

How will consolidating my debts help?

F9

Use this factsheet if you:

- have a number of loans;
- are thinking of taking out a new loan to pay all your existing loans;
- want to know more about consolidating your debts.

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 achieve these aims. In many cases, debt consolidation is more expensive than keeping your loans as they are. 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 or refinancing won't save you money.

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. However, there are other costs that you have to take into account when comparing.

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

If a broker or other adviser states that the new loan will save you money, check that these savings are not simply due to an increase in monthly payments.

Putting your eggs in one basket

If you are in financial difficulty, you will have fewer options available if you



consolidate into one large debt. Options such as surrendering your car, or negotiating with a credit card company are not available once you have one large loan. Talk through your options with an independent advisor before making a decision.

Where do I go to refinance?

A broad range of lenders, including banks, offer refinancing and debt consolidation. Be aware that some lenders offer loans on very unfair terms – particularly if they think you are in financial trouble. If you are regarded as a higher risk, eg) you have defaulted on loans in the past, some lenders will charge you a higher interest rate.

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Beware of risky loans

There are many newspaper, television and radio advertisements that offer loans to people who are having trouble paying their debts. You may find yourself in a worse financial position especially if your house is used as security for these loans.

Often the loan is only for one or two years. You only pay the interest and do not reduce the total amount of money you owe. If you have one of these loans, with your house as security, you will lose it if you cannot repay the total amount when it is due.

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 this can lead to the guarantor or co-borrower losing their home. Get advice about other options first.

Short term gain for long term pain?

Debt consolidation might feel like an *instant fix* but it is unlikely to remove the reasons you ended up with debts you could not afford. After you pay out your debts, it is likely the same lenders will keep offering you more credit. Using credit cards can be a hard habit to break. After consolidating your loans to solve your debt problem you might find you are in debt to other lenders as well as having a larger mortgage.

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.

How can I compare a consolidation loan?

You might be told that debt consolidation can give you lower monthly payments and help you pay out debts sooner. This claim is usually based on the way that payments are structured. Under this type of consolidation you will generally pay the same amount each month until your total debt is paid. If you do not consolidate, your monthly payments will reduce each time you pay off one of your shorter-term loans.

To compare the option of consolidating with your current situation you should compare monthly payments over the period of each loan. Consider the following:

- Is the interest rate cheaper than on my current loan?
- What fees and charges are involved in getting the new loan and paying out my current loan/s?
- How do the monthly payments compare to my current situation over the entire period of the new loan?
- Can I achieve a similar or better result by planning my finances – eg) allocating a set amount to finalising an expensive credit card debt?
- What is the security for the new loan eg) house mortgage or guarantor?
- Does the consolidating loan mean I have to take out a mortgage on any of my assets that are not mortgaged under my existing loans?
- If I consolidate, how can I be sure that I won't get into more debt in the future?

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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.

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 can get advice about your rights.

Where can I go to get more information & advice?

A financial counsellor can offer you free advice about your rights and options in dealing with debts. See *Getting Help* for contact details.

Some helpful information on dealing with debt problems can be found in other fact sheets at the following sites:



Victorian government site

www.consumer.vic.gov.au/

Consumer Affairs Victoria website with a range of factsheets, tips and links.

Federal government sites

www.fido.asic.gov.au

Australian Securities Investment Commission web page for consumers seeking basic information on their rights.

www.accc.gov.au/

Australian Consumer and Competition Commission website.

www.consumersonline.gov.au/

Federal government website with a range of useful tips on using your consumer rights.

www.privacy.org.au/Resources/Complaints

Australian Privacy Foundation website, a volunteer group with information about making a complaint.

Interstate community organisations

Note that some of the information on these site only applies to NSW.

www.cclcnsw.org.au/

Website of the community legal centre in NSW specialising in credit issues, the Consumer Credit Legal Centre

www.rlc.org.au/factsheets/

Website of Redfern Legal Centre a Sydney based community legal centre.

www.wesleymission.org.au/centres/creditline/factsheet.asp

A series of factsheets from Creditline, a service that is run by Wesley Central Mission.

Credit Helpline factsheets

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Free Advice & Assistance

Credit Helpline

Ph: (03) 9602 3800, or
1800 803 800 for country callers.
Mon – Fri 10am – 4pm

Free telephone advice about credit and debt matters and referral to Consumer Credit Legal Service where necessary.

<http://www.communitylaw.org.au/credithelpline>

Financial and Consumer Rights Council

Ph: (03) 9663 2000, or
1800 134 139 for country callers

To find your local financial counsellor who can give free advice and assistance with credit and debt problems, negotiating with creditors and budgeting.

www.vicnet.net.au/~fcrc

Consumer Affairs Victoria

Ph: (03) 9627 6454 Mon – Fri

Consumer Affairs can help you resolve a dispute with a trader by informing you of your rights or by conciliating with the trader.

www.consumer.vic.gov.au

Victoria Legal Aid:

Ph: (03) 9269 0120, or
1800 677 402 for country callers.
Mon – Fri 9am – 5pm.

VLA publishes a useful series of pamphlets on credit & debt issues that it will send to consumers free of charge.

www.legalaid.vic.gov.au

Federation of Community Legal Centres:

Ph: 9654 2204

To find your local community legal centre.

www.communitylaw.org.au

Insolvency and Trustee Service of Australia

Ph: (03) 9272 4800

ITSA is not an advice service but it can send information about bankruptcy and forms.

www.itsa.gov.au

Dispute Resolution

Victorian Civil & Administrative Tribunal (VCAT)

General ph: 9628 9700, country callers: 1800 133 055

Credit List ph: 9628 9790

Civil List ph: 9628 9830

www.vcat.vic.gov.au

Federal Privacy Commissioner

Ph: 1300 363 992 (Privacy Hotline)

To complain about credit reporting or other breaches of privacy.

www.privacy.gov.au/

Industry Dispute Resolution Schemes

**Banking, Insurance and Investment Assistance
1300 78 08 08.**

A central telephone number to the appropriate scheme, for disputes with:

- banks
- insurance companies (claims disputes)
- credit unions
- finance brokers
- investment advisors

Water, gas and electricity disputes

Energy & Water Ombudsman (Victoria) EWOV

Tel: 1800 500 509

www.ewov.com.au

**Telecommunication disputes
Telecommunications Industry Ombudsman (TIO)**

Ph: 1800 062 058

www.tio.com.au

Regulators

They investigate industry conduct & are unlikely to assist with individual complaints.

Australian Securities & Investment Commission (ASIC)

Complaints about conduct of financial services, including debt collection of consumer credit.

Ph: 1300 300 630

www.asic.gov.au

Australian Competition & Consumer Commission (ACCC)

Complaints about conduct of businesses including debt collection complaints. (Not complaints about credit or financial services).

Ph: 1300 302 502

www.accc.gov.au



Useful Contacts

Telephone interpreter service:

Free to callers. Available 24 hours, Ph: 13 14 50.

Hearing & Speech Impaired Access:

National Relay Service
All free calls (within Australia)
1800 555 677

Speech to Speech Relay

All local and chargeable calls (within Australia): 1300 555 727
All free calls (within Australia): 1800 555 727

You can obtain more information about the National Relay Service on their website at

www.aceinfo.net.au/Services/NRS/

Acknowledgments

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