

JUNE 2021

“DEBT 101”

WHAT IS DEBT



MASS CREDIT
RELIEF



Debt 101



Debt is the total amount of money you owe. Debt includes credit card balances, mortgage loans, car loans, medical bills, utilities and student loans. Incurring debt results from either borrowing from someone else or owing money in the form of a judgment or lien. Debt is almost a necessity of life. Some people strive to live debt-free, but for most people, there are times throughout life when you have to borrow in order to make a purchase. As a Smart Credit customer, you'll be able to see your progress on your debt, and know how close you are to repaying the total amount. You'll also be able to track your credit in relation to your outstanding debt - you'll be able to see how it affects the terms and interest rates you can get, and how your debt history can positively or negatively impact your overall credit picture.

Debt isn't necessarily a bad thing. In fact, most of us will go into debt for major purchases, such as a mortgage, a car, or to fund an education. Most consumers simply cannot pay cash for those things. Debt can, however, be problematic especially if you're using debt to finance a lifestyle you can't afford. And, going into debt for basic living expenses, such as food and utilities, is not a good practice and is indicative of poor budgetary controls. Charging discretionary items such as electronics, video games, and computers can add up debt quickly, if you can't pay them in full each month. This has been the American way in the past and we are learning to be more cautious. It is important to spend within your means.

Credit Card Debt

Unfortunately it's very easy to get into credit card debt, especially if you don't monitor your spending. Some consumers use credit cards for convenience, so they don't have to carry cash. Other use credit card debt for instant gratification, with little thought given to how they're going to pay it off when the bill comes. If the credit card bill arrives and you can't pay it in full, the remaining balance rolls over to the next month, plus interest. This debt continues to grow, because the unpaid amount is carried over and interest

will add up quickly. And, if you continue to use the card, any new purchases are added to the amount you owe. For example, a credit card debt of \$2,600 would take 17 years to pay at the minimum payment of \$52 a month. You would pay \$2,673 in interest under that scenario, which is more than your purchases. If you can only pay the minimum due on your monthly credit card debt, you might need to stop using your credit cards.

Bad Debt

Debt becomes a huge problem when it turns into "bad" debt. Bad debt occurs when you can't (or won't) pay your bills. Not only will this have a negative impact on your credit reports and credit scores but also it will make it more difficult to obtain future credit at competitive rates and terms. Eventually a bad debt will become a defaulted debt. Defaulting has many faces. If you are unable to pay your auto loan, your car is usually repossessed. If you can't pay your mortgage then your home is foreclosed and you're evicted. If you can't pay your credit card debt the account is charged off and normally turned over to a collection agency.