NATIONAL POST

VOL.7 NO.176 SATURDAY, MAY 21, 2005 www.nationalpost.com

PERSONAL FINANCE

*George Boelcke's book, It's Your Money!, is an excellent gift for a debt-ridden loved one*

# Insight into debt and credit

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*Personal Finance*

I hate debt. And so should you. The problem is an entire industry thrives by encouraging debt while "nobody has a vested interest in explaining" the downside.

That's from George Boelcke, a 25-year veteran of the credit and banking industry, who self-published a book that explains the downside of debt in gory detail. It's called *It's Your Money! Tools, tips & tricks to borrow smarter and pay it off quicker*.

I'll resist the temptation to comment on the sad decline of the adverb. But what Boelcke lacks in the niceties of English grammar he makes up in insight into debt and credit.

The biggest mistake those in debt make is to view credit as part of their income, Boelcke says in an interview. But credit is the furthest thing from a windfall. "It only creates spending power for today ... It might take two minutes to spend it, but could take years to pay it off."

Six thousand Canadians go bankrupt every year, with the total amount of consumer debt hovering at $500-billion, he says. "Debt is a silent killer that starts choking you, your lifestyle and your ability to manoeuvre."

If this describes your life, circle the next few paragraphs and tape them on your fridge. They're from veteran stock market watcher Richard Russell: "Those who understand interest — collect it; those who don't understand interest — pay it."

Russell, publisher of *Dow Theory Letters*, attributes the following to a Mormon elder during the Depression: "Interest never sleeps nor sickens nor dies ... Once in debt, interest is your companion every minute of the day and night."

This column has always espoused the power of compound interest and the need to make it work for, rather than against, you. Bonds compounding interest in a registered retirement savings plan is debt working for you: your money making more money.

True, this column tends to be targeted to the minority who save and invest. But Boelcke is addressing the 70% of Canadians who have a negligible or negative net worth, especially those aged 18 to 25. Those burdened with credit card debt are the polar opposite of saver/investors.

Credit cards can be convenient if you pay off the balances before the grace period is up, but fewer than two-thirds of Canadians actually do so. Boelcke shows clearly why paying off only the minimum balance is a poor strategy.

He suggests credit cards should carry the same kind of warning label affixed to packs of cigarettes: "Warning! Financial experts strongly caution that the use of this card can lead to significant debt and a lower standard of living."

That's why the best investment is paying off such debt: first non-deductible high-interest credit card debt, and eventually lower-interest mortgage debt.

Unfortunately, credit cards aren't the only snare to which the poor fall prey. As a former automobile credit officer, Boelcke includes some insightful chapters on the financing of automobiles and appliances.

But the real bottom feeders are providers of short-term credit. You've no doubt seen those cheque-cashing storefront operations in less fashionable districts. They charge the working poor exorbitant "payday" loans to get them through to the next regular pay cheque.

This emergency cash costs up to 90¢ per $100 each week, working out to a usurious 59% when annualized. That's just below the Criminal Code's definition of loan sharking.

All these are examples of "bad debt," well described in Jon Hanson's book *Good Debt, Bad Debt*. Boelcke also touches on this theme.

Compared with the many "bad" forms of debt exposed in these books, the home mortgage seems almost benign.

Actually, Boelcke's chapter on mortgages I found relatively disappointing. It's long on explaining the different types of mortgages and the need to shop around for the best rates and terms, but short on showing just how much money can be saved by aggressively paying down a mortgage as quickly as possible.

Boelcke — who is 45 and self-employed — admits he himself still has a mortgage. But he agrees "the greatest mortgage is no mortgage at all."

I believe that for most middle-class working stiffs, the No. 1 way to build wealth is to eliminate the mortgage ASAP.

A less understood form of debt, but one often tied to home equity, is the Line of Credit (LOC). This too has risks. "It is easy to fall into the trap of using a line of credit for longer-term debt than it should be," Boelcke says. "It is solely up to the individual to pay back the amount in a very disciplined and structured manner."

LOCs have their role: one "wise use" is the consolidation of smaller bills. But there's danger here too, despite the immediate relief of having only a single bill to worry about.

"The point of a consolidation is only achieved if the credit cards are cancelled and not run up again, since their old balance is now simply hidden in the credit line debt."

The book also delves into lesser known aspects of credit, such as credit bureau files and credit scoring. A useful tip: "One major credit card with a good limit, paid over many years, creates one of the best credit scores possible."

If you're mired in debt, consider the ominous fact interest rates have bottomed and may be on the rise. If so, "higher rates will mean more in payments and debt without any added benefit in return."

The book ends with a list of credit counsellors across Canada and a number of tables and charts, which makes it a valuable reference guide.

A Canadian edition of *It's Your Money!* came out late in 2004 and has already sold 6,000 copies, some to credit counselling groups. Last week, an American edition was released (see www.yourmoneybook.com).

Sadly, the people who need to read this book (or column) are unlikely to. Those in denial don't want to see reality or invest $20 to buy such a book.

That's where you come in. If through the years you've been lecturing debt-ridden friends or family members, here is your chance to save your breath. I suggest those who understand the importance of this message buy copies for loved ones who don't get it, but need to.

Personalize their copy by using a yellow highlighter to mark passages you think they need to see, tailored just for them. Wrap the gift up with this column and a red bow.

It may be true the giant credit industry has no vested interest in exposing the pitfalls of credit. However, those with loved ones mired in debt do have such an interest.

*Financial Post*
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