

10 WAYS TO AVOID BAD DEBT

First of all, it is important that you know what bad debt is before you can keep yourself out of it or identify if you are in it. According to Jean Chatzky, financial editor of *TODAY*, “bad debt is debt that you take on to buy things that you don’t necessarily need, but rather that you want — and can’t really afford.” Not all debt is bad and sometimes borrowing is unavoidable. It is poor financial management that leads to these things becoming bad debt.

Here is a list of things you can do to avoid going over the financial limit that you can manage:

Become financially literate

Learn how to budget your money. A simple weekly budget can be used to keep track of your spending. This will require you to make a new budget for each week. As an alternative, a monthly budget may be more appropriate. This way you will know exactly how much money is allocated to what activity for the entire month. Along with budgeting it is imperative that you learn how to save. Developing the habit of saving can help to combat the practise of being a spendthrift.

Change the way you look at credit

Credit is not a bad thing. Like in many other aspects of life, it is overindulgence and carelessness that make certain things vices. Credit allows you to have access to products and services that probably would not have been able to access due to lack of cash on hand or because the preferred method of payment is credit. Look at credit for what it is; access that must be managed.

Get all the details straight

Before making the decision to borrow money from any financial institution ensure that you have a clear understanding of their loan agreement. Know the interest rate at which you are borrowing as it, coupled with the time in which you repay the loan, will determine how much you will have to repay. Read all the fine print and do not get yourself entangled in a debt you cannot repay and be sure to query anything that you are unclear about. When in doubt...check it out!

Consult before making a decision

Just as you would consult with your friend before buying a car or the trendy suit you saw in the store, get a second opinion before you borrow money. A third opinion may even make the decision of where to borrow from even easier. Ask those who would have information about the financial institution which you have an interest in. Nothing beats a real personal experience in giving you an idea of what you are in for.

Avoid all bad transactions

One easy way to end up where you do not want to be is to conduct multiple cash transactions, through credit, simply for convenience. If you are able to pay for a product or service by cash, do so. As mentioned before, look closely at all transactions and their worth to you before carrying them out. The habit of replacing old with new, simple because of appearances will lead to financial decay.

Don’t cheat on your savings.

With loans to repay, it is very easy to skip a month’s allocation of savings or overlook this very important aspect of budgeting. Have a plan when saving. It’s not as simple as putting away whatever spare earnings you

have at the end of the month; saving is a discipline. For each set of monthly, fortnightly or weekly earnings you bring in, allocate a percentage of it towards your savings. Keep this up for a period of time and it will become like clockwork. The same can be done for investments. Do not cheat on this step in budgeting, because while you may see an occurrence as harmless, it only becomes easier to not save the next time.

Never squander hard earned money.

Money is hard to come by. With the financial state of economies worldwide, it is even more evident that care must be taken when handling money. From declining dollar value to the increasing cost of living/inflation, the dollar is being squeezed at both ends and you must make every dollar count. Take care and serious consideration when spending money. It may mean that you will have to cut back on luxury items for comfort and focus on necessity.

Control how you spend credit/ purchase on credit.

Using credit to acquire bad debt is mainly through purchasing items that you consume or items that do not appreciate in value. While you may not be able to do without some of these things, limit the number of such purchases. Consider buying groceries and other similar items with cash.

Pay off loans.

Remember, this is borrowed money, and in the same way you would like to have your money given back to you, the financial institutions would like their loans repaid in full. Make a commitment to make loan repayments in reasonable instalments; missing one payment puts you under more pressure to pay the next instalment. For credit cards, try to pay off the balances in full each month. If that is not possible, focus on paying off the balance on the card with the highest interest rate, first. Interest rates on borrowed money are higher than that on savings: its how money is made!

Don't apply for more credit cards.

Do not take on more than you can handle. If you have over three credit cards that you use to do just about the same set of transactions, you do not need another. Paying off balances on three credit cards is enough for any one person. Conversely, do not close the account on credit cards that you are not using. This will reduce the amount of credit available to you and it affects your credit score negatively.