What you need to know

IS IT TIME FOR DEBT CONSOLIDATION?

At various stages throughout the life cycle of your business there may have been a need for extra cash flow, be it when you were first starting out, to fund an expansion with the purchase of new equipment or maybe when you were struggling to call up a number of large outstanding debtors. If you did not have the necessary cash on hand at the time, you may have taken out an extra business loan, line of credit or funded it with the use of a credit card.

If you now have several sources of credit it's likely that you have multiple payments with various payment dates, interest rates and balances.

Is managing your loans becoming complex and too much to handle? Are you now looking at a further expansion of your business and need to release extra cash flow to fund this opportunity? Maybe business has slowed due to these uncertain times and you're just looking to free up extra cash flow to get to the other side?

If so, then maybe business debt consolidation could provide a possible solution.

What Is Debt Consolidation?

This process involves taking out a new loan that repays all your existing credit obligations (such as credit cards, lines of credit and leases) allowing you to take control of your finances by simplifying your finances and reducing your monthly repayments.

How? After consolidating your loans you end up with one loan, one monthly repayment and one interest rate. Importantly when you are looking for a new loan, you will want to look for a loan that offers a lower interest rate to obtain a financial benefit in the form of lower monthly repayments.

Sounds Just Like Re-financing!

Yes, they are very similar.

Re-financing is when you take out a new loan to replace an existing one. However the intent of debt consolidation is to pay off a number of your existing loans and replace them with one new loan with a lower interest rate or improved terms.

While the two are different, both involve applying for new credit in the same way.

Considerations – The Pros And Cons

The intent of consolidating your business loans is to release additional cash flow to either pursue a new opportunity or relieve current cash flow restraints.

This benefit is generally created as a result of the new loan having a:

1. lower interest rate than the average of your existing loans, and/or

2. new loan term that may be longer than at least one of your existing loans.

A longer loan term has the benefit of reducing your monthly repayments, however the downside is that you may possibly pay more interest over the entire loan term.

Repaying existing loans may also trigger early termination fees that need to be considered when calculating if there is a financial benefit for your debt consolidation.

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It is suggested that you contact the office so we can assist in determining if there is a financial benefit to your business having regard to your individual circumstances.

A detailed example of the pros and cons of debt consolidation is available here.

Reducing Interest Rates

Often the cheapest way to consolidate your debts is to utilise security for the new loan. This may include a mortgage over property or a charge over equipment or the business as a whole.

It is important to consider these options carefully and ensure that the utilisation of these items as security does not in any way place other limitations on your business.

However, if you do not have sufficient security to consolidate all your loans, you might need to work on the process in steps, initially rolling up the higher cost debts that you can consolidate – then down the track roll in other debts once you have made some ground on repayments.

Stay Focused

If you do consolidate all your debt due to current cash flow constraints within your business, it is important to be disciplined moving forward and not use the opportunity to incur further debts.

Accordingly it is recommended that all debt facilities that were rolled into the consolidated loan are closed even if not already required by the new lender. This will avoid the temptation to incur further debt and find yourself in a similar situation.

Need Certainty Moving Forward?

The need to consolidate your loans could arise due to uncertainty in cash flows arising from fluctuations in business expenses. If you are needing greater certainty with your cash flow moving forward, potentially all or part of your new loan could be a fixed interest rate product locking in repayments.

There Are Sharks

When you decide to consolidate or even refinance any debt you need to know the company you are dealing with is right for you. There are multiple companies offering online options - but be wary and make sure you do your research. You should beware of using a debt consolidation company that might charge you with high or hidden costs including steep application fees.

You should also be wary of accidentally allowing a provider to undertake a credit check before deciding on the suitability of a product or provider.

When you call the office we can assist in assessing the merits of likely lenders and help you avoid common mistakes.

On The Other Side

Once you have organised your debt consolidation, it's important that you use your new found cash flow wisely. Remember if there is no identified use there is always the opportunity to start paying down the new loan to avoid debt headaches in the future.

Contact us to find out the importance of keeping your credit score healthy.

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