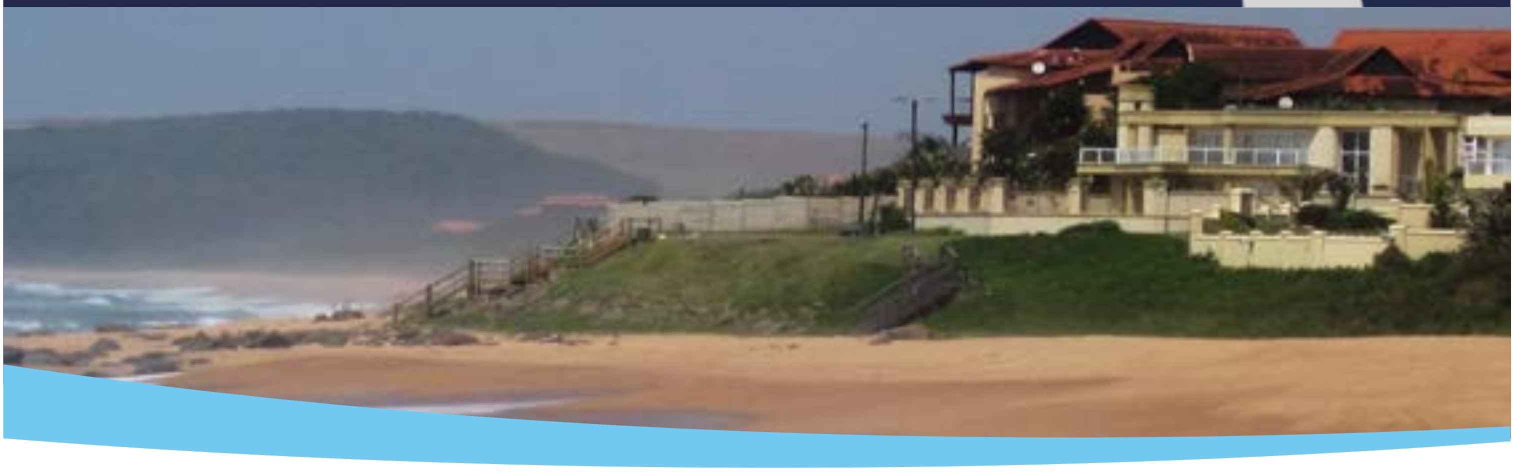
DEBT MANAGEMENT
HOW TO REDUCE DEBT



Debt management strategies is one our most enquired about topics. Reducing your debt can help increase savings because you pay less interest on your outstanding amount. Once your debts have been repaid, you may also be able to increase your wealth by saving the repayment amount.
Below are some strategies and information as general information only.

How it Works

The cost of debt includes the interest you pay over the life of the loan and loan fees. Reducing these costs can provide you with significant savings which can help you reduce your debts quicker and increase your capacity to save.

Example:
- *If you look to take out a $500,000 mortgage*
- *over 30 years at 6.5% interest per annum*
- *with monthly repayments of $3,161.*

You would pay $637,723 in interest effectively paying $2.27 per $1 borrowed.

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Strategies that can help to reduce the overall cost of debt include making additional repayments, consolidating your debts, repaying debts with higher interest rates first and repaying non-tax deductible debt before repaying tax deductible debt.

Additional Repayments

Making extra repayments on your loan can help eliminate your debt faster and save on interest costs. Even a small increase in your repayments may provide you with significant savings over the life of your loan. Any lump sums you receive, such as tax refunds or bonuses, could also be directed to your loan.

Putting your additional repayments into an offset account or redraw facility gives you the benefit of the reduced interest cost plus the security of knowing you can access the money again if you really need it.

Example:

- *If you look to take out a $500,000 mortgage*
- *over 30 years at 6.5% interest per annum*
- *with monthly repayments of $3,161.*

If you make an extra $200 monthly deposit into your offset or into your loan with a redraw,

You would:

- *Pay off your loan 56 months or 4.7 years faster*
- *Save $117,720 in interest.*

If your loan doesn't have an offset account or a redraw facility, it may be worth checking with your provider to find out if this feature can be added to your existing loan. Please contact our finance team for specialist finance advice.

Consolidate your debts

Consolidating your debts into one loan may help save on interest costs if your higher interest rate loans (such as credit cards and personal loans) are consolidated onto your home loan which usually has a lower interest rate.

To implement the strategy, you will need to increase one loan facility (such as your home loan) and use the funds to repay your other debts.

It's crucial that you maintain the same overall loan repayment on the remaining loan after consolidation. Failing to do so could extend the repayment period, potentially leading to higher interest payments over the life of the loan.

It is also important to ensure you use a budget to help you to avoid reaccumulating any other high-interest rate debts.

Example:

You currently have a personal loan

- *With $20,000 outstanding*
- *An interest rate of 10% per year*
- *A term of 5 years left*
- *You are making repayments of $425 / month.*

If you continue with this loan

- *You will have paid $5,496 in interest.*
- *You are paying $1.27 for every $1 borrowed.*

You also have a home loan

- *With $480,000*
- *A term left of 15 years*
- *An interest rate of 6.5%.*

If you increase you home loan by $20,000 but keep the same $425 per month repayments against this loan

- *You will save over $2,347 in interest*
- *Pay it off 3 months earlier.*
- *You are now paying $1.16 per $1 borrowed.*

Your overall repayments don't change but interest is saved.

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Repaying high interest rate debt first

If you have more than one loan, the interest rate on each loan will likely be different.

As a general rule, credit card loans have the highest interest rate, personal loans next, then your home loan.

It is important that you continue making the required repayments on all the loans whilst using surplus income to repay the higher-rate loan first.

Focusing on repaying the loan with the highest interest rate first can potentially create savings compared to repaying all of the loans at the same time.

Repay non-deductible debt first

Interest on loans used to buy an income-producing asset (such as shares or an investment property) is tax deductible. This is called 'deductible debt'. The tax deduction effectively reduces the cost of the debt, with the value of the deduction being higher if you have a higher marginal tax rate.

'Non-deductible debt' is a loan taken out to buy a non-income-producing asset, such as your home or car, or to pay for personal expenditures, such as a holiday. You are generally not eligible for an income tax deduction for the interest on these loans, so these debts should be repaid as quickly as possible.

To accelerate the repayment of your non-deductible debt, you could:

— Use your surplus income to make additional repayments

— Halve your monthly repayments and repay this amount fortnightly instead
  — this results in you making 26 repayments for the year, equating to 13 months instead of only 12

— Change the repayments on your deductible debt to interest only to increase your surplus income and direct this income to repay your non-deductible debt more quickly.

Benefits

The benefits of a debt management strategy may include:

— The potential to increase your wealth once debts have been repaid.

— Paying less interest over the life of your loan.

— Reducing your financial burden.

Risks, consequences and other important things to consider

— Before making any changes to your loan, you should check what fees and penalties may apply.

— Some loans do not allow additional repayments. You should check with your loan provider to see if additional repayments are permitted and whether any penalties apply

— You should have adequate life insurance to help meet loan repayments or payout your debt if your income stops because of death or illness.

— Gain peace of mind by consulting your accountant before making changes to investment-related borrowings.

If you would like some specific debt management advice or finance product advice, please contact our team today

How can we help you?

AustAsia Group

AustAsia House, 412 Newcastle Street, West Perth WA 6005

PO Box 332, Leederville WA 6903

T: (08) 9227 6300 **Contact us here**

www.austasiagroup.com

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