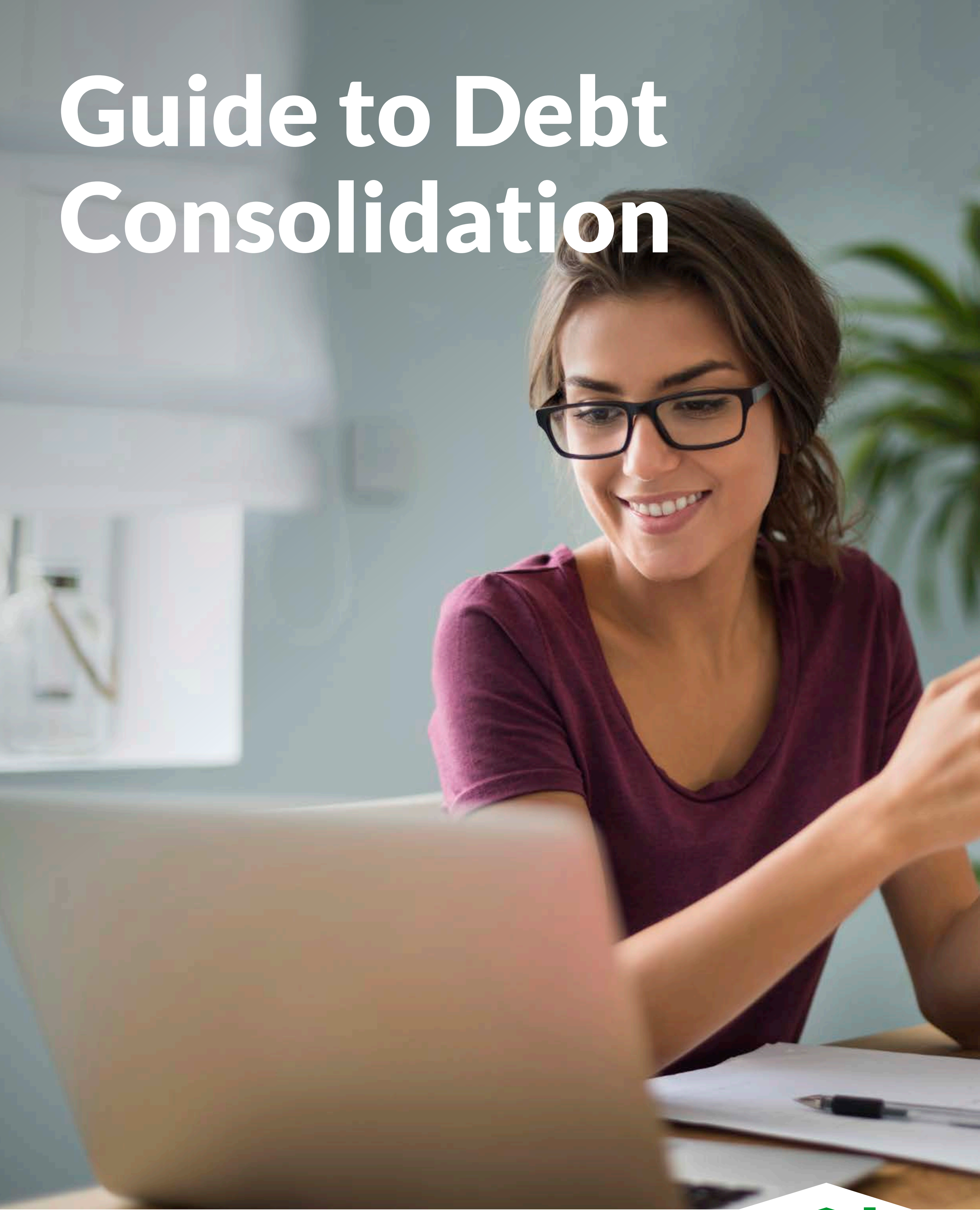
Guide to Debt Consolidation



Find out how debt consolidation could help you enjoy life!

Debt consolidation is a convenient process that can help you stay on track and in control of your finances. If you're new to debt consolidation and wondering if such a thing will help you enjoy your life then we've got the answers.

In this guide you'll find out exactly what debt consolidation is, why it works and how you can reap the benefits. We'll discuss if debt consolidation is right for you and the traps you should be on the lookout for.

Following on from this, discover practical debt consolidation methods, ways to get the most out of it, even helping you prosper and build equity in the long run.

Read on to find out how debt consolidation could help you, and make a difference to your life and your future.

Quick Guide to Debt Consolidation

1

Review Your Current Situation

The first step in any debt consolidation plan will involve listing all your monthly repayments. Calculate all outstanding debt and monthly repayments, along with corresponding interest rates and fees, loan terms and the total amount of debt.

To compare the loan amount and interest rate you can use the table on page 11 to help you.

Consider your income and expenses as well as your assets to determine what you are capable of repaying comfortably.

A review of your current situation will determine if debt consolidation is right for you. It will also guide you as to the best way to go about it.

2

Debt Consolidation Methods

There are different ways to consolidate your debts but combining all your debts into your home loan remains one of the top options. It's most cost-effective because you can take full advantage of the great low home loan rates, so you can pay off your debt quicker.

Enjoy the convenience – instead of keeping track and paying off multiple debts at high interest rates, you would only have a single loan with one simple repayment to manage every month.

3

Do Your Research

Ultimately, the lowest interest rate will cut down on your repayments substantially – a great way to pay off your debt faster. When choosing the right debt consolidation option, you should consider the interest rate, time frame, any restrictions and fees of each.

Compare debt consolidation versus paying multiple debts using the table on page 11. Use the table as a reference to determine how you could reduce your repayments.

4

Gather Documents

Depending on the debt consolidation method you choose, it will be necessary to gather a few documents to get started. These will generally be the same as those documents required for a home loan and should show:

- ✔ **Proof of identity**
- ✔ **Income**
- ✔ **Expenses**
- ✔ **Assets**
- ✔ **Recent loan statements**

5

Close Existing Debt

Consolidating your debt with Mortgage House is hassle-free. Once approved, we will take care of everything, that includes paying off the balance on your credit cards and/or personal loans. You won't have to worry about a thing.

6

Stick to a Budget

Create a budget that accounts for your new loan repayments. It's important to make the budget realistic so you can stick to it. A budget that is too strict or tight can be much harder to follow and missing a loan repayment won't help you get out of debt.

Contents

Debt Consolidation Explained

What is Debt Consolidation?

Debt consolidation is the process of combining multiple smaller debts into one loan. These debts may include credit card debt, personal loan, car loan or student debt.

It's a simple solution that helps you effectively manage multiple debts.

How does Debt Consolidation Work?

There are different ways to consolidate your debt, but the principal is essentially the same:

You can consolidate multiple debts into one single loan or simply add it to your home loan and take full advantage of the super low interest rates.

All outstanding balances on the multiple smaller debts are paid off and closed.

This leaves you with just one easy to manage loan and single monthly repayments.

For more information on ways to consolidate debt see Debt Consolidation Methods on page 15.

Benefits of Debt Consolidation

One of the main benefits of a debt consolidation loan is that you will be able to save a significant amount of money on interest. Credit cards especially, charge an astronomical interest rate. Combining all your debt into your low-interest home loan for example, would lower your monthly payments because you generally have a longer period to pay off the loan. So you could focus on putting your extra money into one single loan and reduce your debt faster.

Convenience

Who doesn't want convenience? Here's how debt consolidation offers the best convenience:

- Combining multiple debts into one loan gives you just one loan to manage – you don't need to keep track of multiple loans.
- You only have to deal with one lender and be aware of one set of conditions and fees.
- Any problems that arise can be dealt with through one point of contact.
- It's much easier to make one monthly repayment. You can forget about the stress of making multiple repayments that are probably all due at different times.
- It frees up your time and reduces the stress of having to deal with a mountain of paperwork that results from having multiple loans. That's more time for you to spend with your family and planning for your financial future.

Lower Interest

Lower interest is one of the main reasons people turn to debt consolidation. Often the multiple debts that people accrue will include credit card debt which carries particularly high short-term interest. For this reason, consolidating debt into one new loan with a lower interest rate can reduce interest. Additionally, when your debt is spread across multiple loans the interest you're paying on multiple loans can quickly add up.

Lower Monthly Repayments

Lower interest can result in lower monthly repayments and depending on the terms of your new loan, making monthly repayments into one loan will probably work out cheaper than the combined monthly repayments of multiple debts. A debt consolidation loan with a longer term can result in lower monthly repayments and alleviate immediate financial stress.

Less Fees

Most financial institutions have their own set of multiple fees and charges which cover things like administration, maintenance and transactions. At Mortgage House we don't charge our customers multiple sets of fees, and because debt consolidation gives you one loan, you'll only ever have one fee, which means more money in your pocket.

Savings

With lower interest, lower monthly repayments and less fees, the savings add up big time! Immediate savings can result from lower monthly repayments, while lower interest can provide long term savings. Debt consolidation also makes managing debt easy so you can work at reducing your debt sooner and start saving.

Easy Budgeting

Creating a budget that factors in your expenses and pay cycle around multiple debts with repayments at various times of the month quickly becomes complicated. Budgeting is simple when you only need to account for a single loan repayment.

Clear Financial Planning

Debt consolidation enables you to create clear financial plans. One loan, and one monthly repayment means you can easily set up a repayment schedule and work towards being debt free by a certain date.

Improved Credit Score

It can be a struggle to keep up with multiple debt repayments that are due at various times. When you are late on repayments, or even if you accidentally miss just one repayment, you are hurting your credit score. When you combine debts into one loan and consistently make the single monthly repayment you will start to rebuild and improve your credit score.

Pay Off Debts Sooner

Ultimately, paying off your debt is always the end goal. While multiple debts can leave you feeling stressed and overwhelmed, a manageable loan and single monthly repayment can give you the confidence to get on top of your debt and work towards paying it off sooner.

Reduce Repayment Periods

Another benefit of consolidating all your debts into your home loan is you can opt for weekly or fortnightly repayments instead of monthly. Because interest on home loans is calculated daily, this will help you pay off your loan faster, while reducing the amount of interest you'll accrue over the lifetime of the mortgage.

Improve Personal Cash Flow

New loans with flexible repayment periods can give you the option to spread your loan over a longer period. This is beneficial for those who require immediate cash flow as smaller monthly repayments will help free up cash and let you stay on top of debt.

No Embarrassing Debt Collection Calls

If you're behind on multiple loan repayments your creditor may have turned the matter over to a debt collector. Phone calls, letters or emails from a debt collection agency are persistent and may cause a great deal of stress and anxiety. Debt consolidation lets you pay off the debts and say goodbye to debt collectors.

Is Debt Consolidation Right For You?

Who Should Consolidate Their Debt?

Being in debt isn't always a negative position. In fact most Australians have debt in one form or another. A healthy level of debt can help one achieve their financial goals such as home ownership or property investment.

Debt becomes a problem when it is unmanageable. If your debt is spread across multiple credit cards and you're struggling to keep up with both card and personal or home loan repayments then it's likely your debt is spinning out of control.

When deciding if debt consolidation is right for you, start by looking at your current debt. It may be helpful to review all your current debt using a table like the example below.

Debt consolidation vs paying multiple debts:

Type of Loan	Outstanding Amount	Time Remaining	Fees	Typical Interest Rate Range*	Typical Monthly Repayment**
Personal Loan	$15,000	2 years	$10/month	10% - 15%	$720
Credit Card	$7,000	Ongoing	$195/year	9% - 22%	$142 min
Credit Card	$12,000	Ongoing	$59/year	9% - 22%	$244 min
Home Loan	$300,000	25 years	$10/month	3.49% - 6.5%	$1,763
Car Loan	$20,000	5 years	$10/month	5% - 10%	$411
Total	$354,000				$3,280

You could then calculate what you would pay if you consolidated your debt into your home loan.
Take a look at how you could be reducing your repayments by $1,201 per month .

Type of Loan	Outstanding Amount	Time Remaining	Fees	Typical Interest Rate Range*	Typical Monthly Repayment**
New Loan	$354,000	25 years	$10/month	3.49% - 6.5%	$2,079

*Examples only. Interest rates may vary.
**The monthly repayment has been calculated on the median.

Using the above example, you could be reducing your repayments by at least $1,201 each month by rolling your debts into your home loan. That would free up your cash flow for other purposes. If the monthly payment on the new loan is significantly less than what you're currently paying, this may be an indication that debt consolidation is a good option.

Alternatively, work out what you can pay each month and find a new loan that works with your budget. You should also consider the break fees associated with each loan.

Things you should know:

It is important to understand that debt consolidation will not change your debt levels. The amount of interest you are paying will reduce, but the amount of debt remains the same. Only those willing to change their spending habits and discontinue with their credit cards will benefit the most from consolidating their debts into one loan.

Tip

If you are able to maintain a higher repayment you may save thousands in interest on your home loan and pay off your home sooner.

"

I have had a credit card for over 35 years and never paid interest. With a little discipline here's how I did it: My salary is deposited directly into the offset account linked to my home loan and I use my credit card to pay for all expenses. That way, I make the most of my credit card's interest-free payment period, while my salary 'offsets' the balance of the home loan – reducing the amount of interest paid every month. When I receive my credit card statement, I pay off the balance in full.

"

Ken Sayer
Founder and Chief Executive Officer (CEO)
Mortgage House

Other Reasons for Debt Consolidation

Even if you're keeping up with multiple debt repayments, it may not be the most effective way to manage your debt. In situations like this, debt consolidation is simply a smart management solution and a way to get on top of debt before it gets out of hand

Trap

The guys who provide 0% interest expect you to fail on the first payment.

As simple as this might sound, be wary of 0% balance transfer offers from credit card providers. While a good opportunity to cut down on your debt, you will be slugged with hidden fees and higher interest rates once the balance transfer period ends.

For example, interest rates charged on credit cards and personal loans are generally very high. If you can pay off the debt at a lower interest rate through debt consolidation then you could be better off and this is a reason to explore debt consolidation options.

Debt Consolidation Traps

Trap

Credit cards are designed for short term debt, it was never designed to be a long term debt package.

Like most financial solutions, debt consolidation has many benefits, but there can also be some traps. Common debt consolidation traps include:

Credit Cards

When you consolidate your debt you have to be prepared to curb spending more on your credit card. If you consolidate your existing debt and continue to build more debt on your credit cards, debt will continue to increase, most likely at a greater rate than you can pay it off.

More Debt

Taking on more debt, like another personal loan, once you've consolidated your existing debt is also a big mistake. Debt consolidation is designed to help you clear debt, taking on more debt only counteracts the benefits that debt consolidation provides.

Long Loan Term

When exploring debt consolidation options you should be aware of the new loan term. A longer loan period can provide for smaller monthly repayments, (which is ideal if you need immediate cash flow and relief) but over the long term you may end up paying more interest.

Reduced Credit Score

While debt consolidation can improve your credit score over time, depending on your finances, it could also reduce your credit score. Closing your smaller debts early to consolidate them into a larger loan is another entry on your credit history which could potentially hurt your credit score. Missing repayments on your new loan, continuing to overdraw on your credit cards or applying for loans too often can also reduce your credit score.

How To Consolidate Your Debt

Debt Consolidation Methods

There are different debt consolidation methods, each with their own advantages and possible disadvantages. The type of method you choose will depend upon your personal circumstances. We explain and discuss the main debt consolidation methods below:

1

Personal Loan

A personal loan, also called a debt consolidation loan when used to consolidate debt, is a simple option to combine multiple debts. This method is quickly available and especially suitable for those who do not own any assets, like a house.

Personal loans are preferred for their fixed term and repayment schedule. This means that a specific amount is borrowed and regular repayments are calculated so that the loan is paid off within the fixed term. Borrowers can easily budget for repayments and forecast when their loan will be repaid in full.

While personal loans charge less interest when compared to credit cards and multiple debts, the interest charged on a personal loan is still considered high when compared to other debt consolidation methods. Moreover, fixed rate loans may not offer the flexibility of making extra repayments and could prevent the borrower from paying off the loan earlier if their situation changes and they have the funds to do so.

2

Home Loan

Those with a home loan can refinance their home loan to consolidate debt and get a better deal. This method is especially convenient for those already making regular home loan repayments.

Moving debts into your home loan lets you take advantage of the lowest possible interest rate. Depending on the home loan, you can also take advantage of flexible home loan features that will allow you to make additional repayments, or redraw funds in case of emergency.

The term of a home loan is generally much longer than other loans, typically 10-30 years. Although a longer term can reduce monthly repayments, paying off debt, according to the lender's minimum repayment amount may cost you more in the long run.

Effectively consolidating debt with your home loan requires considerable home equity and borrowers should also be sure they can keep up with the extra repayments as defaulting could put your house at risk.

Be aware that this approach turns your unsecured debt into secured debt, which means that if you don't meet your loan repayments then the bank could sell your home to recover their loan.

3

Credit Card

Debt can be consolidated with a credit card balance transfer. This method involves transferring all debts onto a credit card with very low or 0% interest. The low or 0% interest is limited to a specified time frame, generally the first 6-12 months.

Consolidating debt with a credit card balance transfer is suitable for those with multiple credit card debts. Transferring to a credit card with low or 0% interest can provide much needed breathing space to get on top of high interest credit card debts without the added cost of high interest.

A credit card balance transfer requires discipline and some planning to ensure the debt is paid off within the low or 0% interest period. At the end of this period these credit cards often revert to a very high interest rate which can be very dangerous and see one quickly fall behind in debt repayments. Repayments are also set to a minimum, so unlike a personal loan which ensures the debt is paid down to zero within a specified time-frame, outstanding debt may still be quite high at the end of the low or 0% interest period if the recommended repayments are followed without additional repayments.

Comparing Debt Consolidation Methods

	Personal Loan	Home Loan	Credit Card
Suitability	Suitable for anyone, especially those with no assets.	Only those with a home loan and sufficient equity.	Those with high interest credit card debts.
Pros	Fixed term and repayment schedule allows for easy budgeting, financial planning and control.	Low interest rate and longer term provides for lower monthly repayments, while flexible features allow additional repayments so debts can be paid off quickly.	Very low or 0% interest provides for breathing space and a chance to get on top of debt.
Cons	Fixed rate loans may be restricted with no flexibility to make extra repayments if your situation changes.	A longer term may cost much more in the long term. Risk house repossession if default on repayments.	If debts are not paid within the low or 0% interest time frame then interest is charged at a very high rate.
Interest Rate	Lower than credit cards, but higher than other debt consolidation methods.	Low interest rates are available.	Very low or 0% interest, but only for a limited period, after which interest rates are high.

Consolidate Debt And Get Ahead

Get the Most Out of Debt Consolidation

Debt consolidation presents a unique opportunity to get on top of multiple debts, but it shouldn't be viewed as a 'quick fix' for debt problems. Successfully managing debt requires discipline, motivation and a plan. To get the most out of debt consolidation, borrowers can follow a few simple steps.

Consolidate Debt Early

Debt consolidation is best undertaken before debt gets out of control. If you're struggling to balance all your repayments then you should explore debt consolidation options well before you actually miss a repayment.

In order to get the best debt consolidation deal and a low rate, you'll want to have the best possible credit score. Unfortunately missing even one repayment can blemish your credit score and a lender may think twice about the debt consolidation deal they're prepared to offer you.

Pay More

When a borrower consolidates debt a lender will advise the monthly repayments. It is important to note that this figure is generally the minimum repayment and not necessarily the figure that will help you save on interest and pay off debts sooner. If you're in a position to pay more than the minimum monthly repayment then you should.

It may seem obvious, but many borrowers settle on making minimum repayments when in fact increasing monthly repayments, by even a little, will help pay off debts sooner, and could save a significant amount of interest in the long term. It is particularly important that those who add debt to their mortgage increase their monthly repayments otherwise they will end up paying much more in interest given the typical home loan term of 20 or 30 years.

Create Repayment Plan

Regardless of the debt consolidation method you choose, a repayment plan is a must. Create a repayment plan and stick to it. Start with an end goal, for example debts paid off in 12 months or three years. Work backwards from your goal to determine what your monthly repayments should be. This is particularly important if you have chosen a credit card balance transfer as the interest rate is likely to increase dramatically after a certain period.

Automatic Payments

Make the most of modern technology – set up automatic monthly repayments (if it's compatible with your debt consolidation loan). This way you won't be tempted to use funds for other things and you're less likely to miss a repayment.

What Does Debt Consolidation Mean For Your Financial Future?

Taking the time to effectively manage debt now can lead to a much brighter financial future. Aside from the obvious goal of paying off debt sooner, consolidating your debt offers other long term benefits which can help you move forward and achieve your financial goals.

1

Improved Credit Rating

In the same way that a bad credit score can decrease opportunities, a good credit score could open previously closed doors. It may positively influence your ability to build wealth and own property in the future. Consolidating debt into a manageable loan before it's too late means you avoid a blemish on your credit score (which can last years) and maintain a good credit history.

2

Increased Borrowing Power

When you reduce your level of debt you dramatically increase your borrowing power. If you're looking to purchase a property or new car, a lender will look at your current level of debt and guess what? They're more likely to be generous when your debt is low.

A debt consolidation loan that helps you clear multiple debts quickly can increase your borrowing power, which is especially important if you're looking to buy property in an increasingly competitive Australian housing market.

3

Better Deals

A good credit score and minimal debt means you're in a position to negotiate a better deal! A debt consolidation loan can help you achieve both, allowing you to take advantage of the lowest rates and best deals on future loans.

4

Build Wealth

A debt consolidation loan could make it easier to get on top of your debts, and like any loan, once you have begun to pay it off you may be able to apply to increase the loan amount. Used wisely, this strategy could help you build wealth through investments, assets and property.

Prosper And Build Equity

How Can Debt Consolidation Help You Prosper and Build Equity?

Debt consolidation gives you the opportunity to clear multiple debts and begin again, but it's important you don't slip back into the same habits that lead you to debt problems in the first place. There are a few simple 'rules to live by' if you want to prosper and start building equity.

Budget, Budget, Budget

When you're finally on top of debt, it's no time to say goodbye to the budget that helped you get there. Budgeting is still an essential ingredient if you want to prosper and build equity. A budget could help you stay out of debt problems and achieve new financial goals.

Beware the Credit Card

With typically high interest rates, fees and charges, the unassuming credit card debt is a major source of debt problems. It's easy to tap away and feel like you're not really spending, as a result, credit card debt can quickly spiral out of control. Keep track of credit card spending and ensure you are diligent with repayments each month. Alternatively, using cash where possible is a tangible way to keep track of exactly how much you're spending.

Manage Debt

Staying in control of your finances is just as important post debt consolidation. When rolling your debts into your home loan, simple tactics like direct credit of your salary into your offset account, using BPAY to schedule your repayments in advance and making extra repayments will all help you pay off your debt faster.

How can Mortgage House Help?

Get a fresh start with Mortgage House!

We believe it's never too late to resolve debt and start working towards your financial goals. At Mortgage House you can consolidate debt with a personal loan designed specifically for debt consolidation purposes, while homeowners can refinance or add debt to their home loan and take advantage of Mortgage House's super low competitive rates.

Debt consolidation can be overwhelming. Support and advice along the way will be necessary to make the most of all the benefits it has to offer. Mortgage House prides itself on superior customer service and personal attention. Access help when you need it and receive one on one guidance from your personal Mortgage House Lending Manager.

More than debt consolidation options, Mortgage House offers you a complete debt solution with:

- Superior customer support
- Personal lending manager
- Financial guidance
- Super low rates
- Online banking
- Automatic scheduled payments
- Flexibility
- Money saving features that reward you

Why Mortgage House?

Mortgage House is an award-winning non-bank mortgage lender and broker based in Sydney. We've been in business since 1986 and we'll be only too happy to share our experience with you. We provide an extensive range of home loan packages, personal loans and car loans with convenient home loan centres, legal representation and valuers Australia wide. We're also available online as well as extended trading hours for your convenience.

We have helped thousands of Aussies reach their financial goals and we provide a number of unique mortgage solutions that other financial institutions simply can't match.

Here's why we're the best choice for debt consolidation:

- We don't have to maintain an expensive nationwide branch network. Less overheads for us means lower rates for you.
- We're 100% digital so we don't drown you in a sea of paperwork.
- Unlike mortgage brokers, we're big enough to offer you our own products as well as attractive interest rates. Unlike banks, we're small enough to care.

It's time to resolve your debt and get a fresh start!
Contact Mortgage House on 133 144 to book a callback.

BOOK A CALLBACK

Award Winning Home Loan Specialist

CANSTAR 2015 Non-Bank of the Year – Fixed Rate Home Loan

CANSTAR Outstanding Value – Investor Variable Home Loan

CANSTAR Outstanding Value – Construction Variable Home Loan

CANSTAR Outstanding Value – Owner Occupied Fixed Home Loan

Award Winning
We're one of Australia's most awarded non-bank lenders

Independent
An independent lender with the same resources as traditional brokers

Approachable
Expert lenders who'll get you there without the mortgage jargon

Innovative
Our innovative online services will save you time & effort

Get in Touch Today

133 144

e-mail: save@mortgagehouse.com.au
www.mortgagehouse.com.au

MORTGAGE HOUSE

This is an information guide only – not advertising/provision of financial advice.