

A Personal Loan Can Save You Hundreds Of Dollars Every Month, If You Know What You're Doing



At Mike Mackenzie My Finance People we like to take a holistic approach to our client finances, so we look everywhere to see where we can be of value and help out. It's this slightly left field approach that allows us to be creative in achieving our clients goal sooner than they thought possible. One of the ways this is possible is using the often misunderstood financial product the personal loan.

Over the years the personal loan has got a lot of bad press. There is for some reason a negative connotation that if you need a personal loan then you can't afford it and you shouldn't get it. Or it will ruin my credit score and make it harder to get a home when I want that. Or the interest rates are so high, its just not worth it.

Personal loans are a tool in your financial belt and depending on how you use that tool, is whether it's considered a good tool or a bad tool. The very same can be said for credit cards and I will talk about that as well shortly. Getting a personal loan as long as it fits within your financial goals can be the smartest thing you can do, like everything it's all about the person using the tool.

The top 5 reason you should get a personal loan.

1. Emergency/life improvement
2. Getting rid of credit card debt
3. Debt consolidation
4. Buying a car

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Life is very unpredictable and sometimes you don't get enough notice to save the money you need. Unexpected funeral expenses, medical bills, moving house, the hot water system breaks, your best friend ask you to join them in Europe for the winter or you have to pay for a wedding. There are plenty of good reasons when you need a little bit extra cash right now and this is when a personal loan comes into play. Just remember personal loan are for large one off expenses not to assist you in living above your means, because this is where people get into financial trouble.

Please don't confuse personal loans with pay day lenders. Generally speaking a personal loan will be over \$4,000 and the interest rates while higher than a home loan are reasonable. Pay day lenders on the other hand do lots of ads on the telly about getting a quick \$500 when you need it. These loans kill your credit score which I will get into later in the blog.

Getting rid of credit card debt is usually one of the main reason people ask Mortgage Broker In Perth for a personal loan. Credit cards are normally the 'break in case of emergency' that most people have with their finances. The small problem is that if you don't pay off your credit card within the due date you get hit with massive interest bills that are normally around 20% but the highest I have seen so far is 28%.

The problem with credit cards is if you over spend this month because you didn't have any spare cash, how are you meant to pay off that amount next month plus the interest? \$5000 this month becomes \$5083 and that's only if you didn't overspend any extra during that month as well.

This quickly spirals out of control if you're not careful and before you know it you have three options left. Put your head in the sand and hope for the best (this only lasts for a short while), get a personal loan or credit card hop.

Credit card hopping has been pretty popular over the years and incase you haven't heard of it, I will explain it quickly. You transfer the balance of your current maxed out credit card to another credit card and usually they give you 0% finance for 6 or 12 months.

When any one offers you 0% finance there should be a little voice inside your head screaming whats the catch?

The banks know that if you got yourself into this problem then the chances are in 6-12 months you will still be in this problem situation and they will be getting all that debt they have taken on at 20%. Unfortunately in the western world we tend to use our credit cards to live above our means instead of only in emergencies.

Some smart cookies might be thinking well in 6-12 months I will just transfer to another credit card with 0% transfer balance and beat the system. Yes this can be done to a point, but you see every time you apply for credit it goes on your credit file and while your credit hopping this isn't really a problem. When you want to buy a car or a home then this might be a major issue you for you.

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Everyone has a credit score between 0 and 1200. How this number is determined no one really knows for sure, if you google it you find long blog explaining it but they don't go into the actual number crunching. One thing I know for sure is that every time you do a credit application it drops by about 30-70 points.

Your score might be at 900 and every 6 months you apply for a new credit card. No worries at the start but when you get down to around 600 this can have some major implications. Below 600 you might get declined for a credit card depending on which bank you applied for and if you want a personal loan or car loan it's going to be a much higher interest rate that what you see advertised because you now have bad credit. Below 500 good luck buying a house, it can be done but it will be a struggle and get ready for 6-8% interest on your home loan.

Because people are getting smart and beating the banks at their own game they have decided to alter the game. On your credit score they now keep tabs if you're making repayments on your credit cards, so it now works against you to have a large ongoing debt. If you go by the minimum repayments on your credit card by the time you pay it off the Fremantle Dockers will be playing finals again :D

But wait! The personal loan is here to rescue you. Due to the personal loan having structured principal and interest repayments as long as you keep up with the repayment it won't negatively effect your credit score. Not to mention to pay off a credit card in 5 years with a balance of \$10,000 and 22% interest will costs you \$276 per month and \$16,571 over the life of the loan.

Where to pay off a personal loan of \$10,000 at 11% interest will costs you \$217 per month and \$13,045 over the life of the loan. So by getting a personal loan you save \$59 per month and \$3,526 over 5 years. To me this sounds like a great financial decision and the sooner you make it the sooner you will be saving cash and getting ahead in life. Sure it would be best not to get into this situation in the first place but life happens and it's all about how you get back up.

Now debt consolidation usually involves credit cards but it also includes a lot more. I have had a few clients last year that had multiple credit cards and a car loan. Because they were screwed over by the car dealership, I was able to get them a personal loan at a cheaper rate than their car loan.

A car loan should always be cheaper than a personal loan because its secured but due to either poor credit history or dodgy car dealers, I have been able to get personal loans cheaper than car loans on a frequent basis.

There are three main benefits of using a personal loan for debt consolidation.

1. Knowing the debt will be gone in a certain time frame. With credit cards it can be ongoing debt that never goes away.
2. Only having to pay one person instead of 3-5 different lenders
3. Knowing what the repayment will be every month, so you can plan your budget.

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A personal loan can limit the stress that the debt has been building on you and that's something you can't put a price on.

As I mentioned above getting a car loan should be cheaper than getting a personal loan. However there are a few circumstances where a personal loan can be the right move to purchase your car with.

With credit scoring every time you apply for a loan it can drop your score by 30-70 points, but overtime your score gradually improves. The credit score is made up of what you do in the last 3 months, 1 year and 5 years. After 5 years it drops off your record, so the things you did in your youth don't haunt you for the rest of your financial life.

If you did lots of credit hopping between 2010-2012 and forgot to pay a phone bill in 2012 then when you got your car finance in 2015 you might have got a really high interest rate because you had bad credit. Now in 2019 all of the bad things you have done have fallen off your credit score, so you can refinance to a lower interest rate.

A lot of lenders don't offer finance on older car, so if you want to buy a 1969 Holden HT Monaro GTS 350 you're going to have to get a personal loan. Most lenders don't like to finance a car that will be over 12 years old at the end of the financial contract but sometimes you need that flexibility.

I had a young family that wanted to buy their first home and two years ago they bought a 2012 SUV because they needed the 7 seat capacity for their 3 kids so there wasn't WW3 in the back. They had 3 more years to pay off the car but the problem was that we were doing the loan through Keystart and they were over the 10% debt to income ratio. The only way we could get it under 10% so they could finally get their own home was to refinance the car over 7 years.

This put us over the 12 year rule which knocked out most lenders who would give us secured lending. The good news was that they had an excellent credit history and I was able to find them a personal loan that was the same as the car loan they had before.

In the finance world the banks have a lot of rules written in black and white. But as you have discovered by reading this blog there is a lot of grey and a lot more options than you are told about. Personal loans are a great tool that you can use to make your life better and to achieve your financial goals quicker if you have the right people helping you.

Contact me and start saving today.

Sincerely,

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HOME LOANS – CAR/PERSONAL LOANS – COMMERCIAL FINANCE – LEASING –
EQUIPMENT FINANCE – INSURANCE

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