# REDUCING REPAYMENTS THROUGH DEBT CONSOLIDATION

Generally your home can provide the opportunity to secure the most cost effective debt available in the form of a home loan. As your home is used as recourse against the loan, it provides the lender with additional security allowing them to lend money to you with greater certainty and at a lower interest rate. Credit cards and other store loans are provided without security and therefore charge much higher rates of interest as they are unable to immediately gain access to your assets to seek repayments in the event of a default.

In the majority of instances you will be financially better off utilising your home loan given the potential interest savings. However, it is not for everyone.

It is important to remember though that good budgeting, spending within your means and controlling your discretionary spending are the keys to getting ahead financially rather than continually spending borrowed money. A good savings and investment plan and debt reduction strategy are important tools in securing your financial independence.

## How it works

To ensure that you are minimising the interest payable on a soon to expire interest free loan or credit card balance 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 | $380,000.00 | 4.2% | $1,858.27 | 30 |
| Car loan | $32,000.00 | 9.5% | $672.06 | 5 |
| Credit Card 1 | $3,000.00 | 13.74% | $143.67 | 2 |
| Credit Card 2 | $6,500.00 | 11.99% | $305.95 | 2 |
| Store card | $1,500.00 | 20.74% | $76.89 | 2 |
| Total | $423,000.00 | | **$3,056.83** | |

**Debts after consolidation:**

| | | | | |
|---|---|---|---|---|
| All debt combined | $423,000.00 | 4.2% | **$2,068.54** | 30 |


**Consolidating your debts into your existing home loan at an interest rate of 4.2% could achieve a number of objectives:**

## Big tips for consolidating

**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 $2,068.54 and allows you to regain control of your finances.

**Reducing your interest paid**
Ideally you should maintain your current monthly payments and aim to reduce your debt quicker to take advantage of a lower average interest rate enabling you to pay off your debt in 15.8 years and save $166,591.93 in interest.

**Other strategies**
If cash flow is important, there are other strategies that you can explore such as consolidating your debt and splitting it into two loans to reduce your minimum repayment.

For example, split the loan into the original home loan of $380,000 and the second consolidated loan of $43,000. Then set the second loan term to 5 years and the minimum monthly repayment would be $795.80 with a monthly cash saving of $402.76 or $4,833.12 a year.

Alternatively if your objective is to pay off the consolidated debt of $43,000 quickly and within the current monthly payment of $3,056.83, this debt will be able to be repaid within 3.2 years.

If you pay 50% of the scheduled monthly repayment each fortnight, or even 25% of the scheduled monthly repayment weekly, a 30 year loan would generally be reduced by 6 years. Be careful though as a lot of lenders treat fortnightly repayments as scheduled monthly repayments – still leaving you with a 30 year loan.

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