

## Brad Brain: Reckless debt is like playing with fire

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Smart Money



Brad Brain: "Now, not all debt is bad, and not all debt is out of control. Still, you may be playing with fire. So, lets talk today about extinguishing debt."

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Fire is simultaneously a wonderful and a terrible thing. I have a wood stove in my log house. One of the simple pleasures in my life is sitting in my armchair recliner in front of the fire at the end of a chilly winter day.

Of course, if I did something stupid, I could burn my house down. It is, after all, fire. Used recklessly, fire can be devastating. Used properly, fire is wonderful. But it needs to be extinguished once it has served its purpose.

The use of debt is also simultaneously a wonderful and a terrible thing. And, like fire, it needs to be extinguished once it has served its purpose. The proper use of debt allows you to do what you want if life. Reckless use of debt, however, can bankrupt you.

Now, not all debt is bad, and not all debt is out of control. Still, you may be playing with fire. So, lets talk today about extinguishing debt.

Here is an example. I love my credit cards. I use them all the time. I like the convenience of not having to carry cash, and I belong to all the points programs. Last year I flew to Australia business class on points, that's how many points I generate.

But - and this is vital - I never, ever, ever carry a balance on my credit cards. And since I pay the full balance as it comes due each and every month, I don't spend a dime in credit card interest.

Here's why: On your credit card statement it will tell you how long it will take to pay off your balance if you only make the minimum payment each month. If I was to only make the minimum payment it would take 57 years and 10 months to pay off the balance on my card. That number is right off my most recent statement. And this card only charges 8% interest, many cards charge more.

Financial planning columns are prone to extol things like the wonderful virtues of a Tax Free Savings Account, or the importance of saving a fraction of one percent on your investment costs. The reality is that those things, important as they may be in the right context, are not going to be a priority if someone routinely carries large balances on their credit cards. Almost certainly they should be thinking about paying off credit cards first, before thinking about accumulating future wealth.

If you are not paying your credit cards off each month, speak to your financial institution about a consolidation loan. You may be able to secure far more favourable terms than carrying a credit card balance. This can mean that you will pay a lot less interest and will get out of debt a lot quicker.

While you are speaking with your financial institution, ask them to show you the options for paying down your mortgage quicker. Increasing your monthly payment, or paying biweekly, or putting down a lump sum against your mortgage can have a substantial impact on how long it will be before you are mortgage free.

But consolidation loans and making a biweekly mortgage payment are the easy parts. The real question is, are these band-aid solutions?

What I mean by that is often debt is not a financial issue; it is a behavioural issue. If your spending behaviours got you into trouble with debt, and that spending behaviour is not addressed, then a consolidation loan might buy you some time, but it won't be a long-term solution. If the spending behaviour continues unabated, you are playing with fire.

Fire and debt have a lot of things in common. Used properly, both can provide us with valuable and enjoyable results. But we can't let either of them get out of control.

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