MODULE 2 RESOURCES

Resource 2.1: Good Debt vs. Bad Debt Decision Tree

IS THIS DEBT A GOOD IDEA? FOLLOW THE FLOWCHART

START HERE: Do I really need this?

- NO → STOP. Don't borrow.
- YES → Continue ↓

Will this increase my income or net worth?

- YES → Continue ↓
- NO → Continue to next question ↓

What's the interest rate?

- Under 8% → Good sign, continue ↓
- 8-15% → Caution zone, continue ↓
- Over 15% → RED FLAG, strong case needed ↓

What's the term length?

- Under 5 years → Reasonable, continue ↓
- 5-10 years → Long commitment, continue ↓
- Over 10 years → Very long commitment, continue ↓

Can I afford the monthly payment comfortably?
(Without sacrificing necessities or emergency savings)

- YES → Continue ↓
- NO → STOP. Too risky.

What happens to this asset over time?

- Increases in value or earns income → GOOD DEBT ✓
- Stays roughly the same value → NEUTRAL
- Decreases in value → BAD DEBT ✕

Is this secured debt (could I lose something important)?

- NO (unsecured) → Lower risk
- YES (home, car) → Can I handle losing it? Proceed carefully

FINAL CHECKLIST – All should be YES:

- □ I have a plan to repay this debt
- □ I've shopped for the best rate
- □ I understand all terms and fees
- □ I've waited 48 hours and still want to proceed
- □ My emergency fund is in place (or this IS the emergency)
- □ I've considered alternatives to borrowing

VERDICT:

- If most factors point to GOOD → Consider borrowing
- If mixed signals → Proceed with caution
- If multiple RED FLAGS → Find another way

Resource 2.2: Debt Decision Worksheet

COMPREHENSIVE DEBT DECISION ANALYSIS

What I'm Considering Borrowing For:

FINANCIAL ANALYSIS

Loan Details:

- Amount needed: $_____
- Interest rate (APR): _____%
- Term length: _____ years (_____ months)
- Monthly payment: $_____

- Total interest over life of loan: $_____
- Total amount to repay: $_____
- Fees (origination, etc.): $_____

My Current Financial Situation:

- Monthly gross income: $_____
- Monthly take-home income: $_____
- Current total monthly debt payments: $_____
- Current debt-to-income ratio: _____%
- New DTI with this debt: _____%
- Emergency fund balance: $_____
- Credit score: _____

Affordability Check:

- New monthly payment: $_____
- As % of gross income: _____% (should be under 10% for this debt)
- Total debt payments with this loan: $_____
- As % of gross income: _____% (should be under 36% total)
- Can I afford this without sacrificing necessities? YES / NO

RETURN ON INVESTMENT ANALYSIS

For Education/Career Development:

- Cost of education/training: $_____
- Expected salary increase: $_____ per year
- Time to break even: _____ years
- Lifetime earnings increase: $_____
- Is the ROI positive? YES / NO

For Asset Purchase:

- Purchase price: $_____
- Expected value in 5 years: $_____
- Depreciation: $_____ (_____%)
- Will I owe more than it's worth? YES / NO

For Business:

- Investment amount: $_____
- Expected additional income: $_____ per month
- Time to profit: _____ months
- Risk level: LOW / MEDIUM / HIGH

ALTERNATIVE ANALYSIS

Could I instead:

- Save up and pay cash in _____ months? YES / NO
- Buy a less expensive version? YES / NO
- Rent/borrow/share instead? YES / NO
- Increase income to afford? YES / NO
- Delay this purchase? YES / NO

If I don't borrow, what happens?

RISK ASSESSMENT

What could go wrong?

- Job loss/income reduction: Likelihood _____/10
- Unexpected expenses: Likelihood _____/10
- Interest rate increases (if variable): Likelihood _____/10
- Can't make payments: Likelihood _____/10

Worst case scenario:

How would I handle it?

THE GUT CHECK

On a scale of 1-10:

- How necessary is this? _____
- How confident am I in repaying? _____
- How stressed does this make me feel? _____
- How much do I want vs. need this? _____

Sleep on it:

- Date I first considered this: _____
- Date of this worksheet: _____
- Days considered: _____
- Have I slept on this decision? YES / NO

Advice from trusted person:

- Person consulted: _____
- Their opinion: _____

FINAL DECISION

Good Debt Indicators (How many?):

- □ Increases income potential
- □ Builds net worth
- □ Interest rate under 8%
- □ Can comfortably afford payments
- □ Asset appreciates or earns income
- □ Essential need, not want
- □ Strong ROI case
- □ Emergency fund intact

Total Good Indicators: _____/8

Bad Debt Indicators (How many?):

- ☐ For consumption/lifestyle
- ☐ Interest rate over 15%
- ☐ Stretching budget to afford
- ☐ Asset depreciates
- ☐ Want, not need
- ☐ Emotional/impulse decision
- ☐ Would drain emergency fund
- ☐ Already have concerning debt level

Total Bad Indicators: _____/8

MY DECISION:
☐ PROCEED with borrowing
☐ DELAY and reconsider
☐ FIND ALTERNATIVE
☐ DON'T BORROW

Reasoning: