Debt Consolidation Client Fact Sheet

Debt consolidation involves bringing your existing debts together into one new loan.

The objective is to reduce the number of individual payments you make and reduce the interest rate you are paying on your more expensive debts.

This may be something to consider if you are:

- Managing multiple debt repayments and struggling to keep track of what is due and when.
- Getting into a credit trap where all your spare income is used to pay interest, but you don't have enough left over to reduce your debt balances.
- You're paying a very high interest rate on your debts—perhaps you have credit card or cash advance debts, or store credit purchases.

There are several possible strategies to consolidate debts, which can include:

- Moving debts to a new credit facility (e.g. a personal loan or mortgage) with a lower rate of interest, or lower fees.
- Lengthening the term of existing loans (e.g. taking a mortgage debt back out to the 30-year loan term).
- Changing the repayment terms on an existing loan to interest only, or
- A combination of these strategies.

Usually, a debt consolidation strategy is implemented to make it easier for you to pay back your debts. However, in some instances, the objective of a debt consolidation may be to improve your cash-flow. If you implement a debt consolidation strategy, it's important to understand that it doesn't reduce your debts—it just makes your repayments more manageable.

A debt consolidation strategy should be implemented in combination with a change to your spending behaviour, so you can work to reduce your overall debt level over time. This should include creating a budget to ensure the debt consolidation measures work effectively and using a budgeting template such as the one available on ASIC's MoneySmart website (www.moneysmart.gov.au).

WHAT'S GOOD ABOUT A DEBT CONSOLIDATION?

Simplicity	One loan repayment is a lot easier to manage and more convenient than juggling several different repayments.
Savings on Interest and Fees	Debt consolidation could potentially reduce the amount of interest you pay on high-interest facilities like credit cards and save you money on fees for multiple credit facilities. This may make it easier to pay back your debts.
Potential Cash Savings	This is potentially the biggest benefit of debt consolidation. By consolidating your debt into a loan charging a lower interest rate, you have the potential to save interest on monthly repayments and reduce your overall interest.
Lower Repayments	Reducing the interest rate and spreading out repayments over time could potentially reduce the monthly repayment amount due.
Stress Relief	Specialist lenders are available that may lend to you if you have missed repayments on your current debts, or if you have a poor credit history