If your debt is more than your disposable income... then TAKE ACTION NOW BEFORE IT'S TOO LATE

Did you know?

- The average Australian household has a debt of approximately 150% of their annual disposable income[1].
- Australian household debt increased almost six-fold between 1990 and 2008, but more surprisingly our household debt grew twice as fast as the total value of our assets in the same period[2].
- That's just the wrong way around!
- Is your debt growing faster than your assets?
- Are you concerned about your debt situation?
- Are you struggling to make your repayments each month?
- Does it always seem like your bills amount to more than your wages?

If you answered yes to one or more of these questions, then perhaps it's time to look at a solution for your debt condition, NOW, before it's too late.

What is the solution?

We all know that good budgeting and discretionary spending discipline is the real answer, but sometimes it doesn't matter how well you budget there's just not enough money to make ends meet. In this instance, debt consolidation may be the option for you.

Why do we have this debt problem?

Some people fail to recognise that when they use credit to purchase items for consumption or use today, they are spending their future pay cheques before they have even received them.

Banks offer credit cards, with pre-approved limits, without checking credit histories or capacity to repay. This gives us an abundance of credit at our finger tips with little or no responsibility. As a result of having this abundance of credit, as an instant gratification society, some are then tempted to use it without considering the future consequences.

This differs significantly to the past where we saved or used the lay-by method for the items we wanted. Little wonder we find so many people today experiencing considerable financial trouble.

What are the first signs of trouble?

- You recognise it is unlikely you are going to be able to repay your existing debt with your foreseeable future income.
- You now have multiple credit cards.
- You are no longer paying the balance of your debt each month – you just pay the minimum amount.
- You arranged for more credit cards (or a personal loan) to help pay off the other cards.
- You added a store card(s) because there was no room left on the credit cards.

Then eventually your repayments start to quickly approach or exceed your income.

What needs to be done?

Truthfully…

Well I could advise that you need to budget. But the reality is, most of us won't. Or they will start a budget, it will last a month or two, and then give up because the debt is not being paid down quickly enough.

For some it's too late for budgeting because the debt level is already greater than the income and there is nothing that can be done.

A solution (and this is NOT for everyone) may be debt consolidation.

What is debt consolidation?

This is when you take multiple debts (where the majority of the debt has a much higher interest rate) and consolidate the debt into one loan with a lower average interest rate. Generally most people opt for refinancing against their home (using existing equity) as it has the lowest interest rate. For example your home loan rate may be 7.3% as opposed to a personal loan that might be 9.9% or higher (definitely lower than most credit cards).

1 Household Borrowing Behaviour: Evidence from HILDA RBA Bulletin March 2011.
2 Australian Bureau of Statistics – Australian Social Trends 4102.0 2009 Household Debt.

If your debt is more than your disposable income... then

TAKE ACTION NOW BEFORE IT'S TOO LATE

Here is an example of what consolidating your debt might look like:

Debt	Amount $	Interest rate	Monthly pmt $	Term of loan
Mortgage	250,000.00	7.3%	1815.08	25
Car Loan	17,300.00	13.4%	397.18	5
Credit Card 1	3,000.00	13.5%	143.33	2
Credit Card 2	6,500.00	19.2%	328.29	2
Store Card	1,500.00	20.0%	76.34	2
Total Debt	**278,300.00**		**2,760.22**	

Total Debt: $278,300.00
Total Monthly payments: $2,760.22

Consolidating all debt into your current home loan at 7.3% saves significant interest and gives you the opportunity to gain control of your financial situation.

With the objective of reducing your debt to a manageable position your goal would be to maintain your previous level of existing repayments. To do so would reduce your total interest payable by $173,728.09 and would allow you to pay off all your debt in 16 years instead of the existing 25 years of your home loan.

However if you are unable to maintain your payments due to your limited disposable income you should endeavour to pay as much as possible. Under the consolidation example, there is the opportunity to reduce the monthly payment to $2,020.55 giving you savings of $739.68 per month, or potentially greater with some of the new introduction home loan rates now on offer. It should be remembered that reducing payments will result in paying back more in the long run as the term of the loan will be increased.
Sometimes when you refinance it gives you a false sense of financial security with the additional cashflow available to spend each month. Don't be fooled or you will return to the same position, but perhaps next time with no equity in your home to bail you out.

Remember, debt consolidation is not a 'cure all'. To ensure you do not repeat your previous mistakes you MUST:

1. not spend the new savings,
2. cancel all store cards (the points are not worth the risk),
3. keep only one credit card,
4. pay the balance of your credit card each month,
5. create new spending habits and ensure the whole family takes responsibility,
6. plan a budget and stick to it,
7. review what caused the problem to begin with and be ever watchful in the future, and
8. act quickly when you see the first signs of a problem.

How can we help?

1. If your debt levels are concerning you and you think you may be experiencing the first signs of trouble, pick up the phone now before it gets too late. We don't judge. We are here to help.
2. Ask us for our debt consolidation spreadsheet to see how much we can potentially save you each month to go towards the payment of your debt. You will be surprised.
3. Even if you are managing your current debt, it never hurts to review your finances to see how cash flow can be impacted favourably.
4. If you have friends or family who you think could benefit from reading this article, please forward it to them.

SHIRE FIRST MORTGAGES

9531 7503