7 Debt Conflict of Wants Versus Needs

Step Seven - Debt. Conflict Of Wants Versus Needs

Debt: The Conflict Between Wanting

Versus Really Needing!

The Deceptively Deceitful Allure of Debt

Debt is easy money. So is a lump sum payment, upfront cash, easy to justify, easy to spend. Trouble is, what you bought with it, what you used it for - like propping up the HomeFront Budget - is not yours, not until you pay the cash back.

> Personal debt is a personal burden, almost turning one into a financial slave.
>
> You are not your own complete person when someone, a company, or a government can control your financial dignity and destiny.

No matter the financial circumstances or the persuasive asset acquired, the decision to borrow money is an emotional and mental strain.

Debt is never an investment in the future, no matter how eloquently stated, or how firmly the belief is held. Instead, debt resembles a giant poker game bet with all moves predicated on future performance.

Debt is borrowing money with a promise to pay the principal sum back - with interest to the lender - because who in their right mind would lend cash to receive the same amount back years later.

The future promise to repay for the individual, even in contract form, is an intangible uncertainty.

Why?

Because we assume that there will always be a job, a revenue generation for income, expenses and the like to support the repayment of principal and interest - in the future - but will there?

> Now, you can understand why I dislike debt - always preaching that every family purchasing a home should reduce their mortgage debt as quickly as they can, particularly, if any family member is close to retirement.
>
> If you own your home outright, you can manage on very, very little.

Debt has to be a means to an end, not an end in itself, using short term debt to meet cash flow shortages. Where is the capital asset there?

Long-term debt is and should be used to purchase assets that will appreciate over time, long after the debt is repaid.

Borrow only the amount of debt that you can safely cover, even in bad financial times.

What is dangerous here, even with the use of good debt for appreciating assets, is the inability and reluctance to understand that debt must have a ceiling beyond which the borrower cannot trespass.

Otherwise, at the mere hint of hardship or a reduced income stream, there will be little to no ability to meet debt payments. It is too easy when times are booming to feel confident that your compensation scale will always be the same or better.

In a competitive global economy, there is no such thing as always.

A few of the many kinds of debt.

Plain unadorned long-term fixed rate debt (mortgages) repaid in an amortisation schedule over time is well known to most goal-focused individuals.

Credit card debt - the second worst lifestyle enhancer is borrowing from others to live beyond one's means and on borrowed time.

Credit cards carry the highest rates of interest, while Credit card debt purchases generally never represent appreciating assets.

Unfortunately, many are using credit cards for basic necessities, food, treats, and trips. That cute bag you bought may take five years to pay off, long after you are interested in displaying it at your job.

Ever look at the back pages of a credit card bill? Almost no one reads the 16 pages of fine print in the debt encumbrance section. Credit card companies will take your first-born child in their relentless pursuit of repayment.

Why shouldn't credit card companies want to be repaid? You've had a high old time dining out, picking out that special designer bag, traveling, or acquiring more electronic gadgets. Credit card companies sell successful lifestyles with their soothing media message of how to acquire the finer things in life with no money down. They know that even with thousands of debt defaulters they are turning great profits.

- Leveraged debt, one of the worst types of debt for the small investor, is called by any other name but borrowing. CDOs, subprime, margin accounts, credit enhancers these are all terms used by the investment industry to describe borrowing against securitised assets, or in an uncollateralised form to increase yield and capital gains. These are big no-nos for small investors - be careful, sometimes this leveraged debt is buried in the small print of a 150-page investment fund prospectus, or a high return hedge fund, for example. Read all of the fine print be- fore you invest! Keep in mind that leveraged debt in the form of Collateralised Debt Obligations (CDO), Collateralised Mortgage Obligations (CMOs) and other forms of these esoteric securities were largely responsible for the 2008 global market investment crashes - even as they were rated investment grade -right to the end.

  They were not!

- OPM, Other People's Money - borrowed.
- Individuals, with no ethics, can be crassly careless with the use of OPM. Debt to them is the same as cash, their cash, not anyone else's cash. They feel entitled to have what everyone else is perceived to have. Debt becomes a game to see how much can be leveraged without any responsibility for repayment.

And, when they've had enough, splurged enough, or acquired enough (this impulse is never curbed in those careless with other people's money), they walk away from the debt, and the commitment to repay.

After all, it isn't their money, so why should they pay it back!

Guess who picks up the tab again?

The rest of us, those ordinary citizens, the ones the ultra-social climbers look down on, the middle class that does the right thing, working, saving, voting, living life by actions applied responsibly. The middle class that represents the backbone of a country, once again, get to shoulder this collective country debt, along with our own personal loans - for the rest of our lives.

We have to get our personal debt under control, and so does our government. Using we, the people, as a revolving credit card machine is not an investment in our country.

> Personal loans, credit card debt and mortgages: there are differences

A Refresher on Loans 101

Investor.com defines a loan as follows: an arrangement in which a lender gives money or property to a borrower, and the borrower agrees to return the property or repay the money, usually along with interest, at some point(s) in the future. Usually, there is a predetermined time for repaying a loan, and generally the lender has to bear the risk that the borrower may not repay a loan.

Related Terms for loans are numerous: asset conversion loan, balloon loan, bank term loan, bridge loan, broker loan, callable loan, consolidation loan, day loan, demand loan, discount loan, evergreen loan, floor loan, indexed loan, interest-only loan, non-conforming loan, partially amortised loan, participation loan, piggyback loan, policy loan, purpose loan, recourse loan, securities loan, single-payment loan, unsecured and secured loans, wraparound loan, instalment loan, predatory lending.

No matter the term, the loan must be repaid.

A loan is a contract.

It can be orally delivered (as on a hand-shake) or written in stone. Generally, once formalised on paper by listing terms, conditions, remedies against default, collateral damage and so on, the contract becomes the purview of the law and attorneys. And so it should, since the rights of both parties entering into any contract need to be considered and protected. Legal contracts enable this process, given that memories of terms and conditions become shorter and shorter, the longer that the contract lasts. Where many years ago each and every loan might have been painstakingly constructed by hand and individualised for the parties involved, most loans today (like other contracts, such as leases) are standardised and generated on demand. "Sign here", says the loan officer.

Informal loans between people

particularly relatives (otherwise known as rels in our family) may not contain any binding clauses to keep the agreement from slowly falling apart.

Money issues are always difficult to discuss in families making communication and misunderstandings into classic default cases. These types of arrangements generally end up causing all sorts of family nastiness, disenchantment and adolescent behaviour ranging from freezing out various family members, to good old-fashioned fights in some parts of the world.

In financial planning practice, insistence on arms-lengths transactions between close relatives is a required action for loan implementation.

Everyone in the relationship knows exactly what their responsibilities are!

Loans are not always what we think,

in a conventional sense, such as a car loan, a bike loan, a mortgage, etc. When one pays up front for a service or product, you are temporarily loaning your money until the service or product is delivered. An example is the process to build a house where a significant down payment is expected. You are loaning that contractor money, in return for his/her good faith promise to build the home of your dreams, on time, on budget, and on point - that all building corners are square and the tank doesn't leak. If he/she doesn't make that happen, without a contract of terms and conditions in writing, your recourse against him/her for delivery on the contract may be limited.

A. Pension and old age contributory monies, Life/Health insurance fees withheld from an employee's wages are never loans to a business, even temporarily
If an employer 'borrows' these moneys, this a big problem. Not only must the employee be reimbursed with interest, but a crime has been committed. In the US, stealing payroll taxes and pension contributions from employees is considered a felony. See further details on this important topic in Chapter 3. When Employers (and Employees Steal).

B. Credit cards are debt, actual formalised loans. Credit cards are not free cash. Read your credit card contract - all those tedious pages, however long! In return for the use of the credit card issuers' money (credit) you are promising to pay the balance in full. Credit card abuse is on the rise, often from individuals who know better, and by those who want to scam the lot. The issuer, whether a bank or a credit card company is not going to absorb defaults from slow or no payer card holders. Instead, they will penalise by charging higher interest rates, penalties, sometimes across the board. Wouldn't it be nice if those with impeccable credit had their credit card rates reduced arbitrarily? PS Some credit cards provide for a small life insurance policy, too.

C. IOU's stuffed into a cash register is a total no-no, a dismissal offence!
And they are informal loans even if tucked into an office friend's desk draw. Never let them mount up. Trying to pay back these back appropriately can be a cumbersome and inevitably a prosecutable task.

D. Overdrawing your account – whether unintended or not so, is a loan. When you open the account, be sure to check out the fine print. If and often it is a big if, it is your fault, the bank has the right to charge penalties and interest. You know all too well that the burden of proof is on you to justify why the bank may be wrong.

E. Families and friends' loans. These loans (and their lender/borrowers) tend to be notorious for not communicating. Can you imagine what happens when two friends go into business together, one loaning the money and the other charged with making the business profitable? Suppose the loaner gets restless when he sees the manager having a swell time every night down at the local jive bar, not only spending all the profits but the loaned capital as well. Not a good scenario, but it happens – that's what contracts are intended to prevent. Written formal loan contract documents prepared and executed by a good ethical attorney are worth their weight in gold. Appropriately composed contracts spell out the rights, resources of all concerned parties along with provideing an arbitrator who understands and will remember ten years down the road the original terms and conditions, not what was thought to be happening.

Finally, regardless of the structure of the loan, and even though the intent of the loan initially is business-like, understood and needed, as the years go by and payments are made, emotionally, we may resent making loan payments.

And we tend to transfer that resentment on to the lender. Is it because what we wanted so badly to own, now has lost its lustre!

Whenever you enter into a contract to borrow money, particularly if it is for a very long time, remember to remind yourself every day of just how much you wanted that thing, property, jewellery, vehicle, etc.

In other words, choose carefully. Those massive car payments five years from now become an incredibly heavy burden.

And the only winner is the lender.

OUR respected elder folks believed in cash.

If you want it, find a way to earn, then pay for it – IN FULL.

Idealistic today, realistic back then.

Save your loan paying skills for the one thing you need the most, your home.

Listen to
The Deceitful
Allure Of Debt

https://tinyurl.com/yj8e7lyc

Listen to
Debt: Good, Bad, and Necessary

https://tinyurl.com/yz8s4nje

References
& Resources

Budget Calculators, Spread sheets and 360 Degrees of Financial Literacy - See References Chapter Six and Credit Card calculators

Bankrate Debt payoff calculators - See References Chapter Six

Jamila - See References Chapter Six