MANAGING DEBT

1 January 2017

Are your purchases costing you more than you expected? Managing your finances to meet your day-to-day requirements as well as your long-term goals can be a complex task.

Not all debt is bad, but understanding your level of debt, as well as the type of debt incurred, will help you manage it better.

Borrowing money is easy – it's making the repayments that can be difficult. Debt problems don't strike without warning. Here are some of the most common signs that you may be in too deep.

- Do you worry about checking the mailbox for fear of finding another bill?
- Are you still paying off credit card bills from last Christmas?
- Have you gone through two or more mobile phone providers?
- Are you only paying off the minimum monthly credit card balance?
- Do you have outstanding personal loans that you used for holidays?
- Have you maxed out all your credit cards and applied for another?
- Is there nothing left in your pay once your debt repayments have been made?

What to think about before you even apply for a loan

Before taking out a loan, check:

- The term of the loan.
- What interest rate will be charged and how often must the repayments be made?
- How is the interest rate determined – is it variable (the lender can move the rate up and down) or fixed?
- Are there any fees over and above the interest payments, such as monthly service fees?
- What is the actual amount, in dollar terms, that will be paid over the life of the loan? On a house, over a term of 25 years, this will be several times the actual purchase price.
- What type of security is required? For example, a mortgage on a house may involve the lender having title over the property.
- Is there a level of flexibility available? Can you repay the loan early? Is there a penalty for early repayment?
- What happens if you experience short-term financial difficulties or are unable to repay the loan?
- Is the contract covered by the National Credit Code?

Debt strategies

Here are some basic strategies that can help if you find yourself in trouble.

1. **Budget:** Modify your budget to make sure it accounts for your debt repayments. Keep track of your spending for about three months to get a realistic idea of where your money is going. Once you can put this into perspective, you may find ways to reduce your spending and increase your debt repayments.
2. **Pay off debts with the highest interest rates first:** These can cost you more in the long run. Credit cards and personal loans tend to have a higher rate of interest than mortgages. If you have multiple loans and can afford to make extra repayments, it's wise to start with the loan with the highest interest rate first, then work your way down.
3. **Use your mortgage:** Many of today's home loans have facilities allowing you to reduce the interest you are paying on your mortgage without reducing the amount of readily available cash you have on hand. Features such as a redraw facility or an offset account effectively reduce the balance of your mortgage for the period of time that the funds are sitting in the account, which in turn reduces the interest calculated on the balance. Ask your lender if these options are available to you, and always be aware of any fees or restrictions that they may have in place, should you wish to pay your mortgage off faster than the original term.
4. **Consolidation:** Think about consolidating your debts if you have more than one. But only do so if it will help minimise your overall interest payments and the fees and charges you pay. For example taking a personal loan (at an interest rate of 9 per cent) to pay off three credit cards (which have interest rates ranging from 12 per cent to 16 per cent), will save you time, paperwork and money in the long run. Consolidating a short term (high interest rate) car loan with a long term mortgage (low interest rate), may not save you money, so it’s best to get professional advice.

Don't put your debt at risk

When taking on a debt of any kind, it's important to remember that unexpected things can occur that may impact your ability to pay off your debts. If you were unable to work due to injury or illness, would you be able to keep up with your financial commitments and protect the assets you've worked hard to accumulate?

Before taking on a large debt, speak with your financial adviser about preparing for the unexpected through risk management strategies such as income protection insurance.

Ask your Apt Wealth Partners financial planner for more information.