

Cheat Sheet for Consolidating Debt

Having a hard time juggling your debts? It might be time to consider consolidation.

Consolidating your debts is a great way to take great control over your financial life, simplifying and streamlining your payments.



This guide will teach you the basics of debt consolidation. Let's get started.

What is Debt Consolidation?

Let's say you have multiple debts right now. Each has its own interest rate and fees. Each is weighing you down and draining your finances.

If you consolidate those debts, you combine them together. They are merged into a single debt which carries a new interest rate. You then simply pay off that one larger debt.

There are a couple of ways you can do this:

- Apply for a consolidation loan. This is a type of loan which is specifically designed to consolidate existing loans under a lower interest rate. It is best to go with a fixed rate so that your interest does not balloon in the future.
- Apply for a credit card with a low interest rate or no interest rate during the introductory period. Then simply transfer the balances of your debts to this card.

Debt Consolidation Benefits

Here are a few reasons to consider consolidating your debts:

- Save costs. If you are able to reduce your overall interest or even eliminate it, that is money back in your wallet.
- Catch up on payments. If high interest is what is holding you back from actually paying off your debts, debt consolidation may make it possible to finally do so.
- Never miss a payment. If you have a number of debts to pay every month, you might easily lose track of which payments you have made. With all your debts consolidated into one, this is unlikely to happen again.
- Improve your credit. If you catch up on your payments, your credit score should improve as well.

- Simplify your life. It certainly feels better to just have one debt to pay off than to be swamped under a whole bunch. Psychologically and emotionally, it can really be a weight off.

In short, consolidating can save time and money while alleviating stress.

Debt Consolidation Drawbacks

Of course, consolidation may not be the ideal fit for every situation. Here are a few drawbacks to note:

- If you are using a balance transfer card and the introductory rate expires before you finish paying off the debt, the new interest rate may be higher.
- There are situations where debt management options may be more appropriate.
- Debt consolidation can help you escape the cycle of debt, but may not address all the underlying causes of your financial difficulties.

Best Practices for Debt Consolidation

- Evaluate your other options. Make sure debt consolidation is most suited to your needs before proceeding. If you expect to be able to pay off your debt within a reasonably short timeframe, debt consolidation makes sense. For longer-term situations, look into debt management.
- Shop around. Look into different lenders and forms of consolidation. Pick the company and the type of loan or credit line which will save you the most money and best fit your needs.
- Watch out for fees. Switching to a low interest credit card may not make financial sense if the balance transfer fee wipes out your savings. Origination fees may also take you by surprise.
- Meet your deadlines. This is especially vital when dealing with an introductory rate on a credit card.
- Address underlying problems. Debt consolidation is like taking a shot for an illness. It may be enough to treat the current infection, but it does not prevent you from contracting the disease again. Try to understand how you got into your predicament. Make changes to how you manage your money so that you will not get so deep into debt in the future.

For many consumers, debt consolidation offers a flexible and affordable solution for reducing interest and simplifying personal finances. Combined with other smart financial practices, it may be enough to get you back on track.