

## **How Dangerous Is Debt?**

**Americans are literally trillions of dollars in debt. That is the danger of credit, which is simply the ability to borrow money. In short, it is the spending of money today that will be tomorrow's income. Most economists would say that credit is an important part of the ability of individuals, families, cities and ultimately nations to function in a financial world. Credit consists of unpaid balances on auto loans, credit cards, student loans and generally any non-mortgage debt.**

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One of the real dangers of excessive borrowing is that it creates high monthly payments, which often strain even well-planned budgets. The pace of borrowing often exceeds the family's growth in income and leads to a form of credit-debt bondage. The interest expense of credit debt is often very high. Banks and other lending institutions often will loan to people with a higher credit risk, but do so at the expense of the borrower.

This is a huge profit opportunity for the company. Often those that do not qualify for the terms of a regular loan still get money, but at an interest rate several points higher than normal. Of course, most individuals, families and businesses will quickly agree to this because, in reality, they need the money at any cost.

People that have high monthly credit payments often sacrifice their other financial goals just to make their payments. This is a very serious offense. By not investing in a house, savings account or other forms of investment, they seriously put their future retirement in question.

Excessive debt cannot be ignored. It will not go away. You can ignore past-due bills, but you do so at the risk of finding yourself in even worse circumstances. A chain of events is triggered when you do not pay your bills. Creditors can take action against you, the past-due bills can be turned over to a debt collector, your property can be repossessed and your wages garnished.

While debt bondage is the result of unwise decisions and excess credit purchases, there is no easy way out. The reason why people find themselves in this position is because they spend more than they earn and the only way out is to spend less and pay the difference on their debt balance. The only way out of this dangerous situation is to get

control of your spending and put yourself on a budget, which we defined earlier as a written plan that provides oversight and guidance to your spending habits.