Adviser insight

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Consolidating your holiday season debt

With the festive season being one of great indulgence - not only in pudding but in spending too, our December budgets are more often than not blown out of the water. From gifts, to travel, to family gatherings, the holiday period is, whilst a time of joy and celebration, inevitably fraught with heightened costs on your credit card and personal loan debt.

Consolidating your post-holiday debt however is an effective way to not only pay them off sooner, but could potentially allow you to save on interest, improve your cash flow and streamline your payments without compromising your long term financial outlook.

The following case study provides a real life example of consolidating debt into your mortgage to save money. This strategy can indeed be life changing when it comes to outgoings on personal loans and credit cards, sometimes having interest rates of up to 21%.

Strategy: Consolidating your debt to save money

If you have a range of inefficient debt, you may want to consolidate them into your mortgage.

What are benefits?

By employing this strategy, you could potentially:

- Save on interest, and
- Pay off your debt in a faster timeframe

How does the strategy work?

Under this strategy, you need to:

- Increase the mortgage on your family home and
- Use the extra funds to pay off inefficient (non tax deductible) debt such as personal loans or credit card debt

Case study

Steve and Elizabeth are married with a young family. Their home is worth $900,000 and they have the following debt:

Debts	Outstanding Balance	Interest Rate	Interest incurred (per month)	Current Repayments (per month)
Home Loan	$600,000	5.00%	$2,500	$3,220.93
Personal Loan	$20,000	13.00%	$233	$375
Credit Cards	$20,000	19.00%	$350	$350
Total	**$640,000**		**$3083**	**$3945.93**

After assessing their goals and current debt position, Steve and Elizabeth wanted to not only pay off their debt as quickly as possible but also wanted to save on interest. After speaking with their Credit Adviser, a number of recommendations were made to see their goals fulfilled.

The Credit Adviser suggested the couple should:

- Increase their home loan from $600,000 to $640,000
- Use the additional $40,000 to pay off their existing personal loan and credit card debt
- Continue to make the monthly repayment of $3946.93

In doing so, the home loan interest rate of 5% pa will apply to their total debt of $640,000.

By utilising this strategy and consolidating their debt, the couple will:

- Save $417 in interest incurred per month.
- Pay their total outstanding balance of $640,000 in 22 years instead of the previous loan of 600,000 over 30 years.

As you can see, by employing the suggested consolidation strategy the couple will save substantially and pay their outstanding balance in a shorter time frame.

A review meeting is a great opportunity to raise these issues with your adviser to ensure that you are not only paying the most suitable rate, but reducing your holiday debt in a timely and financially viable manner.

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