Book Excerpt to:

LIVE RICH SAVE MONEY!

Get Out of Debt Forever in 17 Amazing Ways

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Best Seller

LIVE RICH SAVE MONEY .COM

Chapter 9 — IS ALL DEBT BAD?

An excerpt from the book: Live Rich Save Money! Get Out of Debt Forever in 17 Amazing Ways, by Lois Center-Shabazz

In this book, I encourage you to get out—and stay out—of debt. But the question must also be asked,
"Is all debt bad?" The Answer-No, not all debt is bad.
Debt needs to be carefully selected, and used only when absolutely necessary. The following are lists of good debt versus bad debt. After reading my lists, make your own.

GOOD DEBT VERSUS BAD DEBT
GOOD DEBT

Good debt is debt that is accumulated on goods or services that increase in value, over time. That is, debt on items that will appreciate in value. Some examples are: your primary home loan, a first trust deed, a business loan, or a school loan.

EXAMPLES OF GOOD DEBT:
1. Debt that charges simple, rather than compounded, interest. This makes it easier for you to pay off the debt early and, likewise, to pay off its charges early, as well.
2. Primary home loans (first trust deed). These are considered good debt—provided you have payments your income can bear—because most homes will increase in value, over time.
3. School loans, because they will allow you to make money.
4. Business loans, because they will allow you to make money, and also create an

asset that may appreciate, and which you could later sell. I would like here to expand on the discussion of school and business loans, since they both involve primary ways of making money. Be aware, however, that each does have a few limitations.

SCHOOL LOANS:

1. School loans will most likely help you to acquire a job, and most jobs will increase in income—and therefore value—over time.
2. Most school loans charge simple interest, making it easier for you to pay them off early (with no pre-payment penalties) by making small additional payments. Make sure you understand your college's costs, so that you select an affordable college, and do not overburden yourself—or your child—with excessive school loans, relative to the potential job income after graduation.
3. If you understand the terms of your school loans at the time you leave college, you can pay them off early. Don't let your school loans linger for an excessive number of years.
4. School loans are good, provided that you limit the amount you borrow. It does not make sense to borrow $200,000 in school loans, for a job with a salary potential of only $30,000. In such a case, you would look for a much less expensive college, university, or trade school!

BUSINESS LOANS:

1. Business start-up loans are also a form of good debt, provided that you have the expertise and experience you would need to be reasonably successful at it in the long-term, enough working capital to last until the business is profitable, and the proper preparation for the business you are starting; also be sure that you can obtain an affordable loan to help you start. As a previous, long-term, small business owner, I can tell you—from experience—that it takes a tremendous amount of preparation to be successful at small business development!

BAD DEBT

Bad debt is debt that is accumulated on items that do not increase in value, over time. That is, debt on items that will actually—significantly— decrease in value over time.

EXAMPLES OF BAD DEBT:

1. Debt that charges compounded interest. This is interest that is charged on outstanding balances, not just the original principal. Therefore, what you wind up paying is interest on principal, plus its previous interest. This is not good!

2. Debt that will increase the total cost of an item by two to three times its original value, when you consider the amount of interest that will be charged, over time.

3. The use of a new, long-term loan to pay off an older loan that is, already, almost paid off.

4. Long-term credit card debt payments –can make the cost of your goods you charged 2 to 4 times more than the original cost.

5. Consolidation loans – in many cases cost more the original loans for a longer pay period.

6. Home refinance or home equity loans with high interest rates or hidden balloon payments (see the next section).

7. Zombie debt is debt that grows exponentially and sometimes without your knowledge. I won't go into great detail about zombie debt, but is it something you should be educated about, and avoid. Say you pay off a credit card you owe $500.00 on, and you get a bill in the mail the next month for .57 cents. The .57 cents is sometimes ignored by consumers because they think it is not important due to the size. Don't ignore it, pay it immediately. It is a tiny portion of your balance that did not get caught by the computer billing system, after you paid off your credit card balance.

If you do ignore it, the company can sell it to a collection agency, then they can sell it to another collection agency. It can be sold over and over, from agency to agency. Each time the debt is sold they charge interest, penalties and fees, sometimes without your knowledge. If the debt is ignored by you, it can become a $4000 debt after a few decades of collection agency manipulation.

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Don’t get caught with bad debt, know how to control your debt with this guide, download now!

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HOME EQUITY LOANS

It is best to build equity in your home over a number of years. Your goal should be to pay off your home in 15 to 30 years. Then, sell it, and live off the proceeds as part of your retirement; or leave the money to your heirs to start their own home. Should you decide to acquire a new home loan, your income should easily support the new payment. If you don’t have an income, or if your income is limited, you should not acquire a new loan!

TYPES OF HOME EQUITY LOANS TO AVOID:

1. Those found on unsolicited checks that arrive in the mail, and that require no application (look for hidden balloon payments—i.e., any exorbitantly large, final payments hidden in the fine print).

2. Those with hidden balloon payments, increasing costs, or prepayment penalties.

3. Those that offer loan consolidation. What this means is: using a new loan to pay off a loan or loans you already have; this is actually just loan substitution, not loan payoff. Don’t let ads confuse you: know the difference between loan payoff and loan substitution.

Tip: Many of these loans have high hidden costs, and make claims that are simply untrue. Pay off your primary loans the old fashioned way—with money!

4. Those that offer extremely low payments compared to your loan amount. In our recent real estate boom between 2003 and 2008 we saw real estate skyrocket. One of the main reasons was that buyers were getting interest only, interest only option arm or adjustable rate loans starting at 1% and then adjusting up to the current

market at the time, usually 5 or 6%. They were all mostly the same predatory loans with a different names.

After the loans matured many of the buyers could not make their monthly payments and foreclosures skyrocketed. Smart buyers did short sales, short sales have a lower time span on your credit report than a full foreclosure. Smart homebuyers understood that homes were overpriced due to the loan problem. These buyers waited until the prices came down to buy.

THE “LIVE RICH SAVE MONEY!” HOME LOAN CHECKLIST:
If you do acquire a new home loan, you should:
1. Have the income to easily support your home loan payments.

2. Have researched for an affordable, high-quality loan. Compare several home loans, read the fine print, ask plenty of questions, and understand all of the terms of each loan.

3. Make sure that the average appraised value of the other homes in your neighborhood substantiates the added cost of a new or additional home loan. Understand—and verify in writing—that you have a high-quality loan, with no balloon payments attached.

4. Understand—in writing—the actual interest rate of your loan; obtain an interest rate you can afford, or do not obtain the loan.
Tip: Interest rates can sometimes change before you even sign for your new loan.

5. Understand, that it does not make good financial sense to replace a current loan that is nearly paid off, with a new, long-term loan of another 15 to 30 years.

6. Visit www.fdic.gov, and read, “Looking For A Mortgage,” at that website.

Tip: Don’t forget to read the fine print. And, if you don’t have a job, don’t get another loan. If you need a business loan, don’t use your house: get a bank business loan, or save the money that you will need to open your business (go to www.sba.gov for small business tips).

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