



Taking control of your finances!

Statistics¹ show there are over 16 million credit cards in Australia with a national debt of \$32.5 billion. Credit cards have become a common element of our day to day money habits. In addition, increasing your existing card's credit limit is often as simple as 'ticking a box'. As a result, many of us have access to a large amount of credit that is immediately available for any purpose, including those of us with an impulsive nature.

Unfortunately it's often too late to recognise that when we use credit to purchase items for immediate consumption we are actually spending money before we have even earned it.

Good budgeting and controlling our discretionary spending is the key to maintaining control of our finances but sometimes it is too late if there is just not enough money coming in to cover all of our financial commitments.

Example

Debts before consolidation:

Debt	Balance (\$)	Interest rate	Monthly payment (\$)	Term (years)
Mortgage	380,320	5.22%	2,093.08	30
Car loan	17,300	9.5%	363.33	5
Credit card 1	3,000	17.5%	149.05	2
Credit card 2	6,500	19.5%	329.24	2
Store card	1,500	20.0%	76.34	2
Total	408,620		3,011.04	

* Based on \$380,320 average mortgage at 5.22% average interest rate (as at May 2016) - 30 year loan

Consolidating your debts into your existing home loan at an interest rate of 5.22% could achieve a number of objectives:

Reducing your monthly repayments – In this example, in the event that you are unable to meet your monthly repayments, consolidating your debt will allow you to reduce your monthly repayments to \$2248.83 giving you 'breathing space' of \$762.21 per month to help you regain control of your finances. This should only be undertaken for a short period of time as you will pay additional interest of \$20,958.32 as a result of a number of the loans being repaid over a longer term. Sometimes when you refinance it gives you a false sense of security with the additional cashflow available to spend each month. Don't be fooled or you may end up in the same financial position prior to consolidating your debts.

What are the first signs of trouble?

- You recognise it is unlikely you are going to be able to repay your existing debt in the foreseeable future.
- You are juggling multiple credit cards.
- You can only manage to pay your minimum monthly credit card instalments without the possibility of paying out the total debt.
- You need to arrange more credit/store cards to help you manage your existing debt.

Solution

One possible solution may be debt consolidation. This involves taking multiple debts (including credit cards and other personal loans with high interest rates) and consolidating them into one loan with a much lower average interest rate. Generally most people opt for refinancing with a home loan as it usually has the lowest interest rate.

Reducing your interest paid – If you are able to consolidate your debt into your home loan and maintain your current monthly payments of \$3011.04 this will allow you to not only reduce your debt to a manageable level more quickly but maintaining this higher level of payment (without adding further debt in the future) may enable you to pay off your debt in just under 17 years and 2 months and save \$190,526.06 in interest.

Call the office for a chat if you would like to explore if debt consolidation could be right for you. We are here to help.

¹finder.com.au



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