



## What Others Are Saying

“Jon Hanson makes the important subject of responsible debt management a little lighter with generous doses of his warm, funny, down to earth style. I found *Good Debt, Bad Debt* to be the perfect choice to complement my college course in Personal Finance.” —Professor Howard Davidoff, Brooklyn College

“Excellent, practical, tested, wise advice on the burden or benefit of financial security.” —Dr. Stephen R. Covey, author of *The 7 Habits of Highly Effective People* and *The 8th Habit: From Effectiveness to Greatness*

“Jon Hanson’s clear distinction between good and bad debt is a must-know for anyone with a wallet. I even recommend it highly to today’s card-carrying, debt-building youth—the earlier they learn this information the longer they can avoid bad debt.” —Brendon Burchard, CEO of The College Success Bootcamp and author of *The Student Leadership Guide*

“This frank, funny book shows you how to get out of debt and achieve financial independence quickly and predictably. It could save your financial life!” —Brian Tracy, author of *Getting Rich Your Own Way*

“They say: ‘many receive good advice, yet few profit from it.’ Let this be your invitation to take advantage of Jon’s simple truths and wisdom that will help separate you from the many who simply dream, to the few that actually apply and prosper. I recommend it highly.” —Gregory Scott Reid, author of *The Millionaire Mentor*

“Who knew personal finance could have a heart? *Good Debt, Bad Debt* is funny, warm, and right on. Jon Hanson is a newcomer to the field, but he’ll be a household name soon.”  
—Barbara Corcoran, chairman of the Corcoran Group and author of *If You Don’t Have Big Breasts, Put Ribbons on Your Pigtails*

“In your book, you mention that for the first three years, a saver shouldn’t worry about the rate, he should just save. Thank you so much for writing this. Simple phrases can mean a lot to those of us who are just starting out on our savings path. Your book has really given me a new sense of confidence in our spending and savings habits.” —Ginger Deel from Aiea, Hawaii

## PORTFOLIO GOOD DEBT, BAD DEBT

Jon Hanson, a self-made “financial sanity planner,” spent over twenty years in real estate and is now a full-time writer and public speaker. He informs and entertains audiences on personal finance topics, including how to avoid income-versus-wealth confusion, and the distortion of reality caused by debt. He lives near Columbus, Ohio.



Jon Hanson

# GOOD DEBT, BAD DEBT

*Knowing the Difference  
Can Save  
Your Financial  
Life*



Portfolio

PORTFOLIO

Published by the Penguin Group  
Penguin Group (USA) Inc., 375 Hudson Street, New York, New York 10014, U.S.A.  
Penguin Group (Canada), 90 Eglinton Avenue East, Suite 700, Toronto, Ontario, Canada  
M4P 2Y3 (a division of Pearson Penguin Canada Inc.)  
Penguin Books Ltd, 80 Strand, London WC2R 0RL, England  
Penguin Ireland, 25 St Stephen's Green, Dublin 2, Ireland (a division of Penguin Books Ltd)  
Penguin Group (Australia), 250 Camberwell Road, Camberwell, Victoria 3124, Australia  
(a division of Pearson Australia Group Pty Ltd)  
Penguin Books India Pvt Ltd, 11 Community Centre, Panchsheel Park,  
New Delhi – 110 017, India  
Penguin Group (NZ), cnr Airborne and Rosedale Roads, Albany, Auckland 1310,  
New Zealand (a division of Pearson New Zealand Ltd)  
Penguin Books (South Africa) (Pty) Ltd, 24 Sturdee Avenue,  
Rosebank, Johannesburg 2196, South Africa

Penguin Books Ltd, Registered Offices:  
80 Strand, London WC2R 0RL, England

First published in the United States of America by Portfolio,  
a member of Penguin Group (USA) Inc. 2005  
This edition published by Portfolio 2007

1 3 5 7 9 10 8 6 4 2

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“The Six Simple Principles of Viral Marketing” from *Demystifying Viral Marketing* by  
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PUBLISHER'S NOTE

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THE LIBRARY OF CONGRESS HAS CATALOGED THE HARDCOVER EDITION AS FOLLOWS:

Hanson, Jon.

Good debt, bad debt : knowing the difference can save your financial life / Jon Hanson.  
p. cm.

Includes bibliographical references and index.

ISBN 1-59184-073-2 (hc.)

ISBN 978-1-59184-146-3 (pbk.)

1. Finance, Personal. 2. Consumer credit. 3. Debt. I. Title.

HG179.H265 2005

332.024'02—dc22 2004053400

Printed in the United States of America

Set in Adobe Garamond. Designed by Francesca Belanger

Illustrations by Patty Kadel

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To Nita, Aubrey (A. C.), and Paige—my wife, son, and daughter. Lord Bacon wrote, “He that hath a wife and children hath given hostages to fortune; for they are impediments to great enterprises, either of virtue or mischief.” I say Lord Bacon was wrong; I have found a quite opposite truth. My family is the reason behind all I do. It is the reason for this book. It is true that many use their responsibilities as an excuse rather than motivation. A loving family causes a dynamic motivation that far exceeds the static “cost” of family. A loving family should be a mandate to strive for greatness. My family is.



Maybe we should build a dam?

## Preface

### **There is a lot of smoke blown in the mirrored hallway known as personal finance . . .**

Perhaps every writer who writes or speaks for public consumption has at times wished that the masses would drop everything and just listen to him or her for a few minutes. That is how I feel as I turn in the revisions and a new chapter for this edition of *Good Debt, Bad Debt*.

In fact if you *will* stop and listen for a few minutes, I'd like to offer you a free audio download or CD of Howard Davidoff, JD, LL.M., CPA—Professor Davidoff teaches economics and personal finance at CUNY, Brooklyn College—and me, discussing the basics of this book. This is your chance to listen in on our conversation—you decide if debt, spending, savings, investment, your future, and stewardship are important enough to invest more time. You don't win or lose, you choose. Get your audio at [gooddebt.com/](http://gooddebt.com/).

One writer says debt is not the problem, and the next predicts that debt will ruin civilization. Others insist on zero debt, another says manage your debt. No matter the marketing moniker (including mine), in the end common sense insists on spending less than you make and saving/investing the difference for the future. So really spending is the problem, exacerbated by debt, complicated by more spending. Financial dieters confuse income with wealth. Not only do we have yo-yo dieters, we have yo-yo budgeters who stop and start in fits—usually gaining more debt with each new program.

With ready statistics a writer can support just about any view

## x Preface

he or she wishes to propagate. In fact, as one wit quipped on a news show, “If you torture the statistics long enough, they’ll confess to just about anything!”

**Is Debt a Character Problem?**

Brian Tracy says, “The importance of a thing can be determined by the consequences of not doing it.” Ultimately, the consequences of bad debt are easily seen. When normal spending plus debt payments (your burn rate) exceed 85 to 90 percent of your income, you are choosing to depend on government or others for your retirement.

Start early enough, and a comfortable retirement is not a problem. From age 20 to 45 beginning with less than a couple of hundred dollars a month will do it. Wait until you are 65 and it will take ten times that amount. Debt keeps you working. Perhaps you will be one of the octogenarians saying, “Do you want fries with that?” If debt is keeping you from where you ought to be, follow the prescriptive advice in this book. Learn what I learned and lived a few years ago: debt takes more than just your money.

If we agree that *not* doing important life altering things denotes poor character, then I would be correct in saying injudicious use of debt is a character problem. If you know a thing is ruinous to your health, either financial or physical, and you continue to engage in that behavior, that, to me, is poor character. A majority of Americans are not counting the cost of their debt. Financially sedentary Americans are at the greatest risk for Debtabetes, the inability to break down and eliminate their bills because of too much debt. If you are financially sedentary and put on a few pounds of debt each year, your end is predictable. Grasp the opportunity to change now. Remember, the past is the past, unless you still owe for it.

—Jon Hanson 2007

## Acknowledgments

Foremost in my memory are my real father and mother, who both died young after a hard life, but always encouraged me to press onward. Of course, I thank my wife, Nita, and her parents for taking me into their family and loving me, even though I am not always lovable. It would be impossible to acknowledge all the other people who have influenced my life, but here are a few:

- My posthumous mentor Dr. Orison Swett Marden. Dr. Marden died in 1924, having written at least seventy books beginning at age forty-six in 1894. I have benefited from his legacy.
- My four adopted fathers: Aubrey C. (Buck) Bennett, Robert L. Teague Jr., Jack Miller, and Jimmy Napier. Taking the best from all of them has been invaluable.
- A special thanks to Patty Kadel (Oregon), my illustrator, for bringing my sarcastic rants to life in cartoons.
- Indispensable friends for more than twenty years, advisers, encouragers, and early readers: Dave Bennett, Dan and Tracy Haubeil, Thomas G. Ruprecht, James B. Wootton, Roger L. Conner, Jr., and the late Barney Zick.
- Tom Hopkins, who in 1981 pulled me on stage “to do the thing I feared most! Speak!” Tom taught me to always fail forward. Those five minutes changed my life.
- Jim Rohn, Dr. Denis Waitley, and Brian Tracy, though I know them only through books and audio recordings. All have provided valuable counsel and inspiration.

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- Seth Godin, whom I only know by reading his books. He taught me to think outside the box. In fact, he taught me to ask if we even need a box.
- Mark Victor Hansen, my book-marketing mentor. My son Aubrey (A. C.) and I appreciate all he has done for us.
- The entire team at Portfolio: Adrian Zackheim, Megan Casey, Will Weisser, Adrienne Schultz, Branda Maholtz, Stephanie Land, Allison Sweet, Jennifer Paré, and others I may not have met. I am thankful they took a chance on a new writer.

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Hey, kid! Wanna try a credit card?

## Introduction: Are You Using Debt, or Is Debt Using You?

Is debt a tool you carefully use? Do most of the benefits of *your* debt accrue to your creditors?

- Debt for consumption is *bad* debt, since what you have borrowed for is gone.
- Debt that enables you to safely set up a cash flow or return in excess of its *cost* is good debt.
- Your burn rate controls your fate—spending determines your ending.
- The *worst* debt is any *debt or spending* that consumes the last 10 to 15 percent of your monthly income—this keeps you from saving and investing for your future.

You will never obtain financial freedom while addicted to debt and consumer spending. Wealth comes from *accumulation*, which is the exact opposite of *consumption*.

### Is There Really Any Good Debt?

When I say “good debt” I mean wise or judicious *use* of debt. Many people believe good debt is based on what you use the debt for. This is partially true. *Good debt is an outcome, not a type of debt.* Good or bad debt does not fall so easily into simple categories. That is why I describe it as an outcome.

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It requires discernment for your particular situation. Three factors to consider would be your job stability, earning ability, and existing burn rate. The classic “good debt” uses—real estate, education, or business—are generally better than any of the consumer categories, though many people go broke borrowing in these so-called good debt categories. Too much of a good thing can be a bad thing. Available credit

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can be like a powerful handgun. In the hands of someone trained and competent, it provides protection; a home intruder would have little chance. In the hands of the untrained the gun may lead to the user’s own death. Part of the goal, as I said two years ago in the Debt Effects chapter, is *management not cure*. The process is to wisely use debt to position yourself in planning for retirement and continual education as you move through life.

### What Good Debt Is

The wise *use* of good debt increases your net worth. Good debt helps you make money; the use of good debt adds to current earnings, net worth, or foreseeable earning ability. On the other hand, bad debt decreases your net worth. Bad debt consumes your money without a countervailing return. Payments on bad debt reduce cash flow. Compare:

#### GOOD DEBT

- Earns its keep
- Increases your net worth or cash flow
- Secures a discount that can be

#### BAD DEBT

- Is typically for consumption or rapidly depreciating goods
- Decreases your net worth or cash flow

- converted to cash or net worth.
- Creates a leveraged position with a strong margin of safety
- Examples: debt for real estate at a *safely* leveraged level, debt for education that can be *sold* in the marketplace, debt for a business you are *competent* to operate.
- Absorbs future earnings
- Examples: car loans that rob your retirement fund; continuous credit card debt

### What Good Debt *Isn't*, Beware the Consolidators

Stacking bad debt on a good asset does not make it a good debt (i.e., refinancing your home to pay off credit cards). Refinancing of personal residences has become a popular sport in America. It can be good, if done for the right reasons and if you stick to the plan with discipline and forethought. The problem is that many people refinance to pull out cash, pay off credit card debt, or lower their payments, only to increase their debt with their newfound cash flow. For many, it only means freeing up their credit cards to be maxed out once again. Then they have all of their old credit card debt on their home and a new stack of debt beside it to contend with. It has been said, "Bill consolidation is where you take all your hard-to-make monthly payments and roll them into one impossible-to-make monthly payment." Perhaps by the second or third consolidation this rings very true. Some believe that all debt on real estate is good debt. That is insane. Many lenders are willing to go 110 to 125 percent of value on real estate, so without discipline, disaster lies ahead (for both the lender and the borrower). Unless you have a real change of heart and discipline, *do not* stack credit card and consumer debt on your home equity.

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If you are considering consolidation of bad debt that will encumber home equity, please read the new chapter, “Debt Warfare,” in this revised edition first. The new chapter contains information about my new software, “Mr. Gooddebt,” that will help you track and eliminate your bills, instead of your bills tracking and eliminating you (or your future). Mr. Gooddebt will help you quickly calculate different what-if scenarios and decide which bills to accelerate first to quickly become debt free, stress free, and set free. Or at least paid down to where you are comfortable.

*My favorite definition of character is the ability to follow through on a worthwhile objective—even after the emotion that was present when the objective was proposed is gone.*

### Debt Indicates Character

Character is the combination of qualities or features that distinguish you from others. If you are burdened like a pack mule with bad debt, it does not mean you are a bad person, it just means you have not developed the character traits of good personal finance habits. Concentrate on the first four chapters if you lack strong financial character. My favorite definition of character is the ability to follow through on a worthwhile objective—even *after* the emotion that was present when the objective was proposed is gone.

I hope you are beginning to question the popular notion (fomented by advertisers and popular culture) that everyone *must* pursue his or her own inclinations, regardless of the damage to self or society. We are seeing the result of promiscuous spending, easy credit, and, in the end,

skinny or nonexistent retirement plans. Too often, debt becomes a weapon that we unwittingly turn against ourselves.

- Average Americans spend between 15 to 18 percent of their income monthly on consumer debt.
- Average millionaires or those on the way to becoming so, save or invest 15 to 20 percent of their incomes.

In *The Millionaire Next Door*, Thomas Stanley and William Danko discovered that average self-made millionaires save or invest 15 to 20 percent of their disposable income. In *The Overspent American*, Juliet Schor found that average Americans spend 18 percent of their disposable income on consumer debt payments while saving little or nothing. In this sad juxtaposition lies a key premise of *Good Debt, Bad Debt*: “The past is the past—unless of course you still owe for it.” Many can’t start up the hill of financial freedom because they are carrying a backpack full of debt.

In a radio broadcast Alistair Begg said, “Our society thrives on materialism, cashing in on the sin of covetousness. Its modus operandi is to create within our hearts a longing for the things we do not have. Not only a longing, but also an attitude of need and entitlement. We need it. We deserve it. Especially if someone else has it.”

## Debt Philosophy

Mr. Jim Rohn asks a great question of his audiences: “If we took your philosophy of life, and got it all down on paper, would you be excited about traveling all over the world giving talks on it?” If not, he suggests, you start there—reworking your philosophy.

I labored over Mr. Rohn’s challenge for months. In fact, it

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was the driving force behind completing this book. I ultimately wanted a book I could hand to my children and say, “Here are my core financial beliefs—they are as fundamental and as sure as gravity.” Many financial books present supplemental, not fundamental, principles. Financial failure begins in the thinking process before the actual spending. George Orwell said, “People can’t write clearly because they can’t think clearly.” I try to avoid tortured logic and incomprehensible phrases that are the result of a confused mind. I’d expand this to finances too.

### **Back to the Books**

Almost everything good that has happened to me came from lessons I read in a book or listened to on audio programs. Certain books can confirm your path or inspire change. Books were my way out of a life of poverty. Books helped replace, repair, and improve the areas of my life where parents or teachers were not available to me. Writing is my way to help others escape or improve their lot in life. And so it is natural that I want to leave, as my legacy, a book for those I love. Many ideas I share in *Good Debt, Bad Debt* flow from my journals dating back almost thirty years. Those willing to look closely will find that financial success or failure lies in the ordinary affairs of daily life.

- Confused thinking causes confused spending
- The Employee Benefit Research Institute and the American Savings Education Council report that 66 percent of Americans are unable to save enough for retirement because of current financial responsibilities (debt)

### Give Me the Best

The last six chapters of this book are more about doing rather than just philosophy building. *Money Magazine* writes that recent studies by economists from New York University have found that a willingness to plan is closely linked to wealth accumulation. Before you dismiss this statement as self-evident pabulum, ask a few acquaintances how to become wealthy. Many will answer, “a large income and an inheritance.” A large income is not necessarily a guarantee of wealth. Nor is an inheritance a guarantee of wealth. It can soon be frittered away. On the other hand, income of almost any size when strained through well-trained habits can create wealth.

### Both Plans Are Scalable

The planning and saving habits of the Econowise scale to make them wealthy as their income increases over the years. The nonplanning and debt abuse habits of the Consumerati likewise scale to make them poorer and deeper in debt as their income increases. In other words, with a Consumerati lifestyle, if you are unhappy with your life while earning \$40,000 a year, you will despise it at \$110,000 a year. In other words money will just make you more of what you already are. If you embrace sound financial habits early in life, those habits will grow in scale with you. If you have poor financial habits adding \$10,000 a year won't make much of a difference.

*If you have poor financial habits adding \$10,000 a year won't make much of a difference.*

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Life is truly asynchronous. What you do today may not have an immediate effect but may have a very large effect later in life.

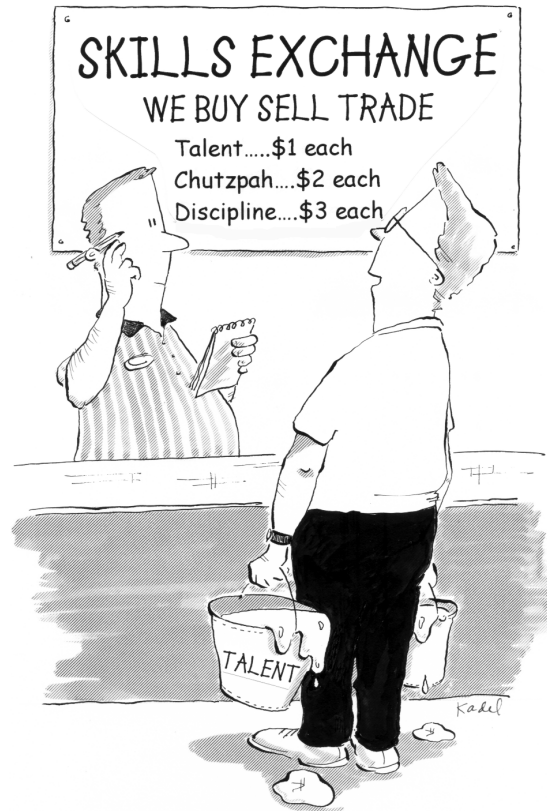
- The whole personal finance field is pretty simple, a near mathematical certainty—until you add in one thing: human emotion.

Most men and women do not make their daily decisions based on a calm weighing of risks and benefits. Most are emotional beings who respond to vague if not nonsensical messages such as “You deserve the best.” Hold on! Isn’t “the best” a plan that will provide you and your family with a lifestyle you’ve not only dreamed about, but planned for and earned? Don’t seek someone else’s best—seek a plan you have designed for your life, a plan that is best for you.

### **My Objectives for *Good Debt, Bad Debt***

Here are my goals for *Good Debt, Bad Debt* as set out in my journal:

1. **Brevity**—To make literary bouillon cubes with a financial flavor.
2. **Wit**—Humor with its thinking cap on. Laugh or smile while learning.
3. **Visual humor**—Cartoons with a lesson of financial frugality.
4. **Incontrovertible arguments**—Arguments with results that are verifiable (knowable) in advance.
5. **Fun**—A book that’s fun to write, read, and share; one that creates useful new words and terms.



I'd better trade for discipline—  
I haven't done too well with just talent.

### Where Have You Been?

It seems that many people can't go where they want to go because of where they have been. Truly, what constantly pulls your past into today? Debt. If I tell a church audience, "It's hard to give your heart to Jesus when your butt belongs to MasterCard,"

*It's hard to give  
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MasterCard.*

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they understand the message. Not only is it scriptural, it is common sense. When I refer to spendthrifts and those striving to keep up with their imagined reference group as the Consumerati, and people who follow a plan and seek wisdom as the Econowise, it's easy to follow. It makes sense.

**Ready?**

Here are the things you need to do for financial success:

1. Understand the debt effects—debt takes more than *just* your money.
2. Manage emotions—deflect media influence.
3. Work from a plan—monitor burn rate.
4. Delay gratification—track and tabulate expenses.
5. Save/invest for your future—what if you live?

That's simple enough, right? Grasp the first four chapters and you will have a better understanding of debt and money than 90 percent of Americans (see [gooddebt.com](http://gooddebt.com) for audio and bonuses for this book). Actually put these fundamentals to work in your life as a financial liturgy, and you will finish financially ahead of 97 percent of Americans. How are you doing? How are you *really* doing?