DEBT MANAGEMENT

Staying ahead of your debts

Responsible debt management for financial wellness

tribel advisory

Debt can play a very useful role in our lives. It can help you enjoy a better lifestyle now since it allows you to purchase goods, services or assets when you don't have enough funds of your own. It can also be used for financial gain by adding scale to your investments. However, if not used wisely, it can lead to financial distress and hardship.

Have a plan to pay down wealth depreciating debt as quickly as possible

From a financial wellness point of view there are only two types of debt – wealth creating versus wealth depreciating. As the name suggests, wealth depreciating debt should be paid down as quickly as possible since it would detract from your wealth creation efforts.

+ Wealth creating (efficient) debt

- The asset acquired generates assessable income which can be used to service the debt
- The asset has the potential to grow in value
- You can claim a tax deduction on the interest cost

− Wealth depreciating (inefficient) debt

- The good, service or asset acquired does not generate assessable income
- The asset depreciates in value
- You can't claim a tax deduction on the interest cost

Our plans at a glance

Debt Reduction Plan	Wealth Accelerator Plan
Pay-off your non-deductible debt as quickly as possible.	Grow wealth at a faster rate through the use of borrowed funds

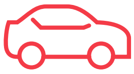
1. Conducting a stock-take of your debts
2. Consolidating debts or refinancing to a loan on lower interest
3. Budgeting for faster loan repayments
4. Using debt for wealth creation
5. Managing risks associated with debt

1. Conducting a stock-take of your debts

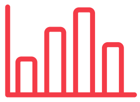
The first step in preparing a debt management plan is to itemise all your loans so that you can have a full picture. Below are common types of loans.


Credit card


Mortgage


Car loan


Personal loan


Investment loan

Loans can differ in many ways but they also have a number of things in common. These are:

- Loan purpose – what is the money used for?
- Level of interest rates – how much interest do you have to pay?
- Fixed or variable interest rates – is the interest fixed or variable?
- Secured or unsecured – is the loan secured over an asset such that if you can't repay, the lender can take possession?
- Loan term – how long before you have to pay back the full loan amount?

2. Consolidating debts or refinancing to a loan with lower interest

If you have more than one loan, it makes sense to consolidate your debts into the loan with the lowest interest rate.

Where appropriate, you should consider refinancing into a new loan on a lower interest rate.

Case study - Andrew and Emily

Andrew (aged 37) and Emily (aged 35) are married with a young family. They have the following debts:

Loan type	Load balance	Interest rate	Current repayments (p/m)
Home loan (30 year loan term)	$400,000	2.59%	$1,599
Personal loan (5 year loan term)	$20,000	11.11%	$436
Credit card	$10,000	20.00%	$1,000
Total	**$430,000**		**$3,035**

They decide to consolidate all their debts into the home loan. The outcome is as follows:

Loan type	Load balance	Interest rate	Current repayments (p/m)
Home loan (30 year loan term)	$430,000	2.59%	$1,719
Personal loan (5 year loan term)	$0	11.11%	$0
Credit card	$0	20.00%	$0
Total	**$430,000**		**$1,719**

By consolidating the loans, Andrew and Emily have a cashflow saving of $1,316 per month.

3. Budgeting for faster loan repayments

Making extra repayments can have a big impact on reducing the loan term and amount of interest payable. The extra cashflow to make the increased repayments can come from savings after setting up a budget or from the debt consolidation. We can help you put a budget in place to find ways to pay off your loans quicker.

Case study - Andrew and Emily

Following on from the previous example, Andrew and Emily decide to maintain the same level of repayments and have this directed towards their home loan. In effect they are now paying $3,035 per month towards their home loan.

Scenario	Cumulative interest	Loan term
Before debt consolidation	$182,922	30 years
After debt consolidation and increased repayments	$83,789	14 years 2 months
Difference	**$99,133**	**16 years 10 months**

Andrew and Emily decide to increase the frequency of their repayments from $3,035 per month to $1,518 per fortnight.

Scenario	Cumulative interest	Loan term
Monthly repayments	$83,789	14 years 2 months
Fortnightly repayments	$75,463	12 years 10 months
Difference	**$8,326**	**1 year 4 months**

By doing the following:

- Consolidating their debts into the loan with the lowest interest rate
- Increase their loan repayment amount
- Increase the frequency of their loan repayments

The total interest savings and reduction in loan term are as follows:

Scenario	Cumulative interest	Loan term
Initial position	$182,922	30 years
After all debt strategies	$75,463	12 years 10 months
Difference	**$107,459**	**17 years 2 months**

4. Using debt for wealth creation

You can use your income surplus to support wealth creating or efficient debts. This could be done via (1) lump sum gearing, (2) instalment gearing and (3) debt recycling.

1. Borrow money to invest	2. Gear your investments graduallyby borrowing in instalments	3. Build wealth by debt recycling

Borrowed funds can magnify losses as well as gains. Investment selection is therefore critical to the success of this strategy. A s part of this strategy we assist clients on which invest ments to have the f unds invested in to maximise the chance for growth.

5. Managing risks associated with debt

While debts can be useful, having them exposes you to a number of risks.

Poor investment returns are magnified when borrowed funds are used

1. Loss of income	2. Investment returns below expectations	3. Interest rate risk

Loss of income means you can no longer make the loan repayments

If interest rates increase, your loan repayments will also increase impacting your cashflow

We can help you manage the risks associated with debt by implementing the following:

- Loan serviceability buffer – ensure you can still make your loan repayments if interest rates increase
- Adequate personal insurance – to protect loss of income due to death, disability or injury
- A sound investment strategy – to protect from excessive investment risks while generating long term growth

Get in touch with Tribel

Contacting Tribel is easy. Call to speak to one of our advisors, or you can email us of find more information on our website.

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Financial wellness first

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We're a national team of financial advisors and planners with over 15,000 clients and funds under advice of over $1 billion.

For individuals, we provide cashflow management, debt management, risk management, wealth creation, retirement planning and estate planning. For businesses, we provide business ownership protection, key person protection and employee protection services.

Located in Sydney, Brisbane, Melbourne, Perth, Adelaide, Newcastle, Bathurst and Mackay, we're proud to service individuals, SME overs, Corporate and Associations right across the country.