

FINANCIAL COUNSELLING FACT SHEET #7

DEBT CONSOLIDATION THE PROS AND CONS

'Debt consolidation' is a term used to describe a loan taken out to combine several loans and/or debts into one new debt.

'Refinancing' is when you replace or extend an existing loan with funds from either the same or a different bank.

Debt consolidation or refinancing can make it easier to manage your repayments, but it may cost you more if the interest rate or fees (or both) are higher than before.

There are some important things to consider before deciding to consolidate or refinance.

The Pros

- A lower monthly or fortnightly payment to keep things affordable now
- Fewer debts to maintain
- You might save money by combining higher interest rate loans

The Cons

- It gives one creditor all of your debt. If you fall behind in payments it can give them all the power in any talks about a plan to catch up again.
- If the new loan is over a longer length of time it could end up costing you more, even if the interest rate is lower. The cost of setting up the new loan, including fees and any government charges, also needs to be factored in when comparing options.
- If consolidating into a home loan you will likely be making any co-borrower or person named on your title responsible for your debt.
- There could be fees and/or penalties for paying out your current debt.
- Access to credit card limits could remain unless you take specific steps to close the accounts.

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Ask yourself:

- Is the new loan/offer from a reputable, Australian Securities and Investments Commission (ASIC) registered and licensed company?
- Is the interest rate cheaper than on my current loan?
- What fees and charges are involved?
- How do payments compare? What is the actual benefit to your budget?
- Can I manage without consolidating if I tighten up for a short period to concentrate on reducing one or two debts?
- Am I placing my home at further risk?
- Will anyone else be affected?
- How can I ensure that I don't get into further debt?
- What are my other options?

A financial counsellor can assist to identify and discuss any of the above issues with you.

TIP: If the company is not registered on ASIC Connect's [Professional Registers](#) under a **Credit Registered Person**, a **Credit Representative** or a **Credit Licensee**, they are operating illegally.