

The Benefits & Drawbacks of Debt Consolidation Loans

Have you considered the positives and negatives of a debt consolidation loan? It is important to understand that being in a situation that requires consolidation of debt is not unique to your situation, with many other people finding themselves in a similar predicament. What is unique however is the solution to your needs, as what is appropriate for one person may not be appropriate for you. You need to find a debt consolidation loan which is right for you. Before applying take a few minutes to consider the pros and cons of using these loans. Your level of debt, the type of debt you have, and the amount of stress this causes you will help you determine the best way to move forward. Fortunately the option of debt consolidation loan is one of the simplest and best ways to reorganize your finances and set you up for longer term success.

The Benefits

The benefits of consolidating your debts will depend on the type of loan you are refinancing and the loan you will obtain, however some of the common benefits someone in this position will attain are:

- **Just one payment:** You may have several debts to repay, which means that each month you must remember to pay them all. The more debts you have the more likely you are to miss a repayment. With one payment it is far easier to manage your debt repayments.
- **A lower interest:** You get to take the balance of your credit card debt and move it to a loan facility at a significantly lower rate, more than 50% lower in most cases. In the long term, this reduction in rate can save you a lot of money in addition to the peace of mind you will get.
- **Lower monthly payments:** For most people who consolidate their loans and, the new single repayment is lower than the combined repayments of all your previous loans. You should use it to your advantage by paying more than the minimum payment each.

These benefits make debt consolidation worth considering however if mismanaged there can be drawbacks to debt consolidation.

The Drawbacks

Debt consolidation loans can have a few drawbacks and you need to consider how these would affect you.

- **Risk of even more debt:** As you are no longer repaying numerous debts and have eliminated the debt from your credit cards it is easy to slip back into bad spending habits. Debt consolidation needs to be used in conjunction with more responsible financial management.
- **You could lose assets:** If you get a home equity loan to use for debt consolidation and find yourself again in financial difficulty, your home could be at risk. Because the home is the security for the money you have borrowed, any default on your consolidated loan could put at risk of losing your home.
- **Debt can stay around longer:** As you will be refinancing shorter term loans into a traditionally longer term home loan, you could find yourself repaying that debt for a longer period of time. The key to this situation is to use some of the difference between your previous and new repayments and put this towards making extra repayments, i.e. pay off more than your minimum repayments each month.

The drawbacks of getting a debt consolidation loan should be given careful consideration.

What Is Right For Me?

Are debt consolidation loans the right option? For many people, they do help to get out of debt quickly, but they need to be accompanied by a change in your spending patterns for this to be right for you.

