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FACTSHEET MORTGAGES

# DEBT CONSOLIDATION

*The process of combining all of your outstanding debts into one loan*

Debt consolidation is the process of combining all of your outstanding debts into one loan, with the ultimate goal of paying off your debts with a lower interest rate. Consolidating loans works for some people and doesn't for others; it depends entirely on your financial situation.

If it means that you will pay less in fees and interest then it could be an appropriate solution for you. If it's just a short-term fix and you can't meet the repayments in the long term, then you may want to consider other solutions.

This is normally carried out in two different ways: a secured loan or using an unsecured debt management plan. A secured debt consolidation loan may be offered to you at a low interest rate as the loan is secured against your house. Although the loan is secure, you are permitted to pay unsecured debt with it, such as loans, credit card bills, store cards and overdrafts.

It is important to consider that if you do not keep up to date with the loan repayments, your home could be at risk of repossession.

## POTENTIAL PROS AND CONS

**The pros:**

- Debt consolidation loans usually have a lower interest rate and tend to be spread over a longer period, so your weekly or monthly payments are smaller.
- Debt consolidation can make budgeting easier because you only have to manage one loan.
- You will often pay a lower interest rate with a consolidation loan than you will with hire purchase and credit card debt.
- However, debt consolidation won't solve your problems if you continue to take on new debt. It takes discipline – your focus needs to be on getting rid of your existing debt rather than adding to it.
- If you need to borrow to make ends meet or can't resist the temptation of easy credit, you should seek professional advice and help.

**The Cons:**

- Consolidating or refinancing loans can work if it means you will pay less in fees and interest. But there are risks.
- It may be a short-term fix if you can't meet the repayments on the new loan.
- Lower repayments but over a longer term can add to the overall cost because you're paying interest for longer.
- There can be extra fees and charges including fees for alterations, late payments and payment defaults. You could even be charged for paying off your existing loans early.

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- Find out the total cost of consolidating before you proceed. Shop around and make sure you read all the small print.
- Once your current debts are cleared, avoid the temptation to keep on spending and get further into debt.

## INCREASING YOUR MORTGAGE

If you own your own home, an alternative option to consider could be extending your mortgage to cover all your debts. If you have a number of loans that charge high interest rates, it could be cheaper to pay them off by increasing your mortgage.

To make this work, you'll need to increase your mortgage repayments so the date you will pay off your mortgage stays the same. However, remember that because you're paying the new lending off over a longer period, the total you'll pay back will be higher.

Ideally, if you can, you'll make your repayments the same as the total repayments you were making on all your loans. But because mortgage interest rates are lower, you'll pay the total off quicker.

## PROFESSIONAL FINANCIAL ADVICE YOU CAN TRUST

There is no need to spend hours searching mortgage comparison sites – we'll give you whole of market independent advice. Simply contact us now by phone or by email and one of our experienced advisers will be happy to help. We look forward to hearing from you.