Levels of Personal Debt

A day-to-day financial management scheme is probably going to include some form of debt. Making purchases against future income, when used correctly, is a viable option for making both large and small purchases. The key to using debt to achieve financial goals is keeping the servicing of your debt load (the total amount of debt payments) within comfortable limits. Only you can define your comfortable debt load limits.

Personal debt generally falls into three categories or levels: long-term, short-term, and convenience.

Long-term debt

Long-term debt is typically a 30-year loan that is used to purchase a primary residence. There are other loans that may fit in this category, but a home is the largest purchase most of us will ever make. Even for people who have sufficient resources to pay cash for a house, having a mortgage is considered by many as an advantage for:

- Helping build a good credit rating, and
- Taking advantage of the income tax deduction for mortgage interest.

Short-term debt

Short-term debt typically lasts one to seven years and is used to purchase big ticket items such as:

- Automobiles
- Furniture
- Recreation vehicles and equipment
- Swimming pools

These are the items that get us mobile, make our house a home, and are just plain fun.

Convenience debt

Convenience debt refers to using credit cards without paying interest or fees. When you don't pay a credit card statement's new balance every month, that credit card becomes short- or possibly long-term debt.

Only when you pay each statement's new balance amount in full every month is a credit card considered a convenience.