# Debt Recycling

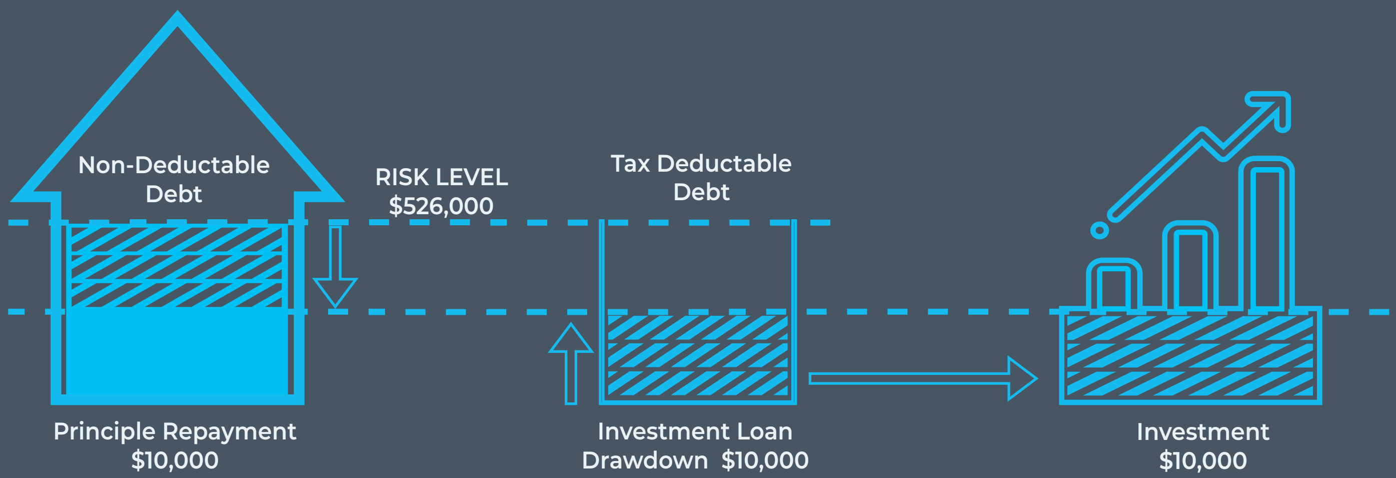
# Debt Recycling

**RSM Financials believes Debt Recycling is not about borrowing more, but managing your debt effectively!**

Debt Recycling in its simplest form is a strategy whereby if you repay $1.00 of your mortgage, you then borrow another $1.00 to invest. The $1.00 investment then earns income and growth. These earnings can then be re-invested to provide compounded returns or withdrawn and paid into your home loan as additional repayments.

Effectively, the strategy creates other income soures to help you reduce your personal debt faster and gain access to increased tax deductions. Debt Recycling converts the interest associated with your personal non-deductable debt into tax deductable interest as the borrrowings are now used for investment purposes

Where most go wrong when implementing a Gearing or Debt Recycling strategy is they borrow more than they currently owe! They do this because they want to buy the investment all at once or have their heart set on an investment property that is most likely not suitable to their financial position. This creates additional risk (borrowing) and has the potential to create additional stress and losses. If the dollar for dollar position is kept, the risk associated with the strategy is similar to that before the strategy started as you're carrying the same risk (loans). It is important to note that a Debt Recycling strategy maintains the risk level (debt position) you hold today, until such a point that you choose to sell the investment portfolio. You must be comfortable with the amount you owe on your home today!




Debt Recycling also provides two very beneficial outcomes when the strategy is regularly reviewed, which are:

- ✓ Compound Interest
- ✓ Dollar Cost Averaging

As the Debt Recycling process continues, the larger the investment will potentialy become through continued regular investments, capital gains and income generated. If the dollar for dollar strategy is maintained, your loan balance should not increase, giving greater chance that the investment balance remains above that of the combined home and investment loans. The strategy as it continues creates a larger investment balance, thus more earnings potential and greater access to growth oportunities. As the growth and income increase, so do the repayments attributed to your mortgage, should you choose for dividends to be distributed into the home loan.

The core purpose of Debt Recycling is to reduce your debt faster and more efficiently, whilst creating additional investments for lifestyle or retirement!

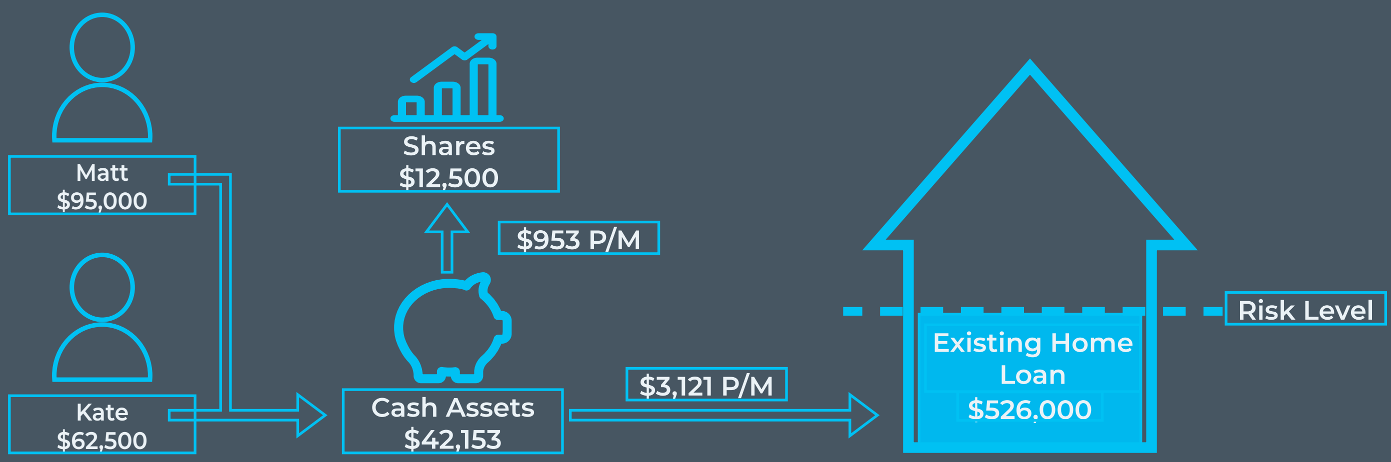
Would you like advice to consider the benefit of a Debt Recycling strategy? ☐

# Case Study - Matt & Kate

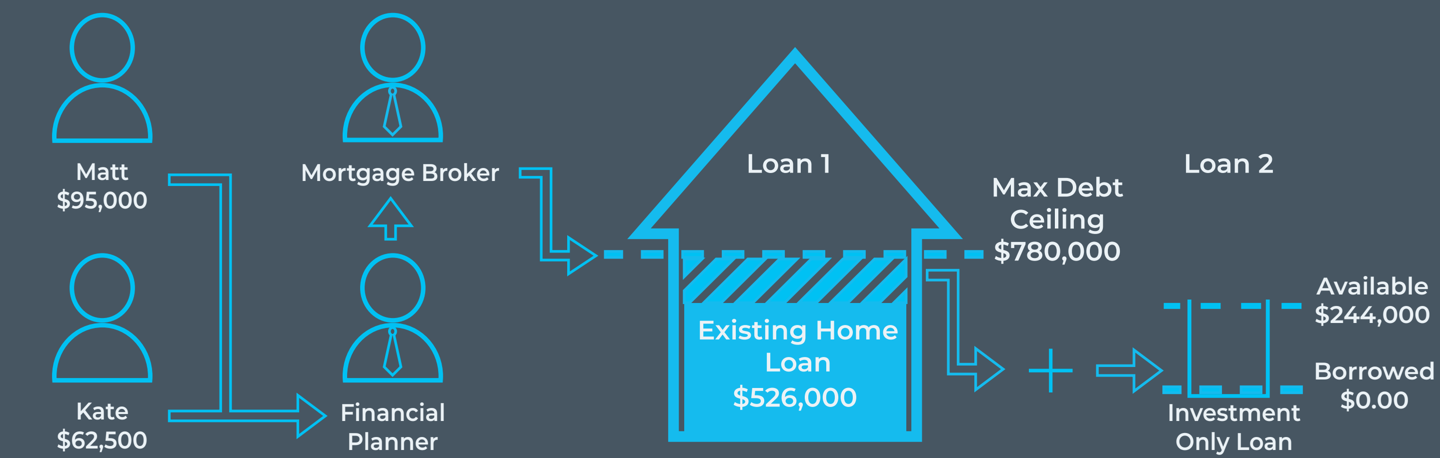
Matt and Kate are aware of the benefits of Gearing and paying off their home loan before investing the $220.00 per week or $953.00 per month as previously agreed. RSM Financial don't want Kate and Matt to borrow any more money than they currently owe, but ask Matt and Kate to consider Debt Recycling as a strategy.

Matt & Kate, are comfortable with the level of debt they have, but would like to reduce their personal borrowings so they can create investments to benefit their future. The couple see Debt Rcycling as a great way to meet both these objectives and ask RSM Financial for guidance and advice on a Debt Recycling Strategy.  RSM Financial provide Matt and Kate with the following visual aide in creating a Debt Recycling Strategy:

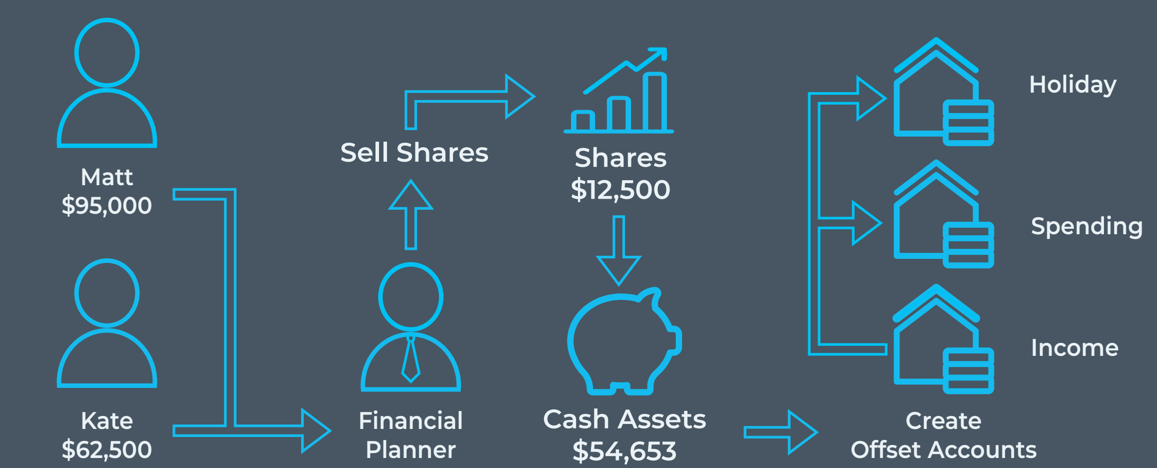
**STEP 1.** **Identify Existing Situation**



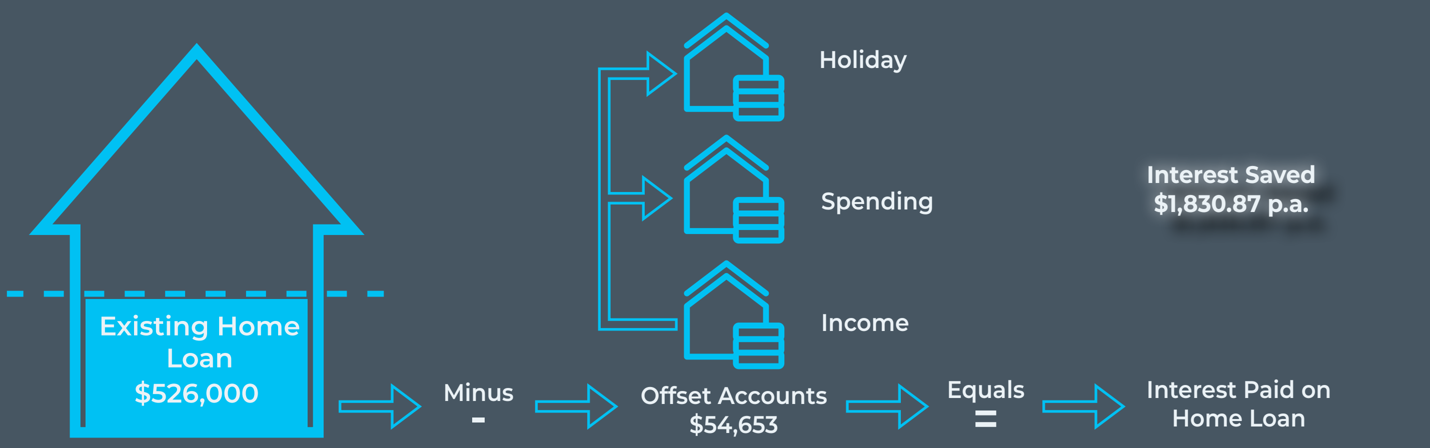

**STEP 2.** **Optimise Your Loan Structure to Create Seperate investment Loan Account**



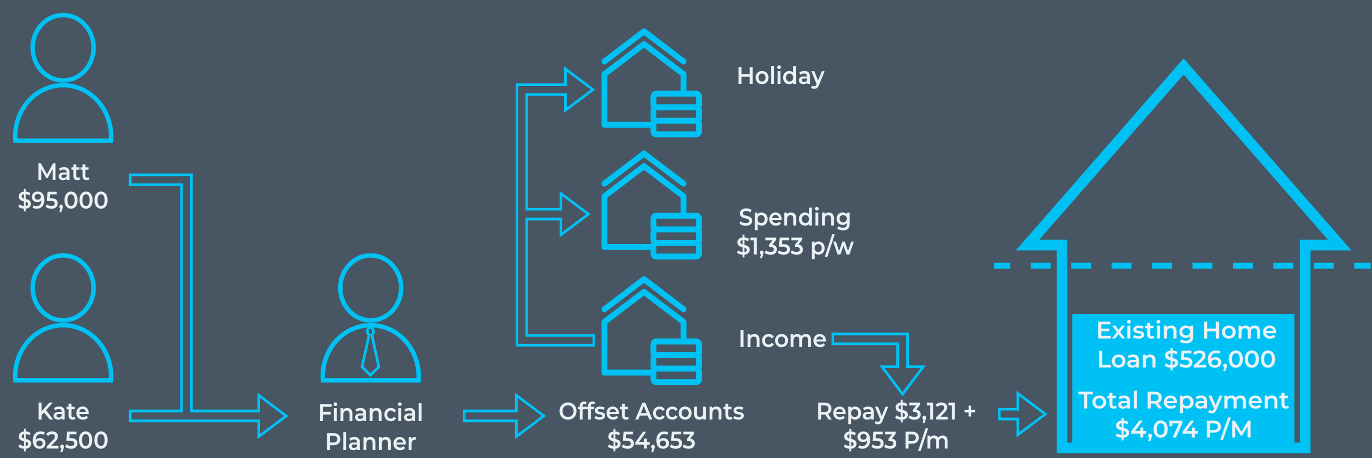

**STEP 3.** **Optimise Your Finances to reduce interest and create deductable debt**



## STEP 4. Link All Offset Accounts to Non-Deductable Loans (home loan)




## STEP 5. Automate Your Spending, Savings and Loan Repayment




## STEP 6. Seek Advice and Implement an Investment Portfolio - Growth Objective


### Financial Assumptions

Lifestyle Expenses: $70,400.00 p.a.

Existing loan repament: $3,121 P/M Principle & Interest

Rate of return : Growth 4.5%, Income 2.43%, 6.93% per annum

Ongoing investment Strategy: $953.00 p/m or $11,436 p.a.

Indexation: 2.4%

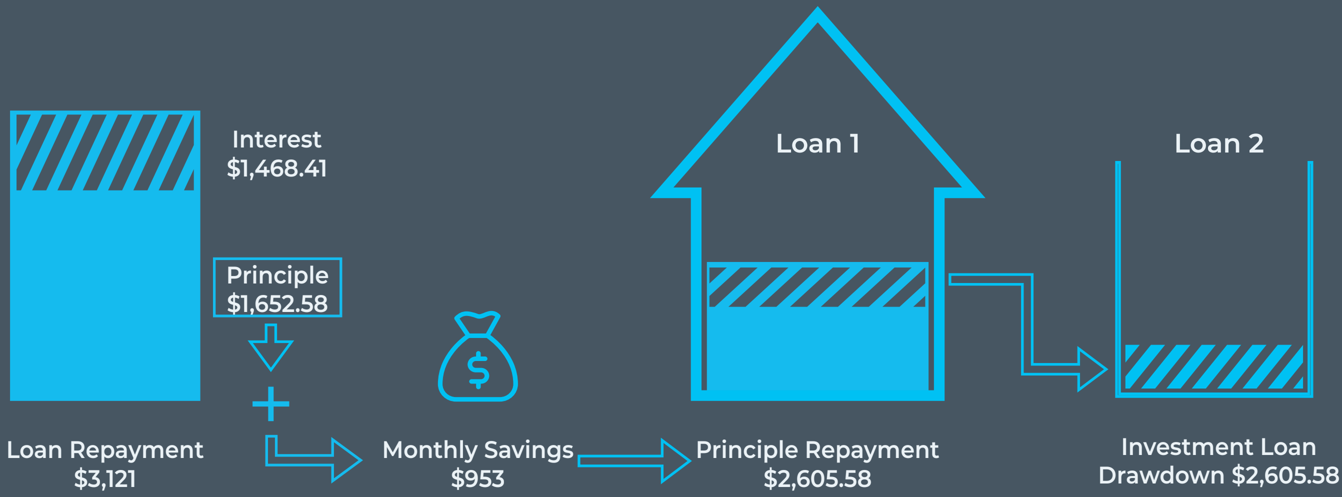
Dividends: Re-Invested

Home Loan Interest: 3.35%

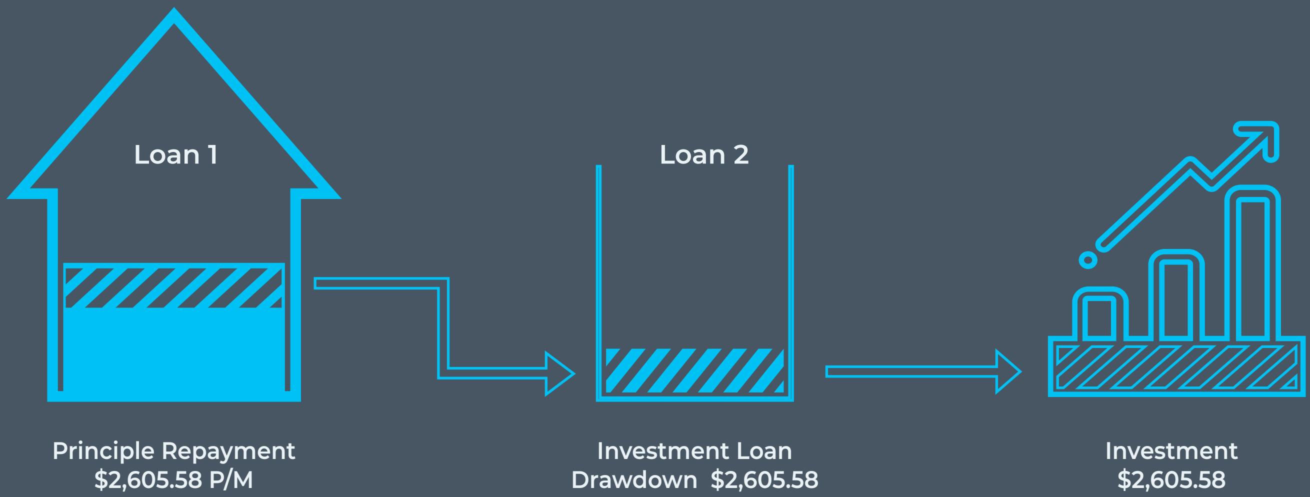
Investment cost : 0.85%

Investment Loan: 3.69% Interest only

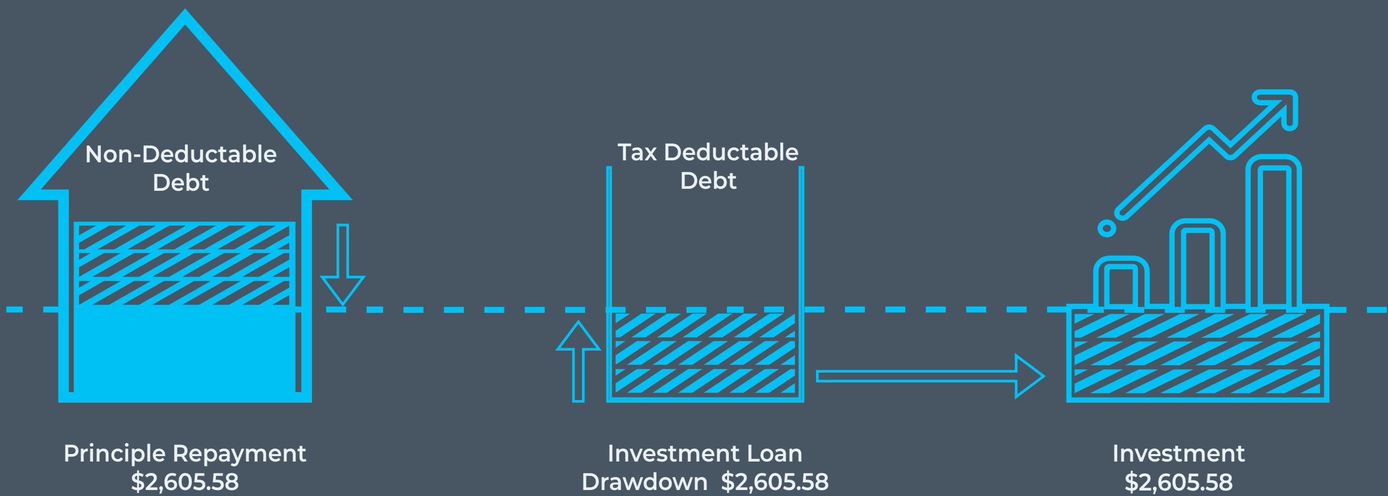
## STEP 7. Identify Monthly Principle Repayments made to the Home Loan




## STEP 8. Automate The Debt Recycling Strategy & investment Contribution




## STEP 9. Review the Debt Recycling & continually borrow to invest as the home loan is repaid




**Home Loan**: repaid in 13 years earlier

**Tax Savings**: $112,090 reduced tax over 13 years

**Investment Loan**: $497,000 in 13 years

**Investment Value**: $661,168 in 13 years

**WARNING:** the benefits shown are for illustrative purposes only, considerations made are limitied in nature and personal advice would consider nurmerous other suggestions and alterations. The illustrations shown should not be considered personal advice. Regular reviews would also assess the viability of the strategy to future circumstance.

## GET IN TOUCH!

RSM FINANCIAL
Address, 380-382 CANTERBURY RD, SURREY HILLS VIC 3127

Phone 03 9276 0908
Email financialservices@rsmgroup.com.au
Web www.rsmfinancial.com.au