It’s time to start making your debt work for you

We have just entered the 14th consecutive month of historically low interest rates in Australia.

Whilst it is impossible to predict the future of interest rates, there has never been a better time to review your debts, find out if you can get a better deal or change your debt strategy.

Debt to create wealth

Whilst debt must be managed carefully, when structured correctly, it can be a powerful tool in creating long-term wealth.

Typically there are three different types of debt – good, bad and smart. An important step in wealth creating and ensuring your future financial prosperity is understanding how best to structure your debt so that you avoid bad debt and over time convert your good debt to smart debt.

Let’s explain…

'Bad Debt' is borrowing money - typically at a high interest rate to buy something destined to go down in value such as a used motor vehicle or plasma TV. Usually the loan provides no tax advantages. Bad Debt should be avoided or managed very carefully

'Good Debt' is what most of us would describe as necessary debt, the unpaid mortgage on the property we live in. While interest payments are not tax deductible, the home at least has the potential to grow in value over the long term.

'Smart Debt' is funding used to purchase an income producing asset. With this debt the interest cost may be tax deductible and the asset has the potential to grow in value over the long term.

The journey to smart debt may involve a number of steps.

1. **Debt consolidation** enables you to pool your debts into one loan with a more competitive interest rate. You will have one monthly repayment amount that is most likely to be less than the sum of the loans repayments you were paying previously. There are costs associated with debt consolidation so it is important that you get advice before taking action.
2. **Debt Recycling** changes the structure of your debt so bad debt is eliminated and good debt becomes smart (tax effective) debt.

To fix of not to fix?

Choosing the right debt strategy and type of interest rate can reduce the long term cost of a loan and therefore create greater opportunity to generate wealth and reach your financial goals sooner. The key is understanding how your debt impacts your entire financial circumstances.

Given historically low rates, it may also be time to consider fixing all or part of your loans, to take advantage before any increases occur.

To discuss your individual debt situation and find out if you can be saving money or owning your assets sooner, please contact us.