

Navigation Title: Debt Consolidation

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Meta Description: Looking for a way out of debt? A debt consolidation plan may be the best option to take control of your finances again!

Debt Consolidation

In early 2019, the Federal Reserve reported that Americans have billions of dollars of debt between credit cards and loans. While some people may have a handle on their debt, others may still be struggling to stay afloat. Debt can hurt your credit score and your future lending opportunities, and debt can happen in good and bad economies alike.

Some debts are the result of taking out student loans to pay for higher education, while others are due to high credit card bills not paid off in a timely manner. When dealing with debt, the interest fees on unpaid bills keep adding to the amount that you need to pay off. There are many ways you may take control of your debt or make it more manageable. One such technique, called debt consolidation, allows you to gather your debt with one company and have one low interest rate.

What is debt consolidation?

Debt consolidation is one way to help handle current debt. With this method of debt management, you can apply for a consolidation loan through a lender. Depending on the loan company, you can either pay your creditors directly, or the loan company will send payments on your behalf. You may decide which payment method you prefer, or the company may have certain payment protocols. For example, Discover sends student loan payments to lenders directly instead of giving you the funds to send out.

Debt consolidation can be used for many types of debt. Credit card debt, personal loans and medical bills are all debts you may be able to consolidate with a loan provider. Consolidation loan lenders can even help you consolidate your student loans, no matter if the loans are federal or through a private lender.

It is important to note that debt consolidation does not help you reduce your debt. Consolidation simply combines outstanding debts through one loan provider. This method may be helpful if you have many types of debt or high interest rates and have trouble tracking it all.

What are balance transfer cards?

Balance transfers are another type of debt consolidation that you may be able to utilize when managing your outstanding debts. Balance transfer credit cards allow you to consolidate your debts onto one credit card provided by a lending institution or credit card company. These cards typically offer a promotional interest rate to help you catch up with your overdue payments.

With a balance transfer credit card, a company may include a fee with your balance onto the new credit card. The amount you can consolidate through this method is limited by the credit line of the card offered to you. The fee for a balance transfer can vary by card provider, but it is typically a percentage of the debt you can transfer onto a card. Some may offer an option of a fixed dollar amount or a percentage amount, and the provider will charge the greater of the two values. Some card companies will waive the fee for initial transfers, or initial transfers within a certain time period.

Before you get a balance transfer card, make sure that you shop around for the best credit card deals. The most important thing to consider with these cards is the annual percentage rate (APR). Some cards may only offer the lower APR on specific types of purchases, not all of them. When looking at cards, you should also consider:

- Late fees.
- How long low or zero percent APRs last.
- Annual fees.
- Initial transfer costs.

When applying for balance transfer cards, keep in mind that your credit score will still impact your ability to get low APRs and/or high credit limits.

Pros and Cons of Debt Consolidation Methods

Debt consolidation is not for everyone, regardless if you choose a loan or if you opt for a credit card. One common misconception is that consolidation will reduce the amount of debt you own. If you are looking for debt forgiveness and or another form of debt relief, this is not the right option for you.

Debt consolidation is helpful if you have trouble tracking all of your outstanding accounts. Staggered due dates can make it difficult to stay on top of all payments and can cause you to miss deadlines and accrue late fees and interest. Loans may offer lower interest rates than your current lenders, so you must be sure to have all information before making a decision. Some loans may allow you to submit lower monthly payments, although this usually comes with higher interest rates. However, higher interest over a longer period of time may be worth it if you can make your monthly payments.

Although you may get lower interest rates through these loans, this is not a guarantee. If you apply for a repayment extension, even at the lower rate, it can cost you more in the long run.

Balance transfer cards can help you get ahead with debt due to initial interest rates offered by the company. Typically, high interest rates cause your debt to increase and you only end up paying down your interest fees, not the principal balance on your card. These balance transfer credit cards can offer low interest rates or even 0 % APR for a limited time. These improved APRs allow you to catch up on payments without adding to your current debts.

When considering a loan for debt consolidation, it is important to consider the drawbacks. You may be able to get a secured or unsecured debt consolidation loans, depending on the lender. Secured loans mean that you must provide collateral for the loan in case you default. This kind of loan may offer better interest rates, but you can lose the collateral. Typically, debt consolidation loans are unsecured loans. Collateral may not be a concern for you, depending on your loan needs.

An unsecured loan is more common for debt consolidation, and it is easier for applicants to get. Credit score requirements can be more lenient, and many lending institutions make it easier to apply for loans or sign up for pre-approval. However, these types of consolidation loans usually have higher interest rates.

If you stay on top of your consolidated debt and use other debt management techniques, consolidating your debt may help you raise your credit score. On-time payments can slowly increase your score to help make you a trustworthy borrower again.