Debt

4

things you need to know about...

1.

What are good debts and what are bad debts?

First of all, no debt is the best debt, but sometimes there is no other way around a situation without taking on some debt. Having said that, low rate, tax deductible debt is better, such as mortgage interest and some student loan interest. Credit cards are an example of bad debt.

2.

How much debt should I have?

This is a tricky question. Different circumstances are going to require different amounts of debt. Make up a net worth statement for yourself and see how your assets compare to your liabilities. Also, take a look at your debt to income ratio. This looks at your debt payments compared to your income. Your debt to income ration should be under 30%. Remember that debts are an anti-asset. When you are paying someone else, that is less money for you.

3.

What is the best way to reduce debt?

Start with a cash flow analysis. Start with your income on a monthly basis. Make a detailed list of all expenses. You will be able to see where all your money is going and where you can make some changes. Once you can see where your money is going and how much of it is going to debt reduction, you can target the areas that should be paid off first. Pay off the highest rate, non-tax deductible loans first. This usually means the credit cards. Track these debts like you would an asset. Check the balance each month to make sure its going down.

A couple tips can be found on an about.com webpage, **http://financialplan.about.com/od/creditanddebt/a/DebtIncomeRatio.htm**.

4.

Quick Mortgage reduction

A couple easy ways to pay off your mortgage quicker is to either pay over and above your standard payment or make a few extra payments a year.

Here is a link to a prepayment mortgage calculator **http://www.mortgage-calc.com/mortgage/prepay.php**.