

Keys To Debt Management

Debt can be a valuable and useful component of an individual's finances, if used efficiently and in moderation. For many individuals debt is a necessity in their every day lives and, unfortunately, often inappropriately handled. But there are certain "keys" an individual should consider that might open the door to proper and efficient use of debt within their financial lives.

- **Liquidity Is Key.** Keeping the proper amount of liquid assets is vital to managing the current level of your debt. Debt has traditionally hurt very few individuals; it is the lack of liquidity and cash flow to manage the debt that has hurt individuals financially.
- **Keep Debt Service Predictable.** Try to avoid repayment schedules that require the debt to be repaid all at once at a future point in time, such as balloons. If adjustable-rate financing is used try to negotiate interest-rate caps on your debt balance.
- **Do Not Accelerate Debt Payments.** Not until you have sufficient liquid savings and pay off non-deductible interest debts first. And then only pay down your debt if you are fully funding your retirement plans, such as 401(k) and IRAs.
- **Try To Have Interest Deductible.** Slash those non-deductible credit card balances as much as possible. While you hear this often, it can't be emphasized enough. Consider using second mortgages, business loans, etc., to keep interest on debt deductible.
- **Hold Debt Service Payments at Less Than 25% to 33% of Gross Income.** As a general guideline, if you are exceeding this range you're progressing outside the safe limits of debt management. Try to renegotiate terms of your debt to get fixed payments to the 25% to 33% level and do not acquire additional debt.

- **Pay Cash for Purchases.** Don't finance or use credit cards unless it is absolutely necessary. Set a goal of paying cash for purchases and do not acquire them until you have saved enough, assuming no emergencies pop up. This is commonly referred to as "delayed gratification" and it is a financially sound concept to follow.
- **Review Debts Annually.** Make sure your debts are as efficient as possible, this means making sure the interest rates you are paying are low and competitive given changing market conditions. Also, check out the option of refinancing if it will save you money.

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- **Use Credit Cards Only As A Convenience.** Do not use credit cards to finance long-term purchases or items you cannot currently afford. Save for those items or use alternative forms of debt that are more efficient, such as deductible debt.
- **Protect Your Credit.** Personal credit is extremely important – don't abuse it. Get into the habit of making payments on time. Establish a good credit history early, as soon as you start your career or right out of school. Use credit cards in moderation to establish a good track record of prudent debt management. If you are, or going to be, in trouble, be proactive and talk to

your bank or credit card company as soon as possible to work out a repayment schedule.