

A guide to managing debt

If you have debts from a number of sources, there are ways you can reduce or better manage them. Your financial adviser can recommend the best options for you, but here are just some of the strategies you might use to manage debt.

Budget

Take time to complete a budget planner. By keeping a written record of all your income and outgoings for at least three months you'll make sure your budget is based on accurate figures.

A budget will help you get an idea of where you're spending your money, where you can potentially cut back on spending and how much is left over after you've paid all your regular bills and living expenses. If you find your income is greater than your expenses, you can use the extra to pay off your debts.

Pay off higher-interest loans first

Debts such as credit cards or personal loans tend to have a higher interest rate than your home loan, so it makes sense to repay these first. Pay at least the minimum monthly amount. But budget carefully and try to keep money aside for extra payments.

If you have more than one loan, make extra payments on the loan with the highest interest rate first. Once you've paid that off, focus on the next highest. The higher the amount you pay each month, the less it will cost you in interest payments – and the quicker your loans will be paid off.

Reduce your mortgage

Any extra payments you make on your home loan (especially in the early stages) will reduce the interest you pay. Using spare money to make extra payments can have a big impact in the long run, potentially reducing your mortgage term by years.

If you make extra payments towards the end of your loan it's less effective, as the interest component is lower. But any extra payments will still save on interest. Before you make any extra payments, check that your lender allows it. Some lenders may charge you for paying more than you should or paying out the loan early. You should also check if your lender allows you to redraw money from your home loan as this will give you peace of mind that you can get back any extra you've paid if you need to.

Combine your debts

You could take out a personal loan to repay all your debts. This can make life simpler as you only have a single payment to make each month. And if the loan has a lower interest rate than your other debts, you save money.

Use your home loan redraw facility

Another option is to redraw funds from your home loan to pay off personal loans or credit card debts. As home loans generally have a lower interest rate, redrawing money to pay off the outstanding debts will result in you paying less interest and having a lower overall repayment.

If you can maintain the monthly repayment at the amount you were paying on the individual debts, you'll reduce the loan even quicker.

You could also use your redraw facility as a savings account. Instead of keeping money in your bank account or a cash trust where you pay tax on the interest it earns, you'll reduce the amount of loan interest you pay while still having access to your money.

Things you should consider

This publication provides an overview or summary only and it shouldn't be considered a comprehensive statement on any matter or relied upon as such. This publication doesn't take into account your personal objectives, financial situation or needs. It's important for you to consider these matters before making any financial decision and we recommend you seek help from a financial adviser.



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