**Managing Credit and Debt**

What is the difference between "good" debt and "bad" debt? Debt that is productive or helps increase your value is "good" debt. Debt that is tied to consumption or decreases in value is "bad" debt, especially if the debt lasts longer than the item purchased. For instance, if you purchase a home with a fixed rate mortgage, your mortgage payment remains constant, the amount you owe decreases, and the home potentially increases in value over time. In addition, you have the enjoyment of home ownership. Whereas, many of the purchases made with a credit card are either consumed or gradually lose their value. If you go to a restaurant and use your credit card, it may be enjoyable but there is no remaining value except for maybe leftovers. Electronics, appliances, and clothing are additional examples of items that if purchased with a credit card may result in "bad" debt if you don't pay the entire balance each month. Although these items may be resold later, they will decrease in value with time and use.

Given the differences in types of debt, it is proposed that repayment of "good" debt be stretched out as long as possible and "bad" debt be paid off as quickly as possible. For instance, after finishing college, you may have a significant amount of student loans which hopefully were consolidated into a loan with a fixed interest rate. Since this loan contributed to your professional standing and livelihood, the result was very valuable and productive. However, when you are first starting out, you have a lot of expenses. If you can stretch out the repayment of a school loan as long as possible, you give yourself more flexibility or breathing room. As you build your career, you can always increase the payments. On the other hand, it is recommended that the balance on credit cards be kept low enough that you can afford to pay the entire balance each month. In contrast, a car loan may be "good" because it gets you to and from work but only if the car lasts longer than the loan.

Next consider how much overall debt you can afford. Although your home is one of the biggest assets you will acquire, it may be the largest amount of money you owe. So, calculate what type of home you can afford. One rule of thumb is to multiply your yearly income by 2.5. This is the maximum suggested price to pay for your home in order to not overextend your budget. As far as credit cards and other loans, the amount owed should be less than 10% of income. If it is higher than that, stop using the cards and layout a plan for repayment.

Some tips to minimize credit card fees and the amount you pay for interest:

a. Pay off cards with highest interest rates first. If possible move those accounts to a lower or no interest rate card or loan.
b. Avoid cards that charge an annual fee.
c. Understand how interest is calculated. The better and most common method is "Average Daily Balance Method."
d. Avoid late fees by paying on time
e. Stop using cards with high interest rates
f. Avoid cash advances and convenience checks. These are expensive due to the higher interest rate that is charged.

g. Use cards that offer rewards.

Maximize your net worth by minimizing your “bad” debt and the amount you pay for interest while using “good” debt to increase your value and assets.