

SHAWN SELANDERS

The Debt Consolidation Guide

*Should you roll your debts into your mortgage?
How it works, who qualifies, and the critical mistake to avoid.*

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What Is Debt Consolidation?

Debt consolidation means combining multiple high-interest debts — credit cards, car loans, personal loans, lines of credit — into your mortgage at a much lower interest rate. Instead of paying 20% on a credit card and 8% on a car loan, you pay 4–5% on everything through your mortgage.

The Monthly Savings Can Be Dramatic

Someone paying \$1,500/month across credit cards, a car loan, and a line of credit might see those combined payments drop to \$400–\$500/month when consolidated into their mortgage. That's \$1,000+ per month in freed-up cash flow.

The interest rate difference drives the savings. A \$20,000 credit card balance at 20% costs \$4,000 per year in interest alone. The same balance at 4.5% in your mortgage costs \$900 per year. That's \$3,100 saved annually on just one card.

How It Works — Refinancing Your Mortgage

To consolidate, you refinance your existing mortgage for a higher amount that covers your current balance PLUS your other debts. The new mortgage replaces everything — one payment, one rate, one due date.

Most lenders allow refinancing up to 80% of your home's appraised value. If your home is worth \$500,000, your maximum mortgage is \$400,000. If your current mortgage is \$300,000, you have \$100,000 available to consolidate debts.

Who Qualifies?

- **Sufficient home equity:** You need enough room between your current mortgage and 80% of your home's value to cover the debts you want to consolidate.
- **Ability to qualify:** You must pass the stress test on the new, higher mortgage amount. However, the debts being paid off are removed from your TDS, which often improves your ratios.
- **Reasonable credit:** Some bruising from carrying heavy debt is expected, but active collections, recent bankruptcies, or very low scores may limit options. Alternative lenders exist for these situations.

⚠ Support payments (child support, spousal support, alimony) count as debts in your TDS even after consolidation. They cannot be "consolidated away." Make sure your broker accounts for these.

The Critical Mistake — Don't Do This

Do NOT consolidate your debts and then run up your credit cards again.

This is the #1 cause of financial disaster in debt consolidation. You consolidate \$40,000 in credit card debt into your mortgage, freeing up \$1,000/month. Then over the next 2–3 years, you accumulate \$30,000 in new credit card debt. Now you have a bigger mortgage AND new credit card debt. You're worse off than before.

Some lenders will require you to close your credit card accounts as a condition of the consolidation. This is actually a protection, not a punishment. If you must keep a card for emergencies, keep ONE with a low limit.

The Amortization Trade-Off

Here's the catch: when you roll a \$20,000 credit card into a 25-year mortgage, you're spreading that debt over a much longer period. Even at a lower rate, you could end up paying more total interest than if you'd attacked the credit card aggressively over 3 years.

The solution: take the monthly savings from consolidation and redirect at least half of it into extra mortgage payments. This pays off the consolidated debt in a fraction of the time while still giving you breathing room in your budget.

What About the Penalty?

If you're breaking your mortgage mid-term to refinance, you'll face a prepayment penalty — three months' interest (variable) or the Interest Rate Differential (fixed). The penalty can range from \$3,000 to \$30,000+ depending on your mortgage type and rate.

In many cases, the interest savings from consolidating high-rate debts far outweigh the penalty. Your broker can calculate the exact breakeven point. Some options, like a blend-and-extend, may avoid the penalty entirely.

Alternative: Home Equity Line of Credit (HELOC)

Instead of refinancing, you may be able to set up a HELOC against your home equity. A HELOC gives you a revolving credit line at a much lower rate than credit cards (typically prime + 0.5% to 1.5%). You use the HELOC to pay off your high-interest debts, then pay down the HELOC.

The advantage: no mortgage penalty. The disadvantage: HELOC rates are variable and the credit is revolving, which requires discipline to pay down rather than maintain.

When Consolidation Makes Sense

- You have \$15,000+ in high-interest debt eating up your monthly budget.
- You have sufficient home equity (at least 20% after the consolidation).
- You're committed to not accumulating new debt.
- The interest savings outweigh any prepayment penalty.
- You'll redirect at least some of the monthly savings to accelerated mortgage payments.

Important Disclaimers

This guide provides general information only and is not a commitment to lend, rate guarantee, or pre-approval. All figures are approximate and must be verified with your mortgage broker and realtor before making any decisions. Lender guidelines, insurer policies, and government programs change frequently. Support payments (child support, spousal support, alimony) affect qualification. 50% of condo fees and 100% of HOA fees are included in debt servicing. Canadian semi-annual compounding applies to all mortgage calculations. Information compiled as of March 2026. OAC. E.&O.E.

Ready to take the next step?

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