

## Ep115 With the Markets Down, Should I Pay Off My Debts

**Patti Brennan:** Hi, everybody. I'm Patti Brennan. Whether you have \$20 or 20 million, this show is for those of you who want to protect, grow, and use your assets to live your very best lives. Today, we're going to be talking about debt.

This is part of an ongoing series called "Ask Patti Brennan," and it reflects the questions that we are getting either on our website or phone calls from people just like you who are asking the question, usually something like, "Gee, the market is way down. I've lost 20 percent, 25 percent. Should I just pay off my loan? Should I pay off my mortgage? What's the better alternative?"

Let's talk about that today because sometimes there's a very clear answer, and sometimes it's a little hazy. First, let's define the type of debt that you might be asking about. There's good debt, and there's bad debt.

Easy to understand, good debt might be a mortgage, especially if it's a fixed rate. Bad debt, a credit card, or maybe the variable loan rates that increase as the Federal Reserve increases interest rates. First and foremost, let's take a look at the type of debt. By the way, that could also include student loans or 401(k) loans.

Really important questions that need to be asked and then answered, and it's personal for each one of you tuning in today. As you think that through, the first question is, what is the source of the funds to pay off that debt? If you are going into your emergency fund, where does that leave you?

If you're going into your emergency fund, do you have a lot of equity in your home, such that a home equity line of credit could serve as an alternative emergency fund? That might be a reasonable decision to make to take some of that money and pay off some of that debt. If you're going into investments, what are the tax consequences of doing so?

It's important to understand what is the source of the funds that you're using to pay off the debt. Again, I can't emphasize it enough. If you've got a mortgage, that's at three and a half percent or below, I would be hard-pressed to recommend getting rid of that at this point in time. I'm not so sure we're ever going to see a three percent mortgage rate in our future.

That's an example of a great debt. It doesn't feel that way right now. Totally understand it, but this period of time is temporary, and you don't want to make a permanent decision based on temporary circumstances. Very important to understand the implication in the short term as well as the long term and your overall financial plan.

What are your plans? Are you still working? Do you feel secure in your job? Don't want to drain that emergency fund if a layoff could be in the future. If you're already retired and you just want to get rid of the darn thing, then by all means. If that would bring you more peace of mind, that's important, too. We must weigh all of these factors. It is going to be different for everyone.

The most important thing is, as you pay off that loan or that mortgage or whatever debt it might be, that's going to free up some cash flow. You're not going to have to make those

monthly payments. What are you going to do with that extra cash flow? Are you going to be able to build that emergency fund backup, or replace that investment portfolio that you used to pay off the loan?

The more important question is, not only can you, will you? That's an important part of this. Be honest with yourself because it's hard to create a disciplined approach. Easy, once it's started, but it's hard to make that decision.

If you're looking at doing something like that and are saying that every once in a while, you're going to add money to those accounts, chances are you're probably not going to replenish it as quickly as you might like. I hope that has been helpful. This is a great question that's been asked over the last few months.

If you have any other questions, please go to our website at [keyfinancialinc.com](http://keyfinancialinc.com), or give us a call at Key Financial. Our number is 610-429-9050. We are here to help you, and these podcasts are just one way of doing so. Thanks so much for joining me. I'm Patti Brennan, Key Financial Wealth Management with Wisdom and Care.