REEVALUATING DEBT

Debt is often inevitable, sometimes required, and can even be preferred. It can also be categorized as more favorable or less favorable. More favorable debt tends to be *collateralized*, may help generate income, or can help an individual acquire an appreciating investment. Less favorable debt tends to have higher interest rates, may be *uncollateralized*, or may be collateralized by a depreciating asset. Reevaluating debt benefits your overall financial plan by helping you find opportunities to optimize both types of debt.

MORE FAVORABLE → LESS FAVORABLE

TYPE OF DEBT	OBSERVATIONS
Mortgages	Considered favorable because it is backed by the value of the property, which can appreciate. This type of loan often has lower interest rates than other loans. Interest may be tax-deductible.
Lines of Credit	Also known as *secured non-purpose debt*, these loans can also be backed by appreciating assets or help you make an investment. Interest may be tax-deductible.
Student Loans	Although these loans are unsecured, they can have favorable interest rates and allow you to invest in yourself and your future earnings potential via higher education. Interest may be tax-deductible.
Margin Loans	Depending on interest rates, this type of loan can offer easy access to capital or help bridge liquidity needs but can also increase risk. Interest may be tax-deductible.
Business Ownership	Investing in a business can have higher risk and higher reward. Loans can help accelerate your investment but may also increase risk. Interest may be tax-deductible.
Car Loans	This type of loan often has a higher interest rate. Although this loan is secured, cars tend to depreciate over time.
Credit Cards	This loan can be favorable if paid off each month and you take advantage of rewards programs. But if not paid off, interest rates are higher, and credit card debt may impact your credit score.
Personal Loans	Retail unsecured loans, such as paycheck advances, tend to have high interest rates. Some other types, like intra-family loans or other personal loans, may have benefits.

CHECKLIST FOR MANAGING DEBT

Debt management is an important part of many financial plans, helping people avoid the potentially negative consequences of less favorable debt while leveraging more favorable debt. Below is a checklist to assist you in organizing and managing your debt. Please consult with your advisor to ensure your strategy is appropriate for your unique financial situation.

TAKE AN INVENTORY OF YOUR DEBT

Clarify which debts are more vs. less favorable. Also review the interest rate and monthly payments for each obligation.

DETERMINE YOUR MONTHLY DEBT LOAD

Determine how much of your income is going to pay down debt. The standard is to use no more than 28% of gross monthly income for mortgage payments and to keep total debt payments below 36% of monthly income.

REEVALUATE SPENDING

Review your monthly expenses to see if there is anything you can eliminate or reduce. One key to paying off debt is to limit further liabilities.

RESTRUCTURE DEBT

Consider consolidating high interest rate debt into low interest rate debt, if possible. Also consider consolidating uncollateralized debt into a more favorable type.

EVALUATE DEBT-REDUCING STRATEGIES

Two popular strategies to consider are:

1. *Debt avalanche.* Pay off balances with the highest interest rates first.
2. *Debt snowball.* Pay off the lowest balances first.

CHECK CREDIT REPORTS ANNUALLY

Checking your credit report regularly from the three credit reporting agencies—Equifax, Experian, and Transunion—helps protect you against fraud and allows you to be more aware of what lenders may see. There are also multiple mobile apps to help you monitor your credit.