

Bad Debt Decisions or Not!

Some strategies may appear sensible on the surface but when the strategy is not handled correctly it can bring about an unexpected result.

Example: Consolidating credit card debts and purchasing a new car.

Personal loans V Increasing your Loan Mortgage

Which finance facility saves you the most interest?

It may seem obvious but if you find yourself in the habit of only making minimum repayments then you are likely to find that the “loan term” easily beats “interest rates” when it comes to reducing the total cost of the loan.

Basically if you make only the “minimum monthly or fortnightly repayments” then the interest you pay on your loans which have been consolidated into your home mortgage could far outweigh the interest you pay on a personal loan over a much shorter period of time.

Home loans are usually over 25-30 years whereas personal loans are over 5-7 years or shorter.

For example,

Scenario 1: A personal loan of \$25,000 taken over five years at an interest rate of 13.79% would require a monthly payment of \$594, with a total interest cost of \$9,739.

Scenario 2: While borrowing the same amount at the average 5.78% variable home loan rate requires a much lower monthly repayment of \$146 spread out over 30 years, the total interest cost could jump to \$27,693.

If you don't have the discipline to stick to higher repayments at a level which you would have had to pay on a personal loan then its best you take the personal loan option.

A way around the discipline path is to organise a direct debit from your bank a/c for a monthly amount higher than your minimum monthly repayments. This way the lower interest rate will be utilised to its fullest.