Getting ahead financially through *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, store loans and personal loans are provided without security and therefore lenders charge much higher rates of interest. The reason for this is, in the event of your defaulting on a payment, 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 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.**

Our goal for you...

Is to ensure you are minimising the interest payable on all debt, not just your home loan, and to ensure you have a planned approach to be able to pay off your debt.

Debt consolidation - how it works

As part of your debt reduction strategy, together we may consider consolidating all your debt (personal loans, car loans, credit card balances…) into one loan. This involves taking multiple debts and consolidating them into one loan with a much lower average interest rate. Your 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%*	1,535.22	25
Car loan	17,300	9.5%	332.01	5
Credit card 1	3,000	17.5%	147.00	2
Credit card 2	6,500	19.5%	324.00	2
Store card	1,500	20.0%	75.00	2
Total	278,300		2,413.23	

* 5.5% is a conservative estimate. Many lenders now offer lower interest rates so please give us a call if you haven't refinanced your loan in the past 18 months.

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By consolidating the above debts into an existing home loan at an interest rate of 5.5% this could achieve a number of objectives:

Debt	Balance ($)	Interest rate	Monthly payment ($)	Term (years)
All debt combined	278,300	5.5%	v	25

1. **Reducing your total monthly repayments**
   In this example, consolidating all debt will reduce the monthly repayments from $2,413.23 pm to $1,709.01 pm (a whopping saving of $704.22 PER MONTH!) and allow you to regain control of your finances.
2. **Reducing the total interest paid across all debt if paid off at the same rate**
   Ideally you should maintain your previous monthly payment of $2,413.23 and aim to reduce your debt more quickly to take advantage of a lower average interest rate. If you do this you are likely to pay off your total debt (including your mortgage) in 15 years (instead of 25 years) and save $97,407 in interest.

Sometimes when you refinance it gives you a false sense of security with the additional cash flow available to spend each month.

Don't be fooled and start spending your savings as you may end up in the same financial place you've just come from without any new options to help next time.

Fit Loans

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