

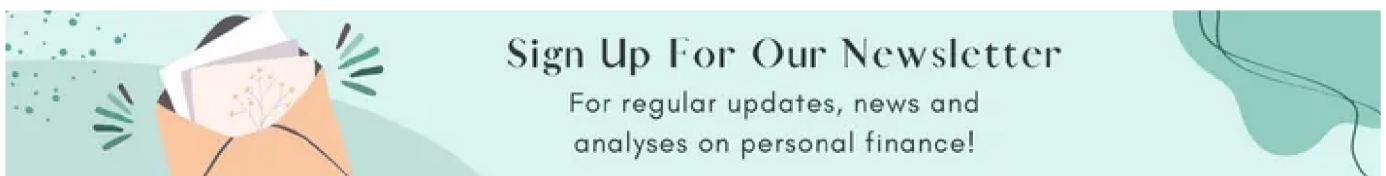
Blog > Debt Consolidation Plans

What's a Debt Consolidation Plan and Who Needs It?

Are you juggling multiple loans and credit card bills? Finding it difficult to pay off their monthly instalments punctually? Enter the debt consolidation plan. We'll show you how this loan type helps you out with your debt, and who else it's best for.



by [ValueChampion Editorial Team](#) on Apr 11, 2024



For the more pessimistic among us, adulting only ever seems to get tougher. Commitments can pile up quickly, with the triple whammy of marriage, [home ownership](#), and [parenthood](#) being the most common burden people shoulder. As a result, most folks would have to take up a loan or two to finance these milestones.

Amidst all of life's demands, it can be difficult to keep up with your monthly loan repayments. Don't forget your [credit card bills](#) too. If you do find yourself struggling with several forms of debt, you should strongly consider biting the bullet and applying for a [debt consolidation plan](#).

Because of how it functions, a debt consolidation plan will alleviate a load off your mind when it comes to repaying multiple monthly instalments. Continue reading to learn more about this loan type, and who exactly it's suitable for.

What Is a Debt Consolidation Plan?

As you can guess from its name, a debt consolidation plan groups all your eligible debt into a single loan. This is usually at an interest rate lower than the average rate of all your debt combined. Lastly, the tenure you can opt for is usually a range between one and 10 years, depending on the financial institution.

As a result, you only have to repay one institution once a month. With a debt consolidation plan, you no longer have to keep track of multiple monthly deadlines and repayment amounts.

As mentioned above, this loan type comes in handy if you have taken on several unsecured loans and are constantly finding it difficult to punctually repay them. These loans include your credit card bills too. However, there are [unsecured loans](#) which aren't eligible for a debt consolidation plan, such as:

1. Credit facilities for a business
2. [Education loans](#)
3. Loans under a joint account
4. [Renovation loans](#)
5. Medical loans

Apart from the list you see above, all other unsecured loans are eligible to be compiled under a debt consolidation plan. On the other hand, if repaying any or all of the five aforementioned unsecured loans is proving to be a challenge, you'll need to look for an alternative refinancing programme.

As of 2024, there are 16 financial institutions in Singapore who offer a debt consolidation plan. These are:

American Express	Bank of China	CIMB	Citibank
DBS	Diners Club Singapore	GXS Bank	HL Bank
HSBC	ICBC	Standard Chartered	Maybank
OCBC	RHB	Trust Bank	UOB

Essentially, this comprises every firm who offers a credit card and/or unsecured credit facility. On that note, not all of them offer details of their debt consolidation plan online, like American Express for example. You'll need to contact the institution directly for all the details you need, such as the plan's interest rate, processing fees, and other charges.

Related: [A Guide to Finding the Best Loans](#)

How Much Does a Debt Consolidation Plan Cost?

Speaking about a debt consolidation plan's costs, its fee structure is similar to [a personal loan](#). It consists of:

1. An annual interest rate
2. A processing fee

3. Late payment charges (Whenever a monthly repayment is made behind time)
4. Early redemption fee (When you're fully repaying your loan before the final instalment's date)

Some firms may opt to remove the upfront processing fee, but raise the annual interest rate instead. This increases the effective interest rate, which translates to a higher total loan amount. Therefore, ensure you select a debt consolidation plan which gives you the best bang for buck. The lower your monthly instalments, the better.

Sample Debt Consolidation Plan Comparison

	Debt Consolidation Plan A	Debt Consolidation Plan B
Loan Amount	S\$30,000	S\$30,000
Loan Tenure	5 Years	5 Years
Interest Rate	3.5% p.a.	4.5% p.a.
Processing Fee	S\$200	S\$0
Total Loan Amount	S\$35,450	S\$36,750
Total Difference	S\$1,300	

In this sample calculation, a total savings of S\$1,300 in five years may seem insignificant. However, every dollar saved goes a long way if you're indeed in a situation where you need to sign up for a debt consolidation plan.

Related: [Debt Consolidation Loans Myths Debunked](#)

Who Is Eligible for a Debt Consolidation Plan?



Source: Unsplash

The types and amount of debt you're taking on aren't the only criteria for a debt consolidation plan. Check out the full list:

- You have Singapore Citizen or Permanent Resident status
- You're drawing an annual income between S\$20,000 and S\$120,000
- You own a total of less than S\$2 million in assets (property, vehicles, commodities, etc.), minus liabilities. This is also known as your Net Personal Assets.
- You bear unsecured debt that has interest totalling more than 12 times your annual income across all credit cards and unsecured credit facilities. Only debt from financial institutions in Singapore are counted.

In short, your total unsecured debt in Singapore must exceed between **S\$240,000 and S\$1.44 million**, depending on your annual income. Remember, this figure does not include the outstanding amounts from education, renovation, and other loan types highlighted earlier on.

Benefits and Downsides of a Debt Consolidation Plan

At this point, you're probably thinking that a debt consolidation plan is the golden ticket to repaying most, if not all your loans. However, it's not a perfect financial product, having its own unique set of pros and cons. Here are a few of them.

Benefits

- **You repay your debts quicker.** The tenures on your existing loans and/or credit card bills may be shorter, but if you can't repay them separately on time, this is a moot point. Having a single loan you can pay off punctually eliminates additional interest, which results in being debt-free quicker.
- **You enjoy a lower interest rate.** This is especially true if you've racked up substantial credit card bills. The annual interest rate for outstanding credit card balances in Singapore is in the double-digit range. Consolidating them into one loan with a single-digit annual interest rate is much more palatable.
- **Your repayment schedule becomes much simpler.** One repayment. One amount. Every month. That's it.

Downsides

- **It's not a magic bullet for your debt.** Remember, a debt consolidation plan basically combines the outstanding amounts for your [personal loans](#) and credit card bills into one loan. If you have other forms of debt you can't manage, this loan type isn't able to directly provide any assistance.
- **There's the possibility of taking on a higher interest rate.** This is an edge case for applicants, but still possible. If your outstanding personal loans boast effective interest rates of approximately 2% to 4% p.a. each, you may just end up with a higher total loan amount if you apply for a debt consolidation plan.

You might fall deeper into debt. Like other loans, missing an instalment's deadline results in a late payment charge. An additional fee is the last thing you need when you're on a debt consolidation plan. If you're complacent because of the convenience granted and manage your budget poorly, you'll only [spiral deeper into debt](#).

What Happens If I Default on my Debt Consolidation Plan?

You'll face serious repercussions if you default on your debt consolidation plan (i.e. missing a number of repayment deadlines consecutively). Firstly, your [credit score takes a huge hit](#). You will also not be allowed to [apply for a credit facility](#) in Singapore to pay off your instalments, whether it's a credit card, line of credit, or personal loan.

Secondly, your financial institution may outright terminate the debt consolidation plan entirely. When this happens, it might demand a full and immediate repayment of the loan as well. Furthermore, it can initiate legal proceedings to enforce said repayment. If you're out of financing options, you'll have to [file for bankruptcy](#).

This potentially solves your debt consolidation plan repayment woes, but the status brings with it a whole new set of problems. These include having to seek permission to travel overseas, manage a company and act as a trustee or personal representative, and not being able to start or continue almost any court action.

Related: [5 Common Credit Mistakes That Can Affect Your Loan Application](#)

In Closing



Source: Unsplash

A debt consolidation plan is highly beneficial for [individuals caught in a serious debt spiral](#). Owing a six- to seven-digit sum from personal loans and credit cards alone would require anyone to seek out [a refinancing programme](#). Although you might have assets which can fully repay your outstanding debt, it may not be practical to liquidate them right now.

The peace of mind you get from having to manage just one loan every month cannot be understated. This allows you to allocate more time and energy to your personal and professional matters. The latter is especially important as boosting your earning power during this time grants you more leeway when [planning your monthly budget](#).

With that being said, don't fall prey to complacency. Plan your monthly budget around your debt consolidation plan's instalment and ensure every month's repayment is punctual. Be financially prudent during the loan tenure and cut out any unnecessarily large expenses, from luxury goods purchases or lengthy vacations.

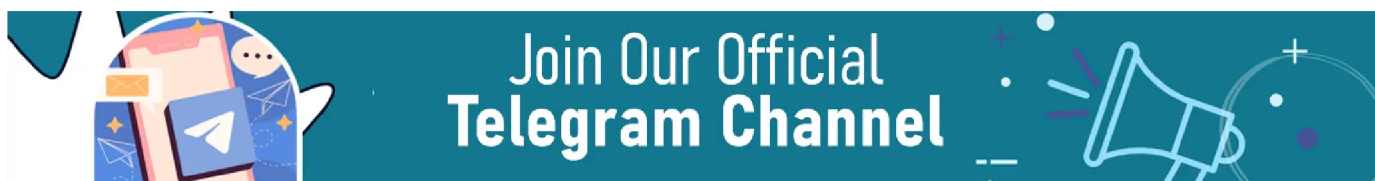
If you need to stop your debt from snowballing and apply for a debt consolidation plan, we've got you covered [with our roundup of the best debt consolidation plans](#). We listed

down the best debt consolidation plans in Singapore, allowing you to easily compare them and apply right away!

Read More:

- [Got a Gambling Problem? 6 Steps You Must Take to Save Your Finances](#)
- [How Millennials in Singapore Can Fix Their Budgeting Mistakes](#)
- [How To Become Debt-Free in Singapore](#)
- [How Your Credit Health Can Affect You At Different Life Stages](#)
- [Are You Making Any of These Common Credit Mistakes?](#)

Cover image source: Unsplash



This content is for informational purposes only, you should not construe any such information or other material as legal, tax, investment, financial, or other advice. Nothing contained on our Site constitutes a solicitation, recommendation or endorsement by AMTD PolicyPal Group in this or in any other jurisdiction in which such solicitation or offer would be unlawful under the securities laws of such jurisdiction.

This advertisement has not been reviewed by the Monetary Authority of Singapore.

Under AMTD Digital, AMTD PolicyPal Group consists of PolicyPal Pte. Ltd., Baoxianbaobao Pte. Ltd., PolicyPal Tech Pte. Ltd., and ValueChampion.

Top Picks

What Are Singapore Treasury Bills and Are They a Good Investment?
