Good Debt

G for Good Debts

This week's report ties in nicely to last week's report on finance, as the finance that you take out to build your property portfolio should be 'good debt'.

Growing up we are often taught that debt should be avoided at all costs. Maybe you were too and maybe you've heard the phrase: 'you shouldn't be buying it, if you can't afford it'. A lot of people hear this all the time, and this is ingrained in us up until we stumble across property investing.

In order to grow a successful property business in a relatively short period of time, you're going to need to take on some debt and we want to make sure that that's good debt.

Let us start by explaining what bad debt is, so that you can tell the difference between the two:

Examples of bad debt would be buying a TV or a holiday on a credit card when you don't have the money to instantly pay that off. You'll therefore end up paying interest for the privilege of buying whatever it is that you've bought, something that isn't actually making you money.

Another example would be buying a car on finance simply for personal use. In both these situations you have to make monthly payments for the item that is coming out of your pocket on a monthly basis. This debt is costing you money each and every month.

An example of good debt, however, could be a 'buy to let' mortgage if you have bought the property (in the right way of course). At the end of the month the rental income should cover the mortgage that you've taken out (along with other associated costs) leaving you with positive monthly cash flow. The debt or mortgage that you've taken out has actually been used to make money, instead of the payments coming out of your own pocket each and every month as the mortgage is being paid for by your tenants. If you hadn't taken out that mortgage in the first place, you wouldn't have been able to buy the property and therefore you wouldn't be receiving the positive monthly cash flow that the property creates for you.

Hopefully you can start to see why we would call this type of mortgage 'good debt' because it is debt that is actually making you money. At Progressive Wealth System, we train our students on how to run their numbers and how to assess demand before they actually buy a property to make sure that the debt they're taking out, will actually be good debt.

Other examples of 'good debt' could simply be finance that is used to buy an operating business that's already turning over a monthly profit. It could also be the funds that you use to pay for your education as long as you actually put that education into use and practice to make you money.

Law school fees for example would probably be deemed to be 'bad debt' if you've never made a penny as a Solicitor, however your property education would be 'good debt' if you've taken that and used it to build a successful property portfolio.

Remember, in order for debt to be deemed to be 'good debt', it has to put money in your pocket. It's really that simple. Don't be afraid of debt as long as you've run your numbers and you've done all your tests and due diligence to make sure that the property or the business venture is going to make you money each and every month.

You can therefore then can take debts on and have them serviced by somebody else. This is how the wealthy are able to grow their wealth far faster than by saving (saving...saving...) to buy a property or to buy a business.