

# THE MONEY DOCTOR

## DEBT CONSOLIDATION – THE CURE FOR ALL OUR ILLS ?

By

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The term **refinance** is now the buzz word in consolidation circles. Over the last 10 - 15 years, property has certainly tripled in value leaving owners and investors with assets that they can utilise in leveraging for other assets or using as security to raise additional monies.

Many lenders are offering packages whereby, if you have property – home, residential property or commercial buildings – you can put all your debts, term loans, credit cards and any other liabilities into one loan secured by that property. If the property is your home, the loan will be at the lowest interest rate available and in some cases, you will not be asked to even repay the capital (*four lenders give interest only options on their home loans whereby in one case for instance, you choose when to repay the capital at the end of the term – maximum 40 years – where you might sell the property, pass it on to next of kin or renegotiate if you are young enough ! With the other lenders, you can have a moratorium on the capital but at the end of the interest only period, you must start repaying the capital) Other properties – residential investment and commercial properties – in some cases will attract a higher rate of interest but with one lender you could opt for a 20 year interest only mortgage on your residential investment loan (RIP) repaying the capital at the end of the term.*

You could of course negotiate with your current property lender to incorporate all your loans into one, and of course if there is an unwillingness to oblige, the way is clear to find a compliant lender or compliant intermediary who wants your business. Remember however, if you have a bad credit record, were slow in payments or even have arrears in any of your loans, it is going to considerably more difficult to persuade another different lender to take on your business. All lenders other than credit unions are members of the *Irish Credit Bureau* and they check your every repayment record before they even appraise your loan application - check your own credit record with the *Irish Credit Bureau* in Clonskeagh Dublin 14. It may save you embarrassment and it is only € 6.

To give you an idea of the potential savings, say you had the following :

- Credit card - € 2,400 repaying € 300 per month
- Store card - € 2,700 repaying € 250 per month
- Term loan - € 8,500 repaying € 210 per month
- Car loan - € 10,700 repaying € 240 per month
- Home loan - €140,000 repaying € 800 per month

Total monthly outlay here is € 1800 per month. Therefore, a home loan of € 165,000 ( presuming the home is worth in excess of € 275,000 ) over a new 25 year period on an interest only basis at 3%, will cost you € 412.50 per month – a saving immediately of € 1387.50 per month !

Credit cards can be costly – as verified recently by the Chief Executive Officer of *Barclays Bank plc* when he stated he personally would not touch one - while term loans and car loans are normally in excess of DOUBLE the average home loan interest rate and therefore expensive. Short term debt can be the difference between meeting your immediate financial needs and being unable to cope with the weekly financial demands. It catches up on us all eventually if we do not heed the warning signs. Prudence will dictate that you do not spend in excess of what you earn. Careful budgetary will provide you with the information for you to know what you CAN spend inside your limits. You must know these limits from the outset.

In an ideal world, **our total financial monthly commitments should not exceed 35% of our net monthly income**. This includes, mortgage, car loans, term loans, credit union loans and hire purchase or leasing agreements.

So to sum up, it can be a good idea to consolidate, but you need good and impartial advice. Do not be conned into the first banker / intermediary trying to sign you up. These transactions can be the biggest of your life and deserve due consideration.

On a timescale, it takes usually about a week to obtain approval in principle ( though in certain circumstances this can be obtained within 24 hours ), another week to obtain formal loan approval and roughly about two to three weeks after approval to draw down the monies.

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