



Client Focused Financial Planning
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DIFFERENT TYPES OF DEBT

As we move through life it is not uncommon for debt, or loans to help us along our way. However you may have heard the term good debt and bad debt. But what does this mean?

Here are some examples of the different types of debt you may encounter in your journey through life.

Fully covered Debt – This is debt where the amount of the loan is fully covered by the value of the asset that is securing the loan. A good example is a mortgage. In most cases, the family home is worth more than the debt.

Limited Covered Debt – This is where the amount of the loan is worth more than the value of the asset. A good example of this is a car loan. Often the loan is worth more than the car itself once you drive it away.

Uncovered Debt – This is where there are no assets backing a loan. This is typically the situation with a credit card debt or personal loan.

And the next thing is whether or not the debt is ‘good debt’ or ‘bad debt’.

Deductible Debt (‘Good Debt’) – The interests cost incurred in having the loan is tax deductible. An example of this is an investment property loan.

Non-Deductible Debt (‘Bad Debt’) – A loan for which no tax deductions can be claimed. This is often a home mortgage or a credit card debt.

Important information

This information is of a general nature only and is not intended to constitute personal advice. It does not take into account your particular investment objectives, financial situation or needs and, accordingly, you should consider the appropriateness of this information in light of your own circumstances. We recommend that you obtain professional advice before undertaking financial transactions.

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