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A debt consolidation loan is a debt instrument to consolidate multiple debts into one. The new loan may be subject to a lower interest rate, thus reducing the interest payments. Only one monthly payment is made, and household budgeting becomes much easier.

While debt consolidation comes with many advantages, getting a consolidation loan is easy only on condition that the borrower meets some requirements. The monthly income should be over a specified amount, proving to the creditor that the loan will be paid off. As an applicant, the bank will require that you have a stable job or another source of income. The credit union or bank evaluates the financial situation of the borrower and his ability to pay off the loan. The borrower should bring last year's tax returns, together with the most recent pay stubs when applying for a debt consolidation loan. In some cases, the financial institution of the applicant may require that a cosigner guarantees the loan. He/ she will be responsible for the repayment of the loan if the original borrower is unable to service it. In other cases, collateral may be required such as a house, car, or another valuable.

In Canada, debt consolidation loans for non homeowners are offered for different types of loans - personal loans, credit card debt, and others. Typically, only unsecured loans are consolidated as opposed to mortgage loans, which are secured ones. The loan for people with bad credit will come with a variable or fixed interest rate. The interest rate will be lower, but the loan is to be repaid over a longer period of time. A larger amount may have to be repaid in the long run. Moreover, if he/ she continues using multiple credit cards, the risk of incurring more debt is high. In this case, the crediting institution will not be as sympathetic to late and missed payments.

Crediworthy borrowers are usually offered debt consolidation loans because they are considered regular payers. Homeowners are considered more stable compared to borrowers who rent. Even if the borrower is unable to pay off the loan, the creditor can foreclose on the property. The lender can sell the property and use the proceeds to pay off the loan. Borrowers who cannot offer collateral will be able to consolidate only a part of their loans. Those who have $40,000 of equity in their home will not have a problem to consolidate $25,000 of debt.

Some banks will also prefer that the applicant has a certain debt to income ratio. The borrower's monthly disposable income should be between ten and fifteen percent of his gross income.

To learn more about debt consolidation read the loan guide discussing popular financial topics.