

The Credit Crunch – a Christian response

The world's financial systems are in meltdown. Stock markets are plummeting. Banks and even countries are going bust. Cash deposits with century-old institutions, thought safe only a year ago, are now being lost. Why is this happening, when will it end and what should we as Christians think and do about it all?

Chances are history will remember the current situation under the now-familiar term 'The Credit Crunch', but really that term only covers part of what is going on at the moment. The Credit Crunch means that banks are not lending to each other at the moment because they are unsure as to whether they will get their money back. This lack of trust is due to many banks having assets on their balance sheets which are basically packages of sub-prime mortgages. These are mortgages which have been made to people with bad credit histories.

As house prices drop in the US, and prices for food and petrol go up, more people are defaulting on their mortgages. This reduces the value of the packages of mortgages owned by the banks, meaning they have to find more capital from somewhere. But they can't get it from other banks, and so the vicious circle begins again.

If three pints of blood were removed from your body it wouldn't function too well, and similarly the restriction in the flow of money between institutions is crippling the financial system. Until house prices stabilise in the US we are unlikely to see the flow of money returning to anything like normal levels, even with the emergency measures announced by the world's governments and central banks.

Banks are big companies and when they suffer so does their share price. In addition, now that oil and other commodity prices are coming down, so is the share price of the mining and agriculture companies that extract and sell those commodities. Add to this the blanket guarantees on cash deposits being offered by many countries like Ireland and Germany, which is prompting many to sell shares and put the money on deposit, and it's no wonder that stock markets the world over are tumbling.

It is also pretty clear that the world is heading for a recession, which simply means that the economy, which is measured by the stuff we produce, is shrinking. This in turn means that companies will downsize and people will lose their jobs. Households will tighten their belts and spend less money, meaning retailers will find it hard.

All of this is the result of nearly fifteen years of unbridled greed and a lack of regulation in the financial system. The culture of big financial institutions has been to reward the taking of large risks, which obviously has only encouraged those involved to take even bigger risks. Nowhere is this more evident than in the irresponsible lending of mortgages to people with no credit history, on houses not even built yet, and other such nonsense. This has all led to the world economy growing too fast, and a correction was inevitable, but no-one foresaw that the correction would be this severe.

To use a worldly analogy, this is the heavy hangover after a long night of partying. The bigger the party, the worse the hangover, and this one is a stinker.

No-one knows when the present crisis will end, but there are signs that are promising. US house prices are showing some early signs of stabilising, but they haven't bottomed yet. Historically, when fair-weather investors start to panic and sell up, leaving only the professionals behind, things start to turn. This will benefit the markets eventually, but the effects of a recession will likely be with us for a couple of years at least.

What, if anything, should we do about all this? Well, if you are an investor, either with money in the bank or wider investments in shares, bonds or anything else, you should seek out good, independent advice from a financial planner who is qualified and experienced. And you should keep less than £50,000 per person—if you have that kind of money—in any one registered bank, taking care that many banks are subsidiaries of other banks and operate under one licence, giving only one lot of £50,000 coverage under the Financial Services Compensation Scheme.

Practicalities aside, though, what should be our response as followers of Jesus? I believe that the main reason we are in this mess is because, as a society, we have ignored the injunction of Jesus to be good stewards of the wealth he has given us. The principle of stewardship applies to those of us with little, as well as those with much, and the parable of the talents in Matthew 25 tells of a chilling end to those who do not look after their money wisely. The principle is that everything we have is given to us by God to use for his kingdom. Clearly we should not neglect our physical needs of shelter, food and clothing, but the excesses of the financial world have been all about feathering the nests of those looking after their clients' money, rather than being sensible with it.

Conversely, the parable also records that the Master gave great rewards to the servants who managed his money well, which is very encouraging! One of the hardest things to do when money is tight is to keep giving selflessly, but never is it more important to do so, in order that God can fulfil his promise to 'throw open the floodgates of heaven and pour out so much blessing that you will not have room enough for it' (Malachi 3:10). I can testify that God has never let me down in this regard.

Finally, with all the apocalyptic headlines of the last few weeks, and with every talk show discussing the global financial crisis, it is understandable to be concerned. And as things get a bit tighter in our monthly budgets, that can be a cause for worry too. But remember these wonderful words of Jesus from the Sermon on the Mount:

"Therefore I tell you, do not worry about your life, what you will eat or drink; or about your body, what you will wear. Is not life more important than food, and the body more important than clothes? Look at the birds of the air; they do not sow or reap or store away in barns, and yet your heavenly Father feeds them. Are you not much more valuable than they? Who of you by worrying can add a single hour to his life?"

"And why do you worry about clothes? See how the lilies of the field grow. They do not labour or spin. Yet I tell you that not even Solomon in all his splendour was dressed like one of these. If that is how God clothes the grass of the field, which is here today and tomorrow is thrown into the fire, will he not much more clothe you, O you of little faith? So do not worry, saying, 'What shall we eat?' or 'What shall we drink?' or 'What shall we wear?' For the pagans run after all these things, and your heavenly Father knows that you need them. But seek first his kingdom and his righteousness, and all these things will be given to you as

well. Therefore do not worry about tomorrow, for tomorrow will worry about itself. Each day has enough trouble of its own.” (Matthew 6:25-34)

God is bigger than the Credit Crunch, and he has promised to look after us much better than we can look after ourselves.

If you have any further questions about anything in this article, then please call or email me – details in the church directory.

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