

## Borrowing Against Future Still Risky

**W**HENEVER the past catches up with the present, the fiscal plan of politicians seems to be to retreat into the future. They simply raise the debt limit, borrow more money and spend for re-election.

This scheme is being advocated for individuals now, and it could prove to be as disastrous for them as it ultimately will be for government. There must be a payday some day!

A "debt trap" being widely promoted these days is to borrow money on home equity by a second mortgage.

Inflation has affected the value of houses, old and new. People who have paid for a number of years on their original loans sometimes are surprised to find how small their unpaid balances are when compared to present market values of their homes.

Some loan companies are offering to lend generously on second mortgages for any worthwhile purpose, or perhaps for unstated purposes. The interest rate, of course, will be clearly spelled out.

It is a good thing to own home

equity, and it might be wise to borrow against it to pay for education, or other necessities and investments. However, the risk involved ought always to be noted.

As long as inflation continues, there may be no problem. Equity will continue to increase as long as housing costs rise. Monthly payments on both the first and second mortgages might be handled readily as incomes are boosted by inflation, too.

But when the inevitable downturn comes, equity is the first to go. Unpaid balances, interest costs and monthly payments remain.

A recent reported financial study stated that Americans' willingness to borrow against the future has fueled much of the current expansion of the economy.

Spending has been rising faster than after-tax incomes. New installment borrowing has been going up, but the savings rate has been sagging. Banks and savings and loan companies are competing as much as for savings cash, it seems, as they are for borrowers.

Various schemes to make savings appear more attractive and debts

seem to be less onerous are being promoted.

Borrowers now may skip a payment when household cash is short and add it on at the end, along with a few more dollars for interest. "Balloon notes" provide for relatively small monthly payments and a big balance due at the end of the stipulated period. Borrowers who can't pay may refinance, continuing payments and interest.

Readily available credit has enabled Americans to acquire high living standards. It has been and is a good thing to have. But if individuals, businesses or government extend its use beyond reasonable limits, the ultimate result is bound to be bankruptcy.

The temptation to ride inflation to the crest is strong, as dollars become less valuable and more plentiful.

The hazard is that inflation might not last forever and a savings account would make a sudden financial recession — even loss of employment and income — less painful.

Savings accounts also earn good interest rates right now!