Good vs Bad Debt

Financial Literacy »

Learning Goals

Differentiate between good debt and bad debt, understanding the characteristics and implications of each.

Recognize examples of good and bad debt

Essential Question

How can you navigate your financial choices to minimize bad debt and prioritize good debt for long-term financial well-being?

Vocabulary

Depreciating Asset

Cash Flow

Debt to Income Ratio

Vocabulary

Depreciating Asset: A depreciating asset is something that loses value over time, like a car or electronic device.

Cash Flow: Cash flow is the amount of money coming in and going out of your finances.

Debt-to-Income Ratio: The debt-to-income ratio is a comparison of your total debt payments to your monthly income, used to assess your ability to handle more debt and determine your level of debt burden.

Good Debt

01

Definition

Credit that allows borrowers to repeatedly borrow up to a certain limit as long as they make regular payments.

Examples

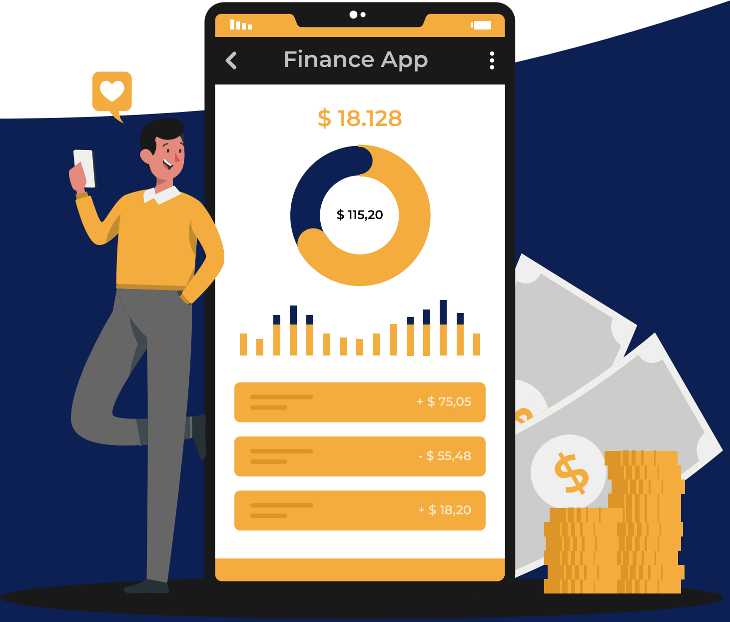
Credit Cards, Lines of Credit

03

Explanation

When you open a revolving credit account, such as a credit card or a line of credit, the lender assigns you a credit limit. This is the maximum amount of money you can borrow.

« »



Good Debt

Good debt is debt incurred for investments or assets that have the potential to increase in value or generate long-term benefits.

Good Debt

Good debt refers to borrowed money used to invest in assets or opportunities that can potentially increase in value or provide long-term benefits.

- An Investment Property
- Student Loans
- Business Related Loans

These examples of credit are a prime example of good debt, this is because in the long term they will generate cash flow that will be used to pay of the loan

Bad Debt

Bad debt is when you borrow money for things you don't really need or that lose value quickly, like buying unnecessary stuff with a credit card. It's not a good idea because you end up paying more in the long run without getting anything worthwhile in return..

- Cars (One of the Biggest Bad Debts)
- Technology

These examples of credit are considered as bad debt because they don’t generate any cash flow and actually reduce in value over time

Good debt builds wealth and adds value, while **bad debt** creates financial strain and offers little to no return.

Activity

Investment Property

Good or Bad Debt?

Activity

Investment Property

An Investment Property is considered as **good debt** because it appreciates in value and provides **cash flow**

Activity

High-Interest Credit Card

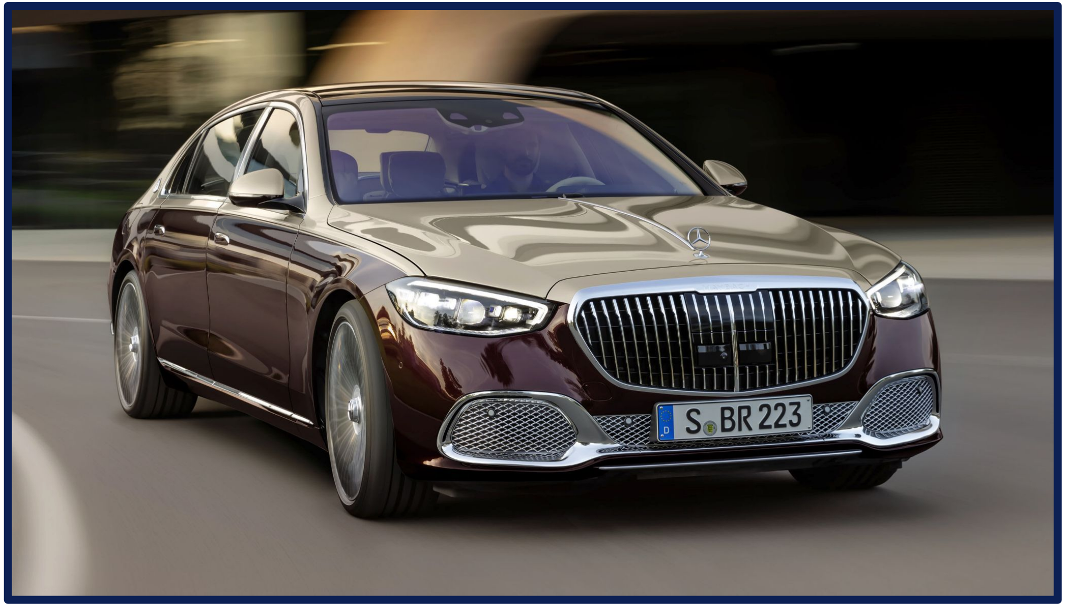
Good or **Bad**
Debt?

Activity

High-Interest Credit Card

A high interest credit card is considered as **bad debt** because it's an expensive debt to carry that doesn't have long term positive benefits

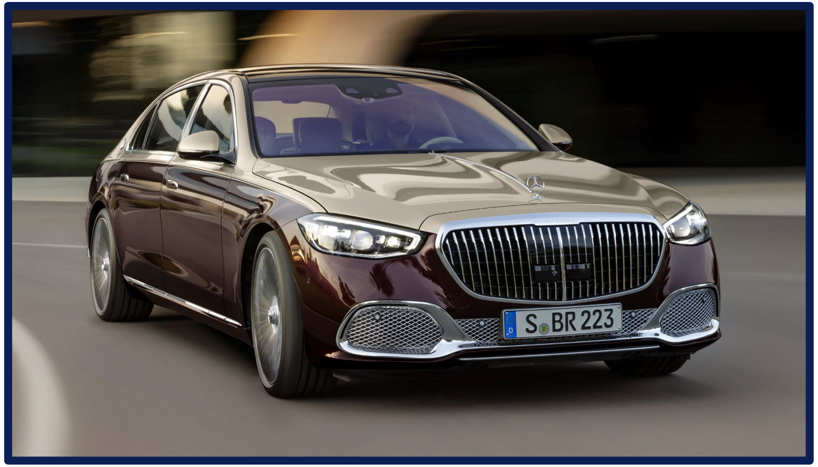
Activity



Automotive Loan

Good or Bad Debt?

Activity



Automotive Loan

A car like this Mercedes is considered as **bad debt** because it depreciates in value over time

More Resources

Debt Management Guide (investopedia.com)

Understanding Credit: Good Debt vs. Bad Debt | Equifax

Good Debt vs. Bad Debt - Types of Good and Bad Debts

Good debt vs. bad debt: Why what you've been told is probably wrong (cnbc.com)