

CARELESS CREDIT AND FINANCIAL CALAMITY

By: Rick Boxx

About once every decade some crisis seems to arise in the financial world. In the 1980s, during the agricultural loan bust, I traveled from bank to bank examining loans that should have never been made. In the 1990s, leveraged buyouts were the popular trend. And today, financial authorities are using terms like "economic slowdown," "stagnation" and "recession" to describe economic conditions around the globe. A primary contributor to this situation – particularly in the United States – has been granting huge mortgage loans to individuals and families that have found themselves unable to make their payments.

Loose credit standards have proved to be devastating for unsuspecting borrowers as they have attempted to buy something they really could not afford, whether it involved a house, a car or some other costly commodity. The lender's first responsibility is to make a good investment. However, if lenders are doing their job well, they ultimately must also safeguard the well-being of the borrowers. By declining an application for a sizable loan when the prospective borrower clearly lacks the capacity to repay the financial obligation, lenders can save the borrower much heartache.

So what drives these periodic lending miscalculations? Sometimes they result simply from errors in judgment, but many times they can be traced back to greed and envy. Someone finds a niche they can exploit. Soon other lenders hear about the short-term increased profits of their peers and envy kicks in. Before long this race to cash in on the latest lending trend affects an entire industry.

Situations like this usually prove very profitable for a couple of years, because it takes time before the problems surface. However, when they do arise and borrowers start defaulting on their loans, the crisis becomes so widespread that every lender tries to pull out as quickly as possible, making the losses and the impact on many lives even more significant.

In the business world, it is easy to develop a herd mentality: "Everybody is doing it, so it must be good for us, too." Following such thinking, however, can easily result in your company becoming just another casualty of unwise and hasty speculation.

The Bible explains that this was about to happen to Asaph, as presented in the Old Testament book of Psalms, but fortunately he caught himself. We can learn from this man's wisdom in Psalm 73:2-3, "*But as for me, my feet had almost slipped; I had nearly lost my foothold. For I envied the arrogant when I saw the prosperity of the wicked.*"

In today's fast-moving, highly competitive business environment, we might observe our rivals benefiting from practices that we would never consider under normal circumstances. But unwilling to allow them to gain an advantage – such as lending large amounts of money to borrowers with very questionable means for making repayment – we might wrestle with the temptation to compromise our own standards.

Suggestion: If you are tempted to envy your peers, pause to consider what you do well. Don't chase today's trends just for the sake of making more money. The trends will pass, and you will not regret it.

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