

## The Downside of Debt

By: **The Mess that Greenspan Made** Monday, April 14, 2008 6:02 PM

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There's a good bit of "sobering up" going on around the country these days as Americans are coming to terms with the huge pile of debt they've racked up in recent years.

It's hard to argue with the conventional "wisdom" of earlier in the decade.

If the value of your home went up \$50,000 or \$100,000 during the course of a year and you went into debt by another ten or twenty grand, what's the big deal?

What's wrong with having a little fun because you'd still come out way ahead?

Things went on like that for years and people came to believe that that's just the way the world worked in the 21st century. Ain't it grand? Unfortunately, the world doesn't *really* work that way - it's much, much different when asset prices are falling instead of rising.

These days you don't hear anyone saying, "The value of my home just dropped \$60,000 last year and the bank froze my home equity credit line. I better pay down some of this outstanding debt".

The downside of debt seems to be a lot like the downside of drinking.

Or is it?

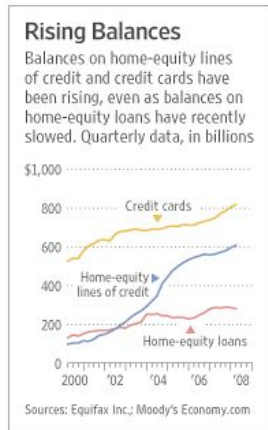
According to this WSJ [story](#) from last week, apparently there's still a little liquor left in the cabinet - the bar is apparently still serving drinks.

The credit crunch has made it harder for Americans to indulge in their love affair with debt. So what are they doing?

### **Borrowing more.**

While tighter lending standards have cut off all but the most credit-worthy borrowers from auto loans and home loans, **many people are turning to credit cards and tapping more of their home-equity lines of credit to dig themselves in deeper.**

...



The rise in borrowing shows just how addicted the U.S. consumer has become to credit. Even as borrowers are cut off in one area, they promptly look for new sources. **Workers have increasingly been raiding their 401(k) plans** to take out loans over the past year, according to plan administrators and nonprofit groups.

Now, mortgage brokers say some clients are calling them in a panic, worried that their bank will freeze their home-equity

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lines. Deborah McNaughton, president of Legacy Financial Services Inc., a mortgage lender in Placentia, Calif., says several of her clients have recently **borrowed more from their home-equity lines of credit and stashed the money in bank savings accounts.**

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