



To Borrow or Not to Borrow

By W. Neal Carris, CPA

People use debt to finance many types of purchases, and borrowing money is not always a bad idea. However, some buys are worth financing over time and others are not. Making the correct determination is up to you.

The most important thing to remember when going into debt is that you are paying for the privilege of borrowing that money over time. A bank, department store or finance company will charge interest, which must be paid in addition to your repayment of the basic loan amount. And that interest charge can be pretty hefty, particularly if you only make the minimum payment each month. For example, say you buy a \$1,000 TV with a credit card that charges 18 percent interest and you pay only the minimum of \$10 on every bill. Not only will it take 10 years, or 120 payments, to get rid of that debt, it will also cost \$799 in interest. In other words, the amount of interest you pay could nearly buy you another TV. With a small discretionary purchase like a new TV—something you don't really need—always consider whether it would be better to save money for a few months and buy the item for cash.

Sometimes borrowing may be a good idea, especially with items that will appreciate. The best example, of course, is a home purchase. Although the real estate market has been in turmoil of late, if you plan to own a home for more than five years the property often maintains or increases in value.

There are costs to home ownership, of course, including property taxes and maintenance expenses. But what sets home ownership apart is the chance to benefit from the appreciation in the property's value over time. For these reasons, a carefully considered and affordable home purchase is likely worth incurring debt.

Financing education is also considered a valid reason for going into debt, but here it is also important to analyze the pros and cons. For example, you may be able to get a quality education and good career prospects at a public university, and save yourself the high price of a famous private school. If you are thinking of going to graduate school, take a realistic look at how much the move will benefit your career over time before you ante up the tuition costs and lose out on potential earnings while you are in school. Education is usually a great investment, and one worth borrowing to finance, but be sure you are making the best use of your money.

Our professionals are eager to assist you with any questions you have about your finances. Please contact one of them today.

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