

# DEBT CONSOLIDATION TIPS AND TRICKS

INFORMATION GUIDE

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## **What is a Debt Consolidation Loan?**

A debt consolidation loan can help you group multiple sources of debt into one manageable payment. When you apply for a loan, lenders will qualify you based on your credit score.

A debt consolidation loan is a lump sum of money that you will use to pay off your sources of debt which typically are higher interest. The lump sum of money will pay off those debts and then you will pay back the single loan on a monthly basis until the balance is zero and you are debt free.

For example, you could use a debt consolidation loan to pay off outstanding credit card debt, store credit cards, furniture financing programs, as well as Pay Day and Student Loans. If you have found yourself with too much high interest debt and you are struggling month to month pay it off in a timely manner, a debt consolidation loan can be an excellent tool to help jump start your debt repayment progress.

## **What Are the Benefits?**

There are 2 key benefits to combining all your debt into one loan payment...

- 1) a lower interest rate
- 2) one single payment to manage vs many

If you have any kind of credit card debt, you could be paying close to 30% interest on your debt (sometimes more). With an interest rate that high, it can be a huge challenge to make progress on getting rid of your debt, since so much of your monthly payment is going toward interest. Debt consolidation loans in Ontario tend to have significantly lower interest rates. If you have a good credit score, you can expect interest rates as low as high single digits.

### **What Options Are There to Consolidate Debt?**

Using the equity in your home is a great way to access the funds to pay off high-interest debt. Instead of taking out a separate loan agreement, a homeowner can tap into equity and merge all monthly liability payments into a payment that comfortably fits in the budget.

Examples of second mortgage options that would provide the funds to ease the monthly financial strain can include:

- > Home Equity Loans
- > Home Equity Lines of Credit (HELOC)
- > Debt Consolidation Loan
- > Second mortgage

All of these mortgage options have several things in common. You must own your home, you must have significant equity built in your home, it helps to have good credit in addition to a substantial household income, and the appraised value of your property will play a significant role when it comes to determining the overall amount of the loan.

## **What If You Have Bad or Poor Credit?**

While taking out a debt consolidation loan may be difficult through a bank, a homeowner with poor credit will be able to take out a private second mortgage option to help limit debt payments to one monthly payment.

While a bank will require a very strong credit score and sizable household income to approve a second mortgage, private lenders in Ontario will be able to base a second mortgage on the appraised value, location, and condition of your property. A private lender will calculate the LTV when determining the mortgage amount.

Generally, a private lender will not exceed an LTV of 75% for most urban properties and up to 65% for rural properties. A private lender will also need to assess if there are any problems or ongoing issues with the property such as water damage. The loan will be leveraged on the property in question, so a thorough evaluation is necessary to determine the final private mortgage loan amount.

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Don't let your debt get on top of you. Explore the mortgage options that will enable you to reduce the number of monthly debt payments by utilizing the equity in your home. We can access a broad network of well-established and experienced private lenders who can advise you on the best debt consolidation options open to you despite credit issues.

**Contact us at your convenience to set a time to discuss your unique financial goals.**

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