Taking control of your finances!

In today's market there appears to be an abundance of credit available with banks continuously making offers to customers for new credit cards with pre-approved limits or allowing you to simply 'tick a box' to increase your existing credit card's limit. As a result many of us have access to a large amount of credit that is immediately available for any purpose, including those of an impulsive nature.

Unfortunately it's often too late to recognise that when we use credit to purchase items for immediate consumption we are actually spending money before we have even earned it.

Whilst good budgeting and controlling our discretionary spending is the key to maintaining control of our finances, sometimes it is too late as there is just not enough money coming in to cover all our financial commitments.

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 possible future income.
- You are juggling multiple credit cards.
- You can only manage to pay your minimum monthly credit card instalments without the possibility of paying out the total debt.
- You need to arrange more credit/store cards to help you manage your existing debt.

Solution

One possible solution may be debt consolidation. This involves taking multiple debts (including credit cards and other personal loans with high interest rates) and consolidating them into one loan with a much lower average interest rate. Generally most people opt for refinancing with a home loan as it usually has the lowest interest rate.

Example

Debts before consolidation:

Debt	Balance ($)	Interest rate	Monthly payment ($)	Term (years)
Mortgage	250,000	5.5%	1,535.22	25
Car loan	17,300	9.5%	363.33	5
Credit card 1	3,000	17.5%	143.33	2
Credit card 2	6,500	19.5%	329.24	2
Store card	1,500	20.0%	76.34	2
Total	278,300		2447.46	

Consolidating your debts into your existing home loan at an interest rate of 5.5% could achieve a number of objectives:

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 $1,709.01 and allow you to regain control of your finances. This should only be undertaken for a short period of time as you will pay additional interest of $17,162.39 as a result of a number of the loans being repaid over a longer term. Sometimes when you refinance it gives you a false sense of security with the additional cashflow available to spend each month. Don't be fooled or you may end up in the same financial position prior to consolidating your debts.

Reducing your interest paid – If you are able to maintain your current monthly payments and want to reduce your debt to a manageable level more quickly you can take advantage of a lower average interest rate enabling you to pay off your debt in 13.4 years and save $101,403 in interest.