

WEALTH BUILDING PACKAGE **12** STEPS OF FINANCIAL SUCCESS!

Scott Ashby BBA, MBA

Consolidation Loans

In the last article I talked about reducing a large monthly expense for me - my cell phone. On the same topic I suggest that you look at all your monthly expenses and take the highest three or four expenses you have and work diligently to reduce them.

In examining my biggest expenses I discovered that, unfortunately, one of them was credit card debt. One day this will be eliminated, and I will NEVER allow it to return, but in the meantime, it is a good idea to examine and reduce this expense as much as possible. My wife and I had three credit cards that carried a balance on them, not to mention several student loans and a couple lines of credit. Just picking away at the principal with the minimum monthly payments is very unproductive. We contacted our bank to discuss a consolidation loan for the higher interest rate credit cards that would accomplish two main objectives. First, dramatically lower the amounts paid in interest and second, lower our monthly payments. See the table below to observe the difference a consolidation loan made for us.

	<u>Balance</u>	<u>Minimum Monthly Payments</u>
Master Card	\$1,850	\$56
Visa	\$1,280	\$38
Master Card 2	\$8,500	\$255
Total	\$11,630	\$349
At \$349 per month debt paid in 4 years Total of \$4,989 to INTEREST (18.9%)		
Consolidation Loan	\$11,630	\$275
(6.5% for 4 years) Total of \$1,570 paid to interest		

After I had the loan approved by my bank, it saved us \$74 a month in payments, we will have the debt paid off in the same amount of time and it will save us \$3,419 in interest expense. It is definitely worth taking a look at the structure of your debt and trying to re-organize it into one simple monthly payment, at a better interest rate.

The savings can be phenomenal as they were for us. Generally, banks will give you a better rate the more you borrow. Now the key is to NOT to use those nasty credit cards or store cards again (credit cards 18% + store cards 29% +). If you keep using them, you will defeat the purpose of the consolidation loan.

I have heard a suggestion to actually freeze your credit card. I mean freeze as put it in a container of water and store it in your freezer. If you have more than one card cut them up and have one for absolute emergencies. Do not worry; the credit card companies will

be glad to send you a new one if for some reason you need them again. The great part is you will not need anymore new credit cards because you will then be living frugally and within your income.

Another point to consider when setting up a consolidation loan is to ensure your amortization period (the time it takes to pay off the loan) is not too far into the future. The longer you make the amortization period, the lower the payments will be, but then you have to make payments to debt longer and pay more in interest. Try to keep it reasonable (4 or 5 years) and then before you know it you will be debt free.

Use the extra money in monthly savings to increase your savings account. If you are not quite at the level of saving 10% of your income, use these savings to help you get to that target, or if you are, then by all means put extra into your savings. David Chilton (author of *"The Wealthy Barber"*) suggests we strive for a 10% RRSP fund AND an additional 5% investment fund to supplement any pension savings we may have from our employer.

Keep you head up, and keep moving forward!

Scott A.