

## Today's economy

### Is there really such a thing as good debt?

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Monday's post on whether or not Canadians are [carrying too much debt](#) provoked a comment from a friend of mine, Joe Nunes. "There are way too many Canadians with way too much debt," wrote Nunes, an actuary with Actuarial Solutions Inc. in Windsor, Ontario. "I think that it is a fallacy to assume that if it is mortgage debt that it is okay. Historically, my parents' generation could take on 'too much mortgage debt' and get away with it because the housing market had a great bull run from the 1960s to today — but with the baby boom set to retire and downsize, I don't think anyone should be betting on that to continue. So when the music stops we are going to find out who can't find a chair."

This was in reference to a point I made in passing: that a mortgage is an example of good debt. That's not a provocative statement (though I won't say I was disappointed to see Nunes' challenging reply), but it is one worth re-examining given the state of today's economy. Do standard definitions of good and bad debt still apply at a time when debt levels across the country are high by historical standards and interest rates are likely to rise a year or so from now?

First, a simplified explanation of the difference between good and bad debt. If you borrow money to purchase an asset that goes up in value over time — like a home — that's good debt. Similarly, if you borrow money to buy something that provides you a decent return on your investment — like a post-secondary education — that's also considered good debt.

Bad debt is just as easy to understand. Buy something that you consume or that drops in value, and you're probably taking on bad debt. That new pair of sneakers you've been eyeing but don't really need? Buy them on credit and you will have illustrated this point perfectly.

Of course there is a sizeable grey zone between these two standards. Most people borrow money to buy their cars. If it's reasonably priced, and you need it to get to work every day, then that's arguably a good investment. The fact that your new car begins to depreciate as soon as you drive it off the lot isn't the point. Similarly, your student loan can only be considered good debt if the degree it bought you actually leads to a successful career (assuming of course that your primary goal is financial).

Nunes' argument is that too much debt is a problem, no matter how you classify it. "Debt can go to more productive uses or less productive uses," he told me in a follow-up interview yesterday. "I'm not here to judge someone who wants to take a vacation and thinks that that's a good use of their money. What I'm trying to say is that whether it's good debt or bad debt, people need to be cautious not to have too much in total, because that puts them at risk of economic difficulties if they hit any bumps in the road."

Not all mortgages are good for you. "It's not so much whether you should buy, but how big should you buy," Nunes said. "How big a house should you have? Should you really be in a 3,300-square-foot home? Or should you be in something more modest? I think that's the big thing that this current generation just isn't looking at. I'm trying to replicate the house that my parents raised me in, not get something twice as big."

Here's what I think: Access to credit is good for the economy, and when managed properly it is good for consumers, too. The trick is to remember that our access to all this additional money is determined by lenders who are in the business of earning a profit from borrowers. There's nothing wrong with that. But don't let them have the final say on how much debt is good for you.

Nunes writes an excellent blog of his own, incidentally, on the [Actuarial Solutions website](#).



Joe Nunes