



Guide To...

Consolidate your debts to save money

Inefficient debt is an obstacle to improving your financial position, and so it should be eliminated as quickly as possible. One way to do this is to minimise the amount of interest you're required to pay on your loans, so that more of your loan repayments are used to reduce the actual debt. A simple solution is to consolidate all inefficient debt into the loan structure that has the lowest interest rate. As a guide, home loans generally offer the cheapest rate, personal loans for a car or holiday charge a higher rate, and credit cards are the most expensive (assuming the credit card is not repaid within the interest free period each month).

How does the strategy work?

You need to increase the mortgage on your family home (assuming there is sufficient equity to do so) and use the additional borrowed funds to pay-off any debt on personal loans and credit cards. The primary advantage is that the lower interest rate on your home loan will apply to all debts, saving you interest on the other debts. And, assuming that you continue to make the same overall repayments as you did before, you will eliminate your inefficient debt faster. Before you do this it's important to find out whether your existing home loan offers the features and flexibility to repay your inefficient debt sooner, such as a 100% offset account and the ability to make additional repayments. If it doesn't, it's probably better to consolidate your debt into a new home loan structure that offers these features.

The benefits

- A lower interest rate applies to all debts thereby saving you interest.
- By maintaining your previous loan repayments, you will reduce your inefficient debt sooner.
- You will simplify your personal finances because you will reduce the number of loans you have.

Tips and Traps

- Before implementing a consolidation strategy you should consider the potential cost of refinancing your loans (e.g. application fees, stamp duty and early termination fees).
- If you have surplus cash you should consider using it to reduce any personal loans or credit card debt to avoid the need to consolidate your debts. If you are concerned about having access to emergency cash, then you could consolidate your loans and place any surplus cash into the loan (with a redraw facility) or a 100% offset account.
- Consider taking out income protection insurance to help you to continue your repayments if you are unable to work due to illness or injury. Life insurance will also ensure your dependants will not be burdened with the outstanding loan in the event of your death or be faced with a forced sale of the secured asset (e.g. the family home) to repay the loan.

If you have any queries in relation to the content of this material, please do not hesitate to contact Kate Kimmorley the Principal Financial Adviser at Kimmorley Financial Management on (07) 5591 1725.

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