Debt Consolidation

Generally, real estate provides the opportunity to secure the most cost effective debt available in the form of a mortgage. As real estate is used as a recourse against a mortgage, it provides the lender with additional security allowing them to lend with greater certainty and at a lower interest rate. The key is to remember that by doing so, all debts will be extended for the life of the mortgage.

In the instance that you do not have real estate as security, a lender can provide either an unsecured business loan or apply a general security charge over your business or its assets. This is however harder to attain and may not be available depending on the financial situation of your business.

How It Works

To ensure that you are minimising your interest payable on a soon to expire interest free loan or credit card that is unlikely to be paid off in the foreseeable future, you may like to consider debt consolidation as part of your debt reduction strategy. This involves taking multiple debts and consolidating them into one loan with a much lower average interest rate. A home loan usually has the lowest interest rate.

Example

Debts before consolidation:

Existing Loans	Interest Rate	Balance	Monthly Repayment	Term Remaining (months)	Total Payable
Line of credit	5.00%	75,000	4,334	18	78,004
Equipment loan	9.00%	65,000	2,067	36	74,411
Truck loan	8.50%	22,500	555	48	26,620
Credit card	19.50%	12,500	313	65	20,313
		175,000	7,268		199,348
New loan	5.50%	175,000	4,070	48	195,654

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Consolidating your debts into your existing mortgage at an interest rate of 5.5% could achieve a number of objectives:

Reducing your interest paid - Ideally you should maintain your current monthly payments and aim to reduce your debt more quickly to take advantage of a lower average interest rate if you are able to secure the new loan against a mortgage that is typically lower in interest rates.

Reducing your monthly repayments - Sometimes when you consolidate your debts, it gives you a false sense of security with the additional cashflow available to spend each month. Don't be fooled as you may end up in a less desirable financial position.

Every financial situation is unique and you may be able to consolidate your mortgage at a much lower rate of 3% for example, but it may not be an ideal situation to place business debt into a home mortgage.

If debt consolidation is on your mind, please have a chat to us so we can walk you through the various options that are most suitable for your situation so you can make the most informed decision.