Consolidation Loans

Consolidating means refinancing a single or multiple loans with a single loan. All the old loans are cleared in full leaving a person to clear a single loan for the whole sum. A person can apply for the consolidation loan alone or seek the services of experts. The experts charge a small fee for the services.

Consolidating a loan allows a person to gather all his loans into a single loan with lower interest rates. The new loan comes with better conditions and benefits to the debtor than the previous loans. There are two categories of debt consolidation loans. They are secured and unsecured consolidation debts.

Unsecured Loan Consolidation

Unsecured loans refers to a debt that is not connected to fixed asset such as a building or a vehicle. Lenders who issue unsecured loans relies on the debtors to repay them. They can charge a fee on top of the loan if a borrower forfeits to repay on the agreed period. However, they cannot sell the borrower’s assets to recover their debt. This makes the interest rates on the unsecured debts high. Examples of unsecured consolidation credits are credit card loans, personal loans, and credit unions debt consolidation loans.

Secured Loan Consolidation

The loans are secured by a fixed asset. In case a borrower fails to repay the loan on time, his fixed assets are sold to clear the debt. This makes secured loans have a low rate of interest. Some examples of such loans are car loans or home equity loans.

Using a Personal Loan for Debt Consolidation

If a person has numerous loans but clears all debts on time, he should have a good credit rating. This makes him a perfect candidate for personal loans from banks. Based on his repayment pattern on past debts, the bank can offer him a consolidating loan. When obtaining the loans, a person should ensure that the loans have considerably lower interest rates.