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Can A Debt Consolidation Bring Life To Your Financial Health?

Debt... it's one of the scariest words out there. And, if you're suffering with a lot of debt, you're probably worried about your financial health! You're also probably thinking you're the only one out there that's dealing with this nasty little word.

Don't worry... you're not!

There's millions of others who are also in debt – either from loan (auto and personal) payments or from credit card payments. And, just like you, they are looking at the various ways to improve their financial standing. Perhaps they just want to improve the management of their money, or want to make it easier to meet their debts, or they want to reduce their monthly loan payments or keep current on their credit card bills.

Whatever your reason to experience financial freedom, you may want to consider debt consolidation as the answer.

Debt Consolidation: What Does It Actually Do?

When you opt for a consolidation of your debt, it means your rolling your individual loans and payments into one big loan, generally with a longer term and at a reduced interest rate. Instead of making payments to individual companies, you're just writing one loan check. This, in essence, reducing your overall monthly payments.

How Can Your Consolidate Your Debts?

Are you ready to consolidate your debt? If so, then you'll be delighted to know that there are an array of options you can take advantage of.

Balance Transfers

Transfer your balances to a credit card that offers a low interest rate. The majority of credit card companies permit consumers to transfer their balances by giving them various information – account number, balance amount, issuing bank. Your credit card company could offer convenience checks that can be used to pay the old balances off. There's generally a fee for this kind of transaction and the offered low rate may be for a period of time – six to 18 months.

Home Equity Loans

If you own your home, you could attain a home equity loan, which the majority of mortgage companies and banks provide. In order to qualify, you must fill their application out and show the lender that you can make the monthly payments. From there, your home is appraised to find out how much equity is in it.

Most lenders will approve a loan of up to 80 percent of the home's equity. Since the terms and interest rates can vary significantly, you should consider doing your research and compare different lenders.

Debt Consolidation Loans

There are a number of lenders who provide loans for the sake of debt consolidation. In order to qualify, you'll need to fill the paperwork out and show the lender that you have ability to make their monthly payments. These loans tend to have higher interest rates than the home equity loans, and if you need to borrow a significant amount of money, they may demand collateral to protect themselves if you default on the loan.

3 Key Benefits Behind Debt Consolidation

If you're wondering as to whether or not debt consolidation is the way to go, you need to realize the benefits associated with it:

- Consolidation loan payments are typically much less than the overall total on the smaller loans you have

- *These loans come with a reduced interest rate*
- *You only need to pay one bill each month rather than several bills*

3 Drawbacks To Debt Consolidation You Need To Be Mindful Of

- *If you decide to use a home equity loan for debt consolidation, it becomes secured by having a lien placed on the residence. Therefore, if you default on the loan, no matter the reason, the bank can decide to foreclose on it.*
- *If the consolidation term is longer than the existing loan terms, you could actually pay more money even if you get a lower interest rate. You won't be saving yourself money but the monthly payments would be less.*
- *If you're approved for a long-term loan for debt consolidation, paying it off will take a longer period of time.*

Is Debt Consolidation Right For You?

If you're considering going through the debt consolidation process, you need to determine if the method is right for you. The best way to go about this is to add up your individual monthly payments and get your total outgoing expense. If the consolidation loan payment is less than this amount, debt consolidation is something to consider. If the payment on the consolidation loan is more, then it's not going to be in your best interest to get this loan.

On top of that, the consolidation loan interest rate needs to be less on the individual loans, saving you money and reducing your total monthly payment.