Would I Qualify for a Debt Consolidation Loan?

Once you’ve done your research and determined that a debt consolidation loan would be the right option for you, then your next question may be the most important one of all: Would I qualify for debt consolidation?

When applying for debt consolidation loans, the chance of qualifying is to some degree is uncertain because of the different way’s lenders approve or deny loans. Although people that have the worst credit out there might qualify for debt settlement, the same person may find it difficult, or impossible to qualify when applying for debt consolidation. There are multiple factors that impact the final decision by the lenders in determining whether to qualify you. It is important to know what these factors are and if you should attempt to apply.

**The Correct Types of Debt**

There are certain debts that debt consolidation will cover, and others it will not (just like with debt settlement). Usually, only consumer debts will be included in the consolidation loan, but there are situations when other forms of secured debts can be included, such as with a Home Equity Line of Credit or second mortgage for paying off existing consumer debt.

**Debt Service Ratio**

Your debt service ratio will often be a considered factor by lenders when evaluating a debt consolidation loan application. The debt service ratio is an average percentage of all minimum debt payments compared to your total monthly income. This includes unsecured consumer debt payments, as well as secured debts like a mortgage. For instance, if you bring in $5,000 monthly, and pay a minimum of $2,000 across all debts, your debt service ratio is 40%.

It is recommended by the majority of finance professionals that debt service ratio should be less than 35%. Therefore, when your ratio is above this, it will be hard to find a lender to qualify you for a debt consolidation loan. If your debt service ratio is over 35%, it may be best to consider your next best option that has a higher chance of qualifying.

**Credit Rating**

Obviously, the better your credit the easier it will be to qualify for a loan of any type, including a debt consolidation loan. Having poor credit is not an instant disqualification, but having an extremely low score will make it much more difficult to be approved, and could require a co-signer to qualify. Typically, long as your debt service ratio is under 35% and you’re able to pay the minimum payments on time, you have a good chance of approval.

However, if your credit score is too low for debt consolidation, your only options may be bankruptcy or consumer proposal.

**Get Started**

To get more information on debt relief, fill out our debt relief form and we will reach out to you with the best solution for you.