

Will Consolidating My Debts Help?

Key message

- Get advice about all your options before:
 - taking out a new loan to pay all your existing loans
 - taking out a loan to consolidate your debt

What is involved in consolidating debts?

Lenders offer a range of *refinancing* and *consolidating* loans to people with debts.

“Refinancing” means you get a new loan to pay out an existing loan.

“Consolidating” is a type of refinancing that usually means getting a new loan to pay out a number of other loans.

Many home loans have an option that allows the loan to be extended to consolidate other debts.

The most common reasons people consolidate debts are to:

- Reduce monthly debt payments,
- Manage one debt instead of having a number of debts,
- Save money by getting a consolidation loan with a lower interest rate to pay off debts with a high interest rate.

Debt consolidation does not always save you money. In many cases, debt consolidation is more expensive than keeping your loans as they are. Avoid debt consolidation companies. They can charge you exorbitant fees.

It can put you, co-borrowers and other people who guarantee your loan, at increased financial risk.

Should I refinance my home loan?

If you want to include all your debts in your home loan it will probably be cheaper to extend the length of your current mortgage than to refinance.

A new personal loan to pay out other debts will have a higher interest rate than your home loan.

Will consolidation save money?

In most cases, consolidating won't save you money.

Warning: This fact sheet is intended as a guide to the law and should not be used as a substitute for legal advice. This information applies only in Victoria and reflects the law as at 20 March 2012.

Will Consolidating My Debts Help?

If a new loan has a lower interest rate than the interest rate on your largest loan, then it *might* save you money to consolidate..

But the cost of establishing the new loan, combined with early payment fees on your old loan, is often higher than any savings you make on interest charges.

Talk through your options with financial counsellor (free service) before making a decision.

Should I use a guarantor or co-borrower?

If you don't own a house, a lender might offer you a consolidation loan if someone else, usually a family member or friend, signs as a guarantor or co-borrower.

If you do not keep up with payments it can lead to the guarantor or co-borrower losing their home. Get advice about other options first.

Can I Cut Years off My Mortgage?

There is no "magic" loan that cuts years off your mortgage or debts. For most people, the best debt reduction strategy is to:

- Stop using more credit;
- Pay as much as you can towards your non-mortgage loans,
- When other debts are paid out, pay those extra funds towards your mortgage.

What are my other options if I do not want to refinance or consolidate my debts?

Your options will depend on what your main aim is and what constraints you have.

I want to pay off my debts off sooner

Work out how much money you can allocate to your debts each month.

Apply any excess funds to the most expensive debt, usually your credit card.

When that debt is finalised, apply the excess to the next most expensive debt.

Warning: This fact sheet is intended as a guide to the law and should not be used as a substitute for legal advice. This information applies only in Victoria and reflects the law as at 20 March 2012.



Will Consolidating My Debts Help?

Eventually you will probably be left with your house loan and you will be allocating all excess funds to the house loan. This will reduce your house loan by many years.

I hate having so many debts

Consider easier ways of managing payments. Consider using bill payment services offered by your credit union or Australia Post that allow you to make one monthly payment.

I cannot pay one or more of my debts

Debt consolidation is not reversible, so always start by seeking advice about your debt problems.

If you are having particular problems with one debt, for example threatened legal action or harassment by debt collectors, you should access free legal advice about your rights.

Also, a financial counsellor can offer you free advice about your rights and options in dealing with debts.

Further information

Consumer Action Law Centre

Telephone: (03) 9629 6300, or 1300 881 020 for country callers.

Email: advice@consumeraction.org.au
Free telephone and email information regarding credit and debt and consumer law matters



If you are deaf or have a hearing or speech impairment, you can call through the National Relay Service (NRS):

- TTY users can phone 133677 then ask for 1300 881 020

- Speak & Listen (speech-to-speech) users can phone 1300 555 727 then ask for 1300 881 020

- Internet relay users can connect to NRS on www.relayservice.com.au then ask for 1300 881 020

Moneyhelp

Telephone: 1800 149 689

www.moneyhelp.org.au

Warning: This fact sheet is intended as a guide to the law and should not be used as a substitute for legal advice. This information applies only in Victoria and reflects the law as at 20 March 2012.