Should you consolidate your debts?

Learn the requirements for debt consolidation loans

When faced with outstanding debt, such as credit cards, consider the value of debt consolidation. Debt consolidation simplifies bill paying by combining high-interest debts into a single loan payment, often at a lower interest rate.

What's a great way to consolidate debt? Should you consider the cash out refinances Freedom Mortgage provides for debt consolidation? Read on.

How does debt consolidation work?

Debt consolidation merges several bills into one debt payment, usually with a new loan with a lower interest rate than your current debts. The money from this new loan pays off higher-interest bills, and you save time by making just one monthly loan payment. Debt consolidation is especially helpful to pay off high-interest credit card debt.

When should you consolidate your debts?

Consolidate debts when it makes financial sense*. Ideally, a new debt consolidation loan should have a lower interest rate than your current debts. Consider closing costs and make sure you can afford the new debt consolidation loan's monthly payments.

Remember, debt consolidation does not make your debts "disappear." These loans can make managing your debts simpler by consolidating bills into a single payment, and they may help you save money on interest, but they do not reduce the amount of money you owe. Only making the payments on your new loan each month (including the payments of principal) can do that.

Cash out refinances for debt consolidation

One way to consolidate debts is with a cash out refinance. With a cash out refinance, you replace your current mortgage with a new mortgage for a higher amount and get the difference in cash at closing.

You'll need equity in your home for a cash out refinance, and you'll need to meet lender requirements for credit score, loan-to-value ratio, and debt-to-income ratio to be approved. You may also need to provide a new set of income and financial documents, along with an appraisal to establish your home's current value.

Cash out refinances increase the amount of money you owe on your mortgage and your monthly payments may be higher. You may pay more money in interest over the life of the loan, but this may be offset by the potential benefits of consolidating your debts.

HELOCs and home equity loans for debt consolidation

Home equity lines of credit (or "HELOCs") and home equity loans are two more ways you can use your home equity to consolidate debts. To learn more about these options, see our article on HELOCs and home equity loans. You may be able to get loans for debt consolidation from banks and credit unions as well.

Ask us if you qualify

To learn if you meet the requirements for a cash out refinance, talk to one of our knowledgeable Loan Advisors by completing our Get Started form.

* Freedom Mortgage Corporation is not a financial advisor. The ideas outlined above are for informational purposes only, are not intended as investment or financial advice, and should not be construed as such. Consult a financial advisor before making important personal financial decisions, and consult a tax advisor regarding tax implications and the deductibility of mortgage interest.

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