

10 Ideas for Living a Life Without Credit or Debt

My dad and I were talking about his recent financial turnaround, and one of the things he said was that he loves being free of debt.



My dad doesn't have the best of credit, and he isn't wealthy. He has a decent income, an old car that seems to run fine and doesn't belong to a bank, no personal loans or mortgage (he rents), no credit card debt.

Being free of the burden of debt is liberating, he says. Of course, with his credit history, he can't get a car loan on his own, or a mortgage, so life isn't perfect. But I advised him: forget about borrowing money. Stay debt-free and frugal, and you can bank your income and live a credit-free life.

That's not the life for many people, of course, because as with anything, there are trade-offs. Sure, you can live without the burden of debt, but it's harder to travel without a credit card. It's also hard for many people to rent for most of their lives, instead of getting a mortgage. And in some areas it's hard to even rent without a good credit history (it's not an issue where I live).

However, for my dad, who lives a pretty simple life these days, it could work.

Here are some ideas for living a credit-free life, if that appeals to you (if it doesn't, skip this article and don't start a debate in the comments!).

1. **Save an emergency fund.** Many people use their credit cards as a sort of emergency fund — if there's an unexpected expense, the card comes out to the rescue. Instead, use the money you aren't paying towards debt to build up a healthy emergency fund, keeping you out of debt when something unexpected comes up. Living without credit can be risky, but having a strong emergency fund (aim for \$1,000 initially, then build it up to 3-6 months or more of expenses).
2. **Save for goals.** Once you've got the emergency fund adequately covered, you can start saving for other things. Set savings goals for yourself: do you want to travel, or buy a car, or save for college, or renovate your home, or buy a yacht? Decide on your highest-priority goals, and set a dollar figure. Now save towards those goals. Without debt, it should be fairly easy.
3. **Get a debit card.** If you need to use a credit card in certain situations, such as buying something online, often you can use a debit or check card instead, if it has the name of a major credit company such as Visa or Mastercard. I went several years without a credit card, but using a Mastercard debit card, and had no problems at all. It actually worked every place you would need a credit card, but I wasn't buying stuff on credit — it was debited straight from my checking account, meaning I would need to have the money first before purchasing anything.

4. **Earn interest instead of paying it.** The problem with debt or credit is that you waste money paying interest. It eats away at your finances. Instead, make your money work for you by investing it. With the magic of compound interest, your investments will grow over time, meaning that money you would have been paying toward interest is now earning interest instead and multiplying. That's good math.
 5. **Buy a car on cash.** For those who have been buying vehicles with auto loans all their lives, it may seem impossible to buy a car on cash. But it's very possible, and many people do it. My grandparents, for example, always buy their cars with cash (and always have, except for their first car 50 years ago). So instead of making loan payments, and paying double the price of the car or more over the term of the loan, they make savings deposits, and end up with the amount it costs to buy two cars in their bank account over the course of five years. This is something I'm trying to do myself — I'm going to use my current car as long as possible, save the amount that I'm now paying for my loan every month (it's almost paid off now), and then buy my next car in cash. It'll be a used car, but it'll be all mine.
 6. **Invest for retirement.** This is just common sense, no matter what your credit or debt situation, but without debt payments, it makes sense to accelerate your retirement investments (as one of your savings goals). Then you can retire early, thanks to not being in debt.
 7. **Travel without credit.** It's a common belief that you can't rent a hotel room or a car without a credit card. This is false. It's easy to rent a hotel room, for example, with a cash deposit. You just need to call around to find the right hotels. The same goes with car rentals (see [this article for more evidence of this](#)). And if you want to find a cash-only car rental company, see [this listing](#).
 8. **Rent without credit.** While no credit checks are done for apartment or house rentals on Guam, where I live, in many places a credit check is standard practice. However, there are options you can use to rent without a credit card or a credit check, including a larger deposit. See [this article for more options](#).
 9. **Buy a home without credit.** Now, if buying a car on cash seemed impossible, surely buying a home on cash just cannot be done. But it can, and people have done it. I'm even considering doing it myself. First of all, in many cases, [renting a home instead of buying](#) (and investing the savings) is smarter financially. If you can invest the difference and let that grow over time, you can buy a home on cash. And at the same time, you won't pay **triple** the value of the home (as most people do over the course of a home mortgage, due to interest). This item actually deserves a full post on its own, as it requires a longer explanation, but I don't feel qualified to write it. Suffice it to say that it can be done, and has been done.
 10. **Use PayPal online.** I'm not a big fan of online shopping — well, actually I love to shop online, but I think it's bad for your finances, only because it's so easy to do. You end up buying stuff online that you might have resisted in the real world. But if you must buy something online, and don't want to get a credit card (or a debit card), in many cases it can be done with PayPal — meaning that you have to have the money before you make the purchase. I've heard of people who don't like PayPal, but I haven't had a problem so far.
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