

Money Management

Money Management is a weekly column on personal finance prepared and distributed by certified public accountants.

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TO BORROW OR NOT TO BORROW?

People use debt to finance any number of purchases, and borrowing money for a worthwhile purchase is not always a bad idea. However, some buys are worth financing over time and others are not. The New Hampshire Society of CPAs explains how to make the right choice.

CONSIDER THE COSTS

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 you interest, which you have to pay in addition to your repayment of the basic loan amount. And that interest charge can be pretty hefty, particularly if you only pay the minimum payment each month. For example, say you buy a \$1,000 television with a credit card that charges 18% interest and you pay only a

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minimum \$10 balance on every bill. Not only will it take you 10 years, or 120 payments, to get rid of that debt, it will also cost you \$799 in interest. In other words, the amount of interest you are paying could nearly buy you another TV. Let's say you paid more than the minimum each month, and instead sent in \$75. In that case, it would take you 15 months to pay off the balance, at an interest charge of \$124. That's a much lower interest rate, but it's still money you could have put to better use elsewhere. With a small discretionary purchase like a new TV--something you don't really need--always consider whether the interest charges are worth it or whether it would be better to save your money for a few months and buy the item for cash when you have it. In most cases, you'll probably find that spending cash is the best answer.

EVALUATE THE BENEFITS

Sometimes borrowing may be a good idea, such as when the value of what you're buying is likely to rise over time. The best example, of course, is a home purchase. Although the real estate market has been in turmoil in recent months, if you plan to own a home for more than five years there's usually a good chance that the property will maintain or increase its value, depending on many factors that should be considered when you make a

purchase, such as location and the condition of the home. There are usually tax advantages to home ownership, such as the opportunity to deduct mortgage interest charges and state and local taxes on your federal tax return. There are also 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 that reason, a carefully considered and affordable home purchase probably is worth borrowing for.

LOOK TO THE LONG TERM

Financing your education is also considered a valid reason for going into debt, but even in this situation it's 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're 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're in school. Education is usually a great investment, and one worth borrowing to finance, but be sure you're making the best use of your money.

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CONSULT YOUR CPA

There are risks and rewards when you borrow money and your local CPA can help you to understand them. Turn to him or her with any questions you may have about important financial decisions.

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