

## Understanding Debt

Debt is a crippling problem for a large percentage of the population in the United States. With the evolution of our economy and the transition to credit purchases, buying with the available money you have in your pocket is outdated, if not impossible. Very few individuals can buy a home or car or pay for their education without borrowing money. Borrowing money ultimately results in debt.

Not all debt is bad; however, accumulating too much debt happens quickly if we do not use our credit responsibly. Long-term financing options and credit cards allow us to receive immediate gratification from a purchase while putting off paying for it, often without thinking of the cost associated with borrowing that money. With interest rates for consumer debt ranging anywhere from 8 to 23 percent and a typical minimum payment of 2 or 3 percent of outstanding balances, just making the minimum payment will make it impossible to pay off the debt.

No one wants to be in debt. The problem is that most individuals do not know where to start to get out of debt. The hard truth is that certain circumstances and actions can easily put us into debt, but it takes discipline, commitment, sacrifice, smart decisions, and hard work to get out of it.

### Good Debt vs. Bad Debt

Good debt is debt that builds wealth. It is an investment that will grow over time in value or benefit. College education and mortgages are examples of good debt because the related assets increase in value over time or provide the means to generate long-term income. These debts typically carry lower interest rates and are sometimes tax-deductible.

Bad debt is debt that takes away wealth. These are purchases that do not generate long-term income and quickly lose their value. Credit card debt, personal loans, payday loans, and cash advances often fall into this category. You should avoid this type of debt as much as possible because of the high-interest rates. If you accumulate this debt and are unable to pay it off for years, the small purchases you have made will now cost you significantly more in the long run in comparison to the original purchase price.

### Living with Debt

Living with debt is something that keeps people up at night and is a source of constant stress in one's life. It can take a toll on an individual's health and his or her relationships.

From a financial standpoint, debt destroys your monthly cash flow and can interfere with your ability to make large purchases and even necessities. When you have debt, there is often more money going out than

coming in, so there is less money left over for improving your life and getting the things which are important to you.

Greater cash flow means a greater difference between income and expenses. This means you will have more money at the end of the month and the ability to afford personal lifestyle choices which you did not have before. Getting rid of debt gives you powerful life options that enable you to live the life you want.

## How Debt Happens

There are numerous reasons why an individual may find him or herself in debt. It could be the result of a medical expense, unemployment, living outside of your means or just poor money management.

The key is not only to eliminate the debt which you owe but also to address the issues that put you into debt in the first place. It is human nature to be set in your ways, and often, it takes a powerful event or a lot of determination to change those habits.

## Getting Out of Debt

The first step to breaking the cycle is to realistically look at your finances and acknowledge the problem to its full extent. This can be painful, but it is a very important step to take. It is essential to know how much money is owed, who the lender is, the terms, the interest rates, and any other details regarding your outstanding liabilities. Then, you can start making a detailed, tactical plan on how to eliminate it.

## Resources

- Federal Trade Commission: [www.consumer.ftc.gov/articles/0150-coping-debt](http://www.consumer.ftc.gov/articles/0150-coping-debt)
- MyMoney.gov: [www.mymoney.gov](http://www.mymoney.gov)
- USA.gov: [www.usa.gov/debt](http://www.usa.gov/debt)

Here when you need us.

Call: 844-207-5465

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