When does extended credit become radioactive? (20:16)

Take his garment when he becomes surety for a stranger; and for foreigners, hold him in pledge.

THE TEXT (NASB)

Take his garment when he becomes surety for a stranger; and for foreigners, hold him in pledge.

Take his garment that is surety for a stranger and take a pledge of him for a strange woman. KJV - Proverbs 20:16

INTRODUCTION

Beware! Credit is risky, and it becomes very dangerous when extended too loosely.

Many business people, with good intentions, carelessly lend money. The great financial collapse of 2008 was caused by the sloppy extension of credit to people for home purchases, when they lacked the financial resources to carry their mortgages.

Be very careful when you are guaranteeing another person’s debt, especially when it's someone you don’t know. Why?

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COMMENTARY

Translation Confusion

Before we consider the risk stressed in this proverb, there’s an academic curiosity in the text. The KJV translation differs from most since it speaks of a “strange woman,” not just any stranger, probably in order to harmonize this text with Proverbs 27:13. Most other translations and commentaries think this is incorrect. The Keil & Delitzsch Commentary deals with this language discrepancy in detail. The proverb warns against extending credit to all strangers and foreigners, male or female, particularly about not becoming surety for them.

What is Surety?

The Hebrew word for “surety,” ערב ('ā•răḇ, pronounced “ah-rav”), refers to a pledge or anything of value, guaranteeing a future payment. See Proverbs 6:1 for the origins of the Hebrew word. Surety is defined as a pledge or formal promise made to secure against a loss, damage, or default. It’s property that a creditor can claim if someone defaults on his obligation. It’s similar to the deposit on a loan or a contract. Our more common terms include acting as a guarantor, co-signing, or providing security for another’s loan.

Carrying Another’s Debt

Someone who becomes surety makes himself responsible for another person’s financial obligations, if he defaults. This is not necessarily a problem for a brother, sister, parent, or child, but it is certainly a problem for anyone at arm’s length. Business law distinguishes between arms-length and non-arms-length transactions. Non-arms-length transactions are family business. Family is family! The text does not warn against co-signing for family.

Family Ties

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The family covenant is meant to ensure mutual aid and inter-dependence. It may not always work that way. Sometimes there's family strife over money, especially when an inheritance is at stake. Still, given years of familiarity, co-operation, countless shared memories, and common parentage, family is designed for mutual assistance, especially in times of general need. Strangers, on the other hand, have little or no claim on our loyalty. The text implies that strangers and foreigners can be expected to be dishonest. Why?

Great Loss to the Underwriter

Any stranger who asks a stranger to become his guarantor is asking for something he has no right to expect. It is bizarre that he asks. He betrays that he has unrealistic expectations about how the markets work. Why should a co-signer risk his garment? If the stranger doesn't pay up, the guarantor can literally lose "the shirt off his back." This expression reveals the serious nature of careless credit. Imagine ending up naked, by vouching for unknown peoples' debt! Don't vouch for the financial affairs of those you don't know—lest you lose even your bare essentials.

Drunk on Debt

How does the stranger's unrealistic expectations play out in the 21st century? The sub-prime mortgages collapse of 2007-2008 betrayed a market drunk with debt. Arthur Levitt, the US Securities Exchange Commission's longest-serving chair, described it in Toronto in late 2007:

The sub-prime mortgage crisis came indirectly from the 'deification of debt'," Levitt said. "A prospering society gave way to gluttony… New business developed, pandering to unsophisticated appetites for the good life. A 'starter home' became a mansion. A sixty percent mortgage [once required] became no-money-down borrowing… Incentives created by banks and intermediaries were as obscene and addictive as narcotics… TV and newspapers, lured by a new source of ad revenue, flooded the community with pie-in-the-sky inducements to borrow.

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Crazy Credit

As debt levels increased and savings decreased, credit became insanely easy, like an overstretched elastic, ready to snap back. Who got hurt? The inter-connectedness of the credit grid meant we all got hurt—depending on how deeply we were invested in the credit industry. For example, those holding bank stocks may not have had much debt themselves, but the value of their stocks plummeted when the credit industry collapsed.

Remember Bear Stearns Bank

Bear Stearns Investment Bank, one of the largest investment banks in America, was a dramatic example. Its shareholders watched its share price plunge from $163.82 in January 2007 to $2.00 on 17 March 2008. In only 15 months, its total market value fell from $20 billion, that is $20,000 million, to just $236 million. Its final collapse was vertical, the price falling from $70 to $2 in a single week, as it was being purchased by JP Morgan Chase & Co!

Why did it fall so abruptly? In simple terms, it was careless credit: Mortgages had been guaranteed in direct violation of this proverb. The problems with co-signing or underwriting an unrealistic stranger’s debt do not appear immediately. They come to light only when market conditions change and the assets pledged as collateral, for whatever reason, lose their value.

Problems Initially Invisible

The day after Bear Stearns collapse, the papers were filled with stories about its employees—the people who should have seen it coming. An excerpt by Kristina Cooke of Reuters New York:

“It’s an awful day [March 17, 2008], everyone is really upset,” one employee said. Bear Stearns, roughly 30 per cent owned by its staff and proud of its above-average level of inside ownership, employees 14,000 people. J P Morgan is paying just $2.00 a share for the 85-year-old Bear, valuing the fifth-biggest U.S. investment bank at $236 million—1/15th of its market value a week earlier and way below its record share price of more than $172, last year. The bailout punctuates an eight-month slide in Bear Stearns’ fortunes, as investors lost confidence in the smallest of the major securities houses and one known as an aggressive trader in credit and mortgage markets.

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Crazy Credit Hurts Many

When major lending institutions are hit hard, creditors everywhere become overly cautious and unwilling to take any risks, even reasonable risks. So next we see a credit-lockup. A credit lock-up makes it harder for any and all businesses to borrow money, and the entire marketplace stalls. That's one reason why the government central lending authority is quick to lower interest rates, attempting to resuscitate the economy. When excessive consumer and household debt becomes an epidemic, everyone suffers. We all end up covering for the debt of others—strangers—those we don't know.

OUR CREATOR, REDEEMER, AND FRIEND

Jesus quite deliberately extended crazy credit.

And Jesus experienced this truth the hard way. In the process of paying the debt of others, Jesus didn't lose only His garments. He gave up his life in surety for our lives. He became our guarantor and paid the death penalty we all deserve. See how it cost Him His garments (Luke 23:34) and read about the payment made on behalf of others (Mark 10:45).

However, and remember this: Unlike Jesus, who lavished His love on us infinitely, we do not have unlimited resources. We are NOT God.

APPLICATION

- Memorize the text in your favourite Bible translation and think about it often.
- Enrol in a program of debt reduction.
- Learn why people get into debt.
- Distinguish different intensities of indebtedness and the associated risk. For example: Tax reduction, non-tax deductible, collateralized, non-collateralized, consumer, residential.

Which of these steps, if any, does Jesus want you to take now? Ask Him.

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KEY WORDS

collateral, credit, debt, dishonesty, family, guarantor, less assets (quantity), mortgage, guarantee, risk, security, stranger, underwriting, bf saving

ILLUSTRATION

Who is Quick Buck Betty?

Quick Buck Betty wants to make money fast, and is always looking for “hot tips.” Researching and understanding investments takes too long; she just cares about the returns—especially the short-term returns.

It doesn’t matter how the money is earned—in fact she’d rather not know at all! Betty is just eager to “make it” or, even better, have someone else make it for her. She has little time for Steady Eddy and Diligent Daniel—their methods take too long.

Betty views the stock and bond markets like the lottery and casino. She doesn't invest; she gambles. She likes to "play" the markets. Day trading is one of her passions.