Consolidation Loans in Canada: A Retiree's Perspective

RETIREMENT PLANNING

MAY 23, 2017

So what exactly is a consolidation loan?

Simply put, a *debt consolidation loan* allows you to take multiple debts and put them into one convenient account, typically at a lower interest rate.

Why are Canadians opting to consolidate their loans?

More Canadians are looking into consolidation loans to minimize the interest they are paying on their current high interest debt, such as credit card, and private loans. A consolidation loan allows you to simplify your finances by minimizing it to one (lower interest) monthly payment rather than multiple higher interest debts.

How are consolidation loans issued? (eligibility criteria, interest rates)

You can get a consolidation loan from a financial institution such as a bank or a credit union. However, these financial institutions typically lend around 10% of a borrower's net worth (assets minus debts) in an unsecured loan. Therefore, if you needed a debt consolidation loan of $50,000, but your net worth is only $50,000, the bank will likely decline your request and only offer you a $5,000 unsecured loan (10% of your net worth).[1]

Alternatively, a bank could also suggest that you offer some security for the loan, such as a vehicle without a loan on it. In this case, a bank would lend you up to a maximum "black book" value of your vehicle (a database of conservative vehicle values less than the fair market price of the vehicle).

Another option is to apply for a home equity or personal line of credit with a lower interest rate through a financial institution. However, you must qualify for a line of credit and your income as well as your assets all determine whether the bank or financial institution will grant you a line of credit and for how much.

Are consolidation loans the right solution for retirees?

As the number of seniors in Canada rises, we are seeing more retirees struggling to make ends meet. Many prefer to stay in their homes, but they could be having trouble with the financial upkeep of their homes including the increased cost of utilities, property taxes and even retrofitting/renovating their homes to accommodate them as they age. Credit Cards are often used to pay for immediate costs, but credit card loans have high interest rates and the loan balance can build up quite quickly.

According to an Equifax study in 2015, Canadians over the age of 65 are taking on more debt at a faster rate than the rest of the population. Seniors are also behaving differently than the previous generation of seniors. Many are staying in the workforce longer and many are also helping adult children or family members in financial hardship.

A consolidation loan can help relieve retirees of their high interest debts such as credit card debt and other loans from private lenders. By consolidating their debt to a lower interest rate loan, a retiree can save on a lot of interest costs annually.

Consolidation loans vs. Reverse Mortgage

Consolidation loans from financial institutions can be very limited since financial institutions only lend an estimated 10% of a borrower's net worth (assets minus debts). If you have accumulated a lot of debt over time, this will affect how much you will qualify for. You will also be required to make monthly payments to pay off the loan over time.

As an alternative, if you are 55+ and you own a home, a CHIP Reverse Mortgage from HomEquity Bank provides up to 55% of the value of your home in tax-free cash (either lump sum or monthly) and the best part is, there are no regular mortgage payments, not even interest payments until you move, sell or pass away. The CHIP Reverse Mortgage can be a great alternative to consolidate your much higher interest rate loans to minimize your accumulating debt.

For more information about consolidation loans, speak to your financial advisor. To find out more about how a CHIP Reverse Mortgage can help you, get your *free guide* or contact HomEquity Bank for a no obligation information session today at 1-866-522-2447.

[1] *http://www.mymoneycoach.ca/budgeting/loans-debt-credit/budgeting-consolidating-debts* Provided by the Credit Counselling Society (CCS).