

DEBT MYTHS

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01.09.2012

After working in banking and financial counseling for many years, there seems to be some recurring themes about debt that come up. When we are looking at our finances it is always easy to justify and rationalize our habits and actions, but sometimes it is to our financial disadvantage that we buy into these myths. See if you have found yourself saying or thinking any of the following:

If I'm keeping up with the minimum payment or more, I'm doing ok. If you charge something on a credit card and cannot pay it off immediately or in the near future you really can't afford it. Credit cards often become a source of income in our minds instead of a debt one is taking on. Any time you charge or take on any debt, it is important to know exactly how you will pay that off. Having ongoing balances and paying the minimum or a little more is a warning that your finances may be in trouble. And if you make payments and then continue to use credit cards to cover expenses you are digging yourself into more serious financial problems.

If I'm approved for a loan of this amount I must be able to afford it. Your basic financial information will qualify you for a loan at a certain amount but it does not take into consideration your lifestyle, any higher than average costs you may have for medical, day care or other such expenses. Everyone needs to look past that approved amount to determine an amount that truly fits you individual cash flow and comfort level.

Some debt is good debt. That may be true but too much of a good thing can be a bad thing. Debt on appreciating collateral can be good debt and most people cannot afford to pay cash for a home. But being overextended on a mortgage can be financially devastating and, as we have seen, there are times when real estate does not increase in value. Student loans are "good debt" in that higher education can help you boost your future earning power. But again, you can have too much of a good thing. That added earning power doesn't do you any good when it goes to high student loan payments for many years. A general rule of thumb is not to borrow in student loans more than you anticipate making during your first year of post education employment.

I paid off my bills by consolidating my debt. Consolidating debt only moves it from one place to another. If we consolidate into a home equity loan, 401k loan or other term loan, we fool ourselves into thinking we have solved the problem. Is it going to be any easier to make that payment than it was to make the payments that were consolidated? Just because the payment may be a bit lower and it is one payment rather than several, the cash flow has to support it without accumulating any new debt. If we still continue to use credit cards and debt continues to grow, the situation is only worse.

If some of these "debt myths" have become "debt traps" for you, talk with a financial counselor at the Village Family Service Center to assess your "real money" options.

Financial counseling appointments are available in person, by phone and online; www.HelpWithMoney.org or 1-800-450-4019.