

# The Debt Effect

So many people don't understand the complete effect of debt on their finances until it is too late. For example, you may have taken out student loans in order to pay for college, but did you completely understand how those loans worked and what effect they would have on your financial future.

A key to building wealth and winning in the area of your finances is understanding what effect debt will have and how to make wise decisions based on that. Debt is simply owning money you don't have. It's not about having a credit card – it is about whether you use that card to buy stuff now that you don't have the money for. It's not about having a car loan – it is about having a loan because you don't have the money to afford a new car and you want one.

The more money you have going out every month in financial commitments, the less money you have to invest, save for emergencies and build wealth.

So you must decide – is debt good for you or bad for you. Here are two sample budgets – one with debt and one without. In both cases, the person makes \$35,000 a year. Let's take a look and see what we see.

## **Budget without Debt (Monthly)**

**Income - \$2200**

**Expenses - \$1790**

Rent - \$800

Cell Phone - \$75

Electric - \$125

Cable - \$75

Internet - \$50

Car Insurance - \$120

Groceries - \$200

Eating Out - \$80

Gas for car - \$125

Entertainment - \$50

Clothing - \$40

Misc. - \$50

**Savings, Giving, & Retirement - \$410**

# Budget with Debt (Monthly)

**Income - \$2200**

**Expenses - \$2440**

Rent - \$800  
Cell Phone - \$75  
Electric - \$125  
Cable - \$75  
Internet - \$50  
Car Insurance - \$120  
Student Loan - \$250  
Car Payment - \$300  
Credit Card - \$100  
Groceries - \$200  
Eating Out - \$80  
Gas for car - \$125  
Entertainment - \$50  
Clothing - \$40  
Misc. - \$50

**Short \$240 with no savings, giving or retirement**

\*\*The income and expenses are an average based on an average city.

This is a visual so that you can see the difference in a budget with debt and one without. If a financial goal of yours is to build wealth and reach financial freedom, debt is going to hold you back.

Don't worry – even if you have debt now, it is not too late. Do what it takes to pay off your debt as soon as you can – extra job, cutting back, selling stuff – and once you remove the weight of debt, you will be able to then use your extra to invest and let your money make money for you. Making interest is so much more productive than paying it!