How to consolidate debt

FREEDOM MORTGAGE®

Get the details on whether consolidating your debt is a financially smart move.

If you have a home loan, credit card debt and other outstanding debt you may want to consider consolidation. Debt consolidation can make bill paying simpler and easier by combining high-interest debt into one single payment typically with a lower interest rate. We'll explain how to consolidate debt and what to consider before you make a debt consolidation plan.

What is debt consolidation?

Debt consolidation is a strategy to merge bills into one debt payment. This is usually done to get a better interest rate, make it easier to manage your bills and save time by just paying one bill instead of many. It's especially helpful if you have high-interest rate credit cards.

How does debt consolidation work?

To consolidate debt you would take out a loan from a lender and use that money to pay off smaller debts that you may have, which could include credit cards, medical bills, loans, past due bills, etc. Before you decide to consolidate you should calculate your total bills and how much interest you currently pay.

Should I consolidate my debt?

Unsure whether you should consolidate your debt? Here are some reasons that people look for debt consolidation options:

- Your bills are more than your income each month
- Your credit card bills are growing
- You are almost at your credit card limits
- You are only paying the minimum each month
- Your credit score is decreasing
- You have multiple credit cards with outstanding balances
- You're having trouble keeping track of all of your bills and when they're due

If these reasons sound like your financial situation, you may want to take charge of your finances by consolidating your debt. Debt consolidation can make it easy on yourself to keep track of your payments before it severely affects your credit and your ability to get approved for any loan or credit in the future.

Is debt consolidation a good idea?

Whether debt consolidation is a good idea depends on your financial situation and the debt consolidation solution you are considering. You don't want to consolidate if you can't afford the payments or if the solution would cost you more in the long run.

Here are some of the potential benefits of consolidating your debt:

- One payment. Consolidating your debt allows you to focus on one payment to help you manage your bills instead of keeping track of multiple payments. This can also help you avoid late fees if you regularly miss payment due dates or lose mail.
- Save on interest. Credit card interest is quite high (typically around 15%), so you may qualify for a new loan with a lower rate, which could save you money in the long term.
- Pay off debt faster. By consolidating debt, you can pay it off faster.
- You could improve your credit score. By combining your payments into one and cutting down on too many open balances you can help improve your credit score.

Debt consolidation options with Freedom Mortgage

One way to consolidate debt if you're a home owner is through a cash out refinance. With a cash out refinance, you tap into your home's equity by refinancing your home into a new mortgage for the balance plus the cash you took out. The cash out proceeds can be used to pay off your debt and have just one bill to pay, your monthly mortgage payment. Your mortgage payments could be higher or lower depending on current mortgage rates and the term you select. Keep in mind even if your rate may be slightly higher, a home loan has a much lower interest rate than credit card debt, so you will see some savings in interest and with one payment you should have a little extra cash on hand each month. Cash out refinances are also good for those with less than perfect credit, so you should have an easier time securing a refinance than taking out a new separate loan outright.

Just note that tax laws have changed recently, so consult your tax advisor for more details about interest deductibility. Also keep in mind that through consolidation into a mortgage, you likely extended the length of time of your mortgage so you will be paying off that debt for longer. However, interest rates are still about 10% less than credit card rates, so there can still be savings. If you are able to refinance to a shorter term instead of going back to a 30 year loan, the consolidation can be even more financially beneficial.

HELOC for debt consolidation

Another way to consolidate is with a Home Equity Line of Credit (HELOC), which is a new loan that uses your home as collateral. Rates are lower than a credit card, but HELOC interest rates are adjustable, so if rates rise, so do your payments. HELOCs also require a higher credit score, so take that into consideration when making a decision on consolidation. Learn more about HELOC loans.

To determine if you should consolidate your debt, look at how much debt you have, the interest rates, and how much equity is in your home. Freedom Mortgage home loan specialists are here to help, call 577-220-5533 or contact our loan specialists online to see if a debt consolidation with a cash out refinance can help you save each month!