

Will consolidating my debts help?

by Consumer Action - Friday, March 18, 2016

<http://help.consumeraction.org.au/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

For free, independent and confidential financial counselling, call the National Debt Helpline on 1800 007 007.

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. The most common reasons people consolidate debts are to:

- reduce monthly debt payments;
- manage one debt instead of having a number of debts; and
- save money by getting a consolidation loan with a lower interest rate to pay off debts with a high interest rate.

Will consolidation save money?

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.

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 a financial counsellor before making a decision. The National Debt Helpline can be contacted on 1800 007 007.

Should I refinance my home loan?

Many home loans have an option that allows the loan to be extended to consolidate other debts. If the facility to extend your home loan is available, it will probably be cheaper to include all your debt in your home loan rather than to refinance.

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

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 put your guarantor or co-borrower at increased financial risk. Get advice about other options first.

Can I Cut Years off My Mortgage or Debt?

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;
- work out how much money you can allocate to your debts each month;
- pay as much as you can towards your most expensive debt, usually your credit card or non-mortgage loans;
- when that debt is finalised, apply the excess to the next most expensive debt; and
- when other debts are paid out, pay those extra funds towards your mortgage. This will reduce your house loan by many years.

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. Talk through your options with a financial counsellor before making a decision. The National Debt Helpline can be contacted on 1800 007 007.

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.

Further information

National Debt Helpline

Telephone: 1800 007 007
www.ndh.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 6 June 2017.

Image from [Christian Schnettelker](#).

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