

Homes & Money

MONTHLY ADVISORY FROM THE DESK OF DOUGLAS BONCOSKY

June 2006

Good Debt vs. Bad Debt

Each year I pull a lot of credit reports as part of helping people obtain a home mortgage. In analyzing them, I'm finding that far too many people are drowning in debt. This month, I'm sharing my thoughts with you on the difference between good debt and bad debt. Understanding the difference between the two can save your financial life.

As the title suggests, not all debt is bad. Good debt helps you obtain assets that produce income. If taking out a loan will eventually put you in a better financial position, chances are it is good debt. Your home, for example, was probably one of the best investments you've ever made.

Bad debt, on the other hand, steals your money and produces no income or cash flow. It is money borrowed for something that loses value, such as a car, clothing, and electronics, to name a few. Earlier this year, the Federal Reserve reported 2005 numbers on consumer debt: Non-mortgage consumer debt climbed to \$2.1 trillion. Based on that number, the average household has more than \$17,000 in bad debt. Considering that most families have at least one car loan on top of the credit card debt they might be carrying, \$17,000 actually seems low to me.

For whatever reason, most of us don't think that our car payments are bad debt. I think we have to remind ourselves that car loans are bad debt. Most new-car buyers are unaware that they are choosing the rich, but short-lived, new-car smell over long-term financial fitness. *(continued on back)*



Good People are Hard to Find



Douglas Boncosky
Licensed Mortgage Advisor

Smart Mortgage Access
1821 Walden Office Sq
Suite 120
Schaumburg, IL 60173

847-925-0300 x 221
(fax) 847-925-1301
doug@loansbysmart.com
www.dougboncosky.com



As some of you know, I recently closed on the purchase of my home in Lake Zurich with my Fiancé Debby. (I know I know, shame on us!) In a two month period of time, we have completely redone almost every visual surface inside the home. During the course of this Bob Vila project; with the help of others, we researched and used some vendors I thought would be helpful for you.

Carpet & Hardwood Flooring

Best Buy Carpets, Krista, 630-820-1439: Great People to work with, fair pricing, and pro installers, although I did the hardwood myself.

Kitchen Cabinets

Rick Methling, Home Depot Lake Zurich, 847-540-4066: Rick knows his stuff. Our planning experience with him was very smooth. Home Depot & Kraftmaid were awesome!

Painter

Chuck Allen, 815-344-3818: Chuck is priced very fair and does great work, he starts early! He does not like to travel too far, but if it's a bigger job, he will.

Counter Tops

Marble Tech, Barrington, IL 847-382-1142: Best price on granite, not to mention a very simple and straight forward process. We were able to go pick out our slab too! Everyone is helpful.

Plumber

Steve Wentzel, Lake Zurich. 847-719-1701: He calls you back! He is easy to schedule with and did quick work.

Furniture

Conrad Tomlinson, Marshall Fields Furniture, Schaumburg, 847-781-6297: Professional Salesperson who knows his furniture and design. We enjoyed working with him.

Good Debt vs. Bad Debt

(continued from cover)

Why do I say this? Well, it has long been established that a new car depreciates an average of 20% in just the first year. Thus, it makes more sense to buy a pre-owned vehicle and let the first owner swallow that first big chunk of depreciation for you. Here's an example of how doing that would contribute greatly to your long-term financial success. The popular 2006 Toyota Camry or Honda Accord costs roughly \$25,000 new. What if, instead of buying that brand new car, you purchased a two-year-old, pre-owned vehicle for \$15,000 and invested the other \$10,000? In this example, if you were to invest the \$10,000 in a mutual fund earning 8% and leave it alone for the next 30 years, you would have stockpiled a little more than \$100,000. And, if you left it alone for another 10 years, it would grow to about \$217,000—all because you made a wise decision about buying a car 40 years earlier.

The other area that attracts bad debt is money we spend on clothing, electronics and eating out. The truth is that most of this spending winds up on credit cards. As consumers, we all need to use credit wisely and pay it off at the end of every month. I can't stress this enough. If you don't have the ability to pay your credit card bill off each month then the reality of your situation is that you are spending more that you are making.

One of the best ways to tackle your credit card balances is to **stop** using credit cards altogether and use only cash for purchases until you've paid off the balances in full. Studies show that consumers spend **far less** if they use cash versus credit. At the very least, when home or refinancing the mortgage. You could figure out the after-tax cost of paying points as well as the after-tax savings, and I welcome questions you may have, as it relates to your specific circumstances. Don't let the tax tail wag the financial dog, by focusing primarily on taxes. Focus on keeping more money in your pocket and I am available to help you do that.

When using cash, you can't spend more than you have. Another solution is to get a low-interest loan, home equity line of credit, or cash-out refinance to consolidate high interest rate credit cards. My only warning is to make sure that when you use your home's equity to pay off credit cards, you address the root spending problem so you don't find yourself months or years later with a higher mortgage balance and credit card balances once again.

A good way to start finding out the truth about your spending is to keep a written journal and track all your spending for four weeks. As you go throughout your day, write down all items purchased and the price for each—from beverages and video rentals, to ordinary household expenses to dining out. Get everyone who lives in the household involved in this exercise. At the end of the four weeks, simply tally up the entries to see how much you spent.

Whether you know it or not, by doing this exercise you have laid the groundwork necessary in setting up a budget. To be sure, gaining control of your financial situation **requires** a working budget and a willingness to stick to that budget. Review the budget regularly, identify wasteful spending and eliminate it. One of the resources you can use in budgeting is an excellent on-line system called Mvelopes. You can find more information about this tool at www.Mvelopes.com. They do offer a free 30-day trial. Until next time, spend wisely!

Are We Still Booming in the Housing Market???

WASHINGTON (June 6, 2006) – The housing boom has ended but sales at historically healthy levels will continue, and price appreciation will return to normal patterns across much of the country, according to the National Association of Realtors®.

David Lereah, NAR's chief economist, said home sales are settling into a slower pace. "In recent years we were occasionally challenged to find appropriate superlatives to describe surprisingly high home sales," he said. "Now the housing market has cooled, but 2006 is still expected to be the third strongest on record. In this case, experiencing a slowing from a hot market is a good thing because we need a solid housing sector to provide an underlying base to the economy, and slower appreciation will help to preserve long-term affordability. But this is a time for the Fed to pause on rate hikes because we have some interest-sensitive housing markets that have become vulnerable." (courtesy of NAR Research)

Rates at a Glance

Fixed Products

30 Year Fixed	6.500%
15 Year Fixed	6.250%

Adjustable Rate Arms

7 Year Arm	6.375%
5 Year Arm	6.250%
3 Year Arm	6.125%
1 Year Arm	6.000%
Prime	8.000%

Illinois Residential Mortgage
Licensee MB.0004514

