Good, bad and OK debts

There's good, bad and OK types of debt. Yes, debt can be good.

Bad debt is usually any type of debt that you won't receive a tax deduction for and it isn't being used to purchase an asset that goes up in value. Bad debt includes credit card debts or a car loan with high interest repayments.

OK debt is debt we don't necessarily want to have long term, but it's either for assets that will go up in value or depreciating assets we can claim a deduction for. A mortgage would fall into the OK debt category as long as you're confident this asset will go up in value. HELP debts generally only increase with CPI, so while CPI is low, your HELP debt is OK too.

Investment loans almost always fall into the category of good debt. A lot of people pay this loan down first because they view it as putting money towards their retirement. But it's important to remember that the interest on this loan is a tax deduction which means it's cheaper debt than an owner-occupier home loan.

Exercise:

Look at the debt you currently have and split each debt type into good, bad and OK debts.

Good debt	OK debt	Bad debt
Investment loans	Car loan (if you're using it for work or have kept a log book)	Any debt that you won't receive a tax deduction for and isn't being used to purchase an asset that goes up in value
	HELP debts	Credit card debt

Exercise:

Order them into which debt should be paid down first, which debts should be interest only, which debts should be converted either to a lower interest debt and the dates you'd like this to happen.

Type of Debt	Interest only or Principal and Interest	Good bad or OK	Order debt paid down	Change debt	Date debt paid off