

# Debt consolidation

Generally your home provides the best opportunity to secure the most cost effective debt available in any given market. As your home is used as security against the loan, it provides the lender with additional confidence to lend money to you and at a lower interest rate than a credit card or personal loan.

Credit cards and other store loans are provided without security and therefore lenders charge much higher rates of interest as in the event of default they are unable to immediately gain access to your assets to seek repayment of their loan.

## **In the majority of instances you will be financially better off utilising your home loan given the potential interest savings.**

It is important to remember that rather than continually spending borrowed money, good budgeting, spending within your means and controlling your discretionary spending are the keys to getting ahead financially. A good savings and investment plan combined with a planned debt reduction strategy are important tools in securing your financial independence. **That's a key component of our service offerings to you.**

It is also worth noting that consolidating debts that are overdue, over limit or in arrears may not be approved by mainstream lenders. You will also need to have sufficient equity in your property to add the additional debt to the loan. We will explore your individual circumstances to determine if debt consolidation may be suitable.

## **How it works**

To ensure that you are minimising your interest payable on a soon to expire interest free loan or credit card that is unlikely to be paid off in the foreseeable future you may like to consider debt consolidation as part of your debt reduction strategy. This involves taking multiple debts and consolidating them into one loan with a much lower average interest rate. A home loan usually has the lowest interest rate.

## **Example**

Debts before consolidation:

Debt	Balance (\$)	Interest rate	Monthly payment (\$)	Term (years)
Mortgage	250,000	5.5%	1,419.47	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	278,300		2337.43	

## **Consolidating your debts into your existing home loan at an interest rate of 5.5% could achieve a number of objectives:**

### **Reducing your total monthly payments**

In this example, consolidating all debt will reduce the monthly repayments from \$2337.43pm to \$1580.16pm (a whopping saving of \$757.27 PER MONTH) and helping you to regain control of your finances. This should only be undertaken for a short period of time as you will pay additional interest (over and above your regular home loan) 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 place you have just come from.

### **Reducing the total interest paid across all debt if paid at the same rate**

Ideally you should maintain your previous monthly payment of \$2337.43 and aim to reduce your debt more quickly to take advantage of the lower average interest rate. If you do this you are likely to pay off your total debt (including your mortgage) in under 18 years (instead of 30 years) and save \$115,041 in interest!

