled to sin, but it is. Just read the Old Testament. The nation of Israel was told that if they worshipped God alone, they would be blessed economically and politically; but if they turned from God and worshipped idols, they would be judged with economic and political calamity (see Deuteronomy 28). The Israelites turned away from God and suffered economic and political judgment.

The experience of the Israelites illustrates that sin brings economic calamity. Despite the testimony of Scripture, we wrongly assume that economics has nothing to do with God, but this is a false assumption. Remember that God created everything, including the laws of business and economics. And God has chosen to respond to sin by withholding economic blessings and, in some cases, bringing calamity and judgment. Note the Scripture below:

"The income of the wicked brings them punishment." Proverbs 10:16 (NIV)

"A man of perverse heart does not prosper; he whose tongue is deceitful falls into trouble." Proverbs 17:20 (NIV)

"Food gained by fraud tastes sweet to a man, but he ends up with a mouth full of gravel." Proverbs 20:17 (NIV)

At the root of the mortgage meltdown is sin and sin leads to economic crisis. The sin of the financial industry, the government, and, yes, the American public is great. At the very least, there is greed on the part of the lenders and investors, lust on the part of borrowers, and laziness by regulators.

So what is the solution? Congress will offer sin management as the solution. Sin management seeks to put boundaries on how far sin can go, but does not address the real issue. The real issue is sin in the hearts of people. The solution for sin is Christ.

Therefore the first step is to call everyone to repent and turn to Christ. Repentance means to change the way you think, that is, to change your worldview. All of us need to reject worldly thinking and turn to the Lord. We need to accept the free gift of eternal life through Jesus Christ. Then as we grow in Christ, we will increasingly think and act like Christ. As we do this, sin in us, in any form, is progressively and continually eliminated.

Imagine a financial industry managed and operated by people who are Christ-like. These people would be growing in Christ, which means that sin would not have a foothold in them. Such people would be wise, responsible, and prudent about their business practices. Their primary concern would

Web Site

<http://StrategiesWork.com>

E-mail

info@StrategiesWork.com

Phone

972 473-8655 USA



Free PodCasts

[Click here to subscribe.](#)

not be their money, but seeking to do what is right before God. Because of their integrity, they would need little regulatory oversight. They would be like the workers mentioned in Second Kings 12:15 of whom it was said, "They did not require an accounting from those to whom they gave the money to pay the workers, because they acted with complete honesty" (NIV).

The real solution to the current crisis is Christ, because sin does not work. Sin creates economic calamity and poverty. It costs enormous amounts of money to manage and the management of sin is woefully ineffective in the end. Only Christ can free us from sin enough to enjoy long-term success, blessings, and prosperity in God's universe.

The workplace needs godly men and women doing what they were called by God to do and doing it according to God's values and principles. We need men and women in America who are being disciplined in the biblical philosophy, values, and principles of business.

Imagine if the workplace was filled with spiritual fathers disciplining men and women in the ways of God for business. We would find an unprecedented level of success, blessings, and prosperity—all because people rejected the worldly ways of business and repented, turning to God for wisdom and discernment.

Such people would need little sin management, that is, regulatory oversight. We could save the cost of this sin management. But more importantly, disciples of Jesus Christ are the only real lasting solution for the problems of the financial industry and, indeed, for every industry.

And may I add that if our government's solution to the current financial crisis is simply more sin management, this will fail. Remember that twenty years ago we had a similar problem. The solution that we enacted then was sin management and now twenty years later we are in a very similar financial crisis. So if we repeat our mistake and assume that sin management is the solution, then we can expect another financial crisis in the future.

Let's spare ourselves another financial crisis by approaching this financial meltdown biblically. Consider the following action items as steps toward a solution, which, I believe, are consistent with a biblical approach:

1. Call the people of the United States to a day of prayer and repentance.
2. Strongly urge all organizations (i.e. churches, schools, businesses, etc.) to begin teaching a biblical worldview of business and finance.
3. Encourage all participants in this crisis to repent and make restitution for ill-gotten gain.
4. Set up a fund to receive restitution payments and use the fund to help those in genuine need (for example, distressed homeowners who want to align with biblical principles).
5. Don't bail out any companies, rather call them to repentance (some will probably fail, this is the short-term pain that we must endure for long-term stability).
6. Elect public servants who embrace a biblical worldview. and
7. Require the federal government to be fiscally responsible, including balancing the budget each year and eliminating the national debt.

This approach may seem radical to you, but it is what we need if we want to build a future of success, blessings, and prosperity for our heirs. The reality is that we must embrace God's ways to prosper in His universe; after all, the only principles that work long-term are His principles.

Learn Biblical Principles for Life and Work

Purpose	Event	Venue	Date
		Click below for info	Click below for info
<i>Tools to help you find your purpose in life</i>	Strategic Life Alignment Seminar	Toronto, ON Canada	Friday, Oct 03 & Saturday, Oct 04
		Dallas, TX USA	Friday, Oct 17 & Saturday, Oct 18
		Johannesburg, RSA	Friday, Nov 7 & Saturday, Nov 8
		San Francisco, CA USA	Friday, Nov 21 & Saturday, Nov 22
<i>Principles for building excellent organizations</i>	Biblical Worldview of Business	Dallas, TX USA	Friday, Oct 24