Debt Consolidation

RETIREMENT PLANNING
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Debt Consolidating is growing in popularity with retired Canadians. It is a topic that draws a lot of confusion regarding whether it is a good idea, if it affects your credit or if it simply places you down another path of regret down the road.

What exactly is debt consolidation?

Debt Consolidation involves paying off smaller loans with a larger loan at a lower interest rate. Typically, smaller loans have higher interest rates. For example, a credit card interest rate can be at 19.99% on purchases, whereas a 5-year Reverse Mortgage has a 5.49% interest rate with HomEquity Bank, available through Cashin Mortgages.
Simply put, a debt consolidation loan is a single loan that allows you to repay your debts to your other creditors at once with the goal of consolidating with a lower interest loan.

Pros of debt consolidation:

- The lower the interest rate, the sooner you can get out of debt. You will pay less money towards interest, and more towards your actual loan, essentially getting you out of debt faster.
- You will only have to make one debt payment each month, which is more manageable and less confusing than managing multiple debt payments with different interest rates each month.
- If you use your assets (such as your home), you can secure a lower interest rate and in the case of using your *reverse mortgage* funds to pay off your smaller loans, you won't even have to make any monthly payments until your mortgage is due (when you decide to move or sell your home).

Cons of debt consolidation:

- If you have chosen to consolidate your smaller loans, such as a credit card loan, with a larger (lower interest rate) loan, it is important not to continue spending as you did before, otherwise you can risk going further into debt.
- A larger loan with a financial institution will require prompt payments. If you were struggling to pay your debts before, it could very well still pose a challenge to repay your new consolidated loan. However, you can look at large home equity loans such as a reverse mortgage, which does not require any monthly payments.
- If you were required to have a co-signer sign your loan with you, you can run the risk of leaving your co-signer to pay the amount due, if you cannot pay it yourself.

The household debt to income ratio has hit record levels in Canada due to the increasing price of real estate. This has resulted in many Canadians borrowing more for their day-to-day expenditures. Debt consolidation is therefore a growing consideration in Canada. By using a reverse mortgage to consolidate your debt, you are guaranteed **no more monthly payments!** For more information on how a reverse mortgage can help you consolidate your debt and reduce your monthly payments, contact Cashin Mortgages at 416-898-7600.