



TIPS AND TRAPS WITH DEBT CONSOLIDATION

It has become very easy to borrow money and even when you are struggling to pay off what debts you have got, you may be offered more credit. It is very easy to become over-extended.

Managing your credit cards, personal loans, store cards, car loans and mortgage can be a nightmare especially when all the loans have different conditions and interest rates.

Rolling all of your debts into a single loan can sound like a dream come true ... but only if you manage it effectively. The key is to use debt consolidation to break out of the cycle of spending more than you earn. Like anything there are traps for the unwary.

Use the following as a checklist when you decide to consolidate:

- ✓ **Check the interest rate on the new loan**
Make sure the new repayments are lower than the total repayments on all the loans you are consolidating, otherwise you will go backwards.
- ✓ **Watch out for fees and charges**
Make sure there are no penalties for paying out your loans early. There also may be establishment or application fees to set up the new loan, so make sure you know what you are paying.
- ✓ **Keep up the repayments**
Now you have the debt all in one place, keep up the same level of repayments (or when you can, pay a bit more). If you don't, you are really just spreading the loan over a longer period and paying more interest in the long-term.
- ✓ **Resist temptation to take on new debts**
Cutting up the credit card may be one solution but if you need the convenience of a card, at least pay off the outstanding debt each month. Be hard on yourself and before you spend, ask yourself if you really **need** the new purchase. The best way to manage this is to set a low limit on your card to use for emergencies only – say \$500.
- ✓ **Beware of loan consolidators**
Some mortgage brokers will be paid a fee for persuading you to switch to a new loan. You may find yourself paying off this fee as well as all your other debts. Check everything before signing.

If you have a home loan, it may be cheaper and easier to arrange your own debt consolidation by talking to your lender. As with most things, debt consolidation is a case of look before you leap.

Helping you build yours.

