

## Title:

Debt consolidation loans and the hidden cost of making minimum credit card payments.

## Word Count:

515

## Summary:

Why don't credit card companies like debt consolidation loans?

## Keywords:

debt consolidation loan, independent mortgage consultant, bad debt loan

## Article Body:

I have been asked many times if it is cheaper to have a debt consolidation loan or many credit cards, some with zero interest. The first thing you need to decide is how quickly you want to pay the debt off. The best piece of advice is that you pay it off as quickly as possible. Lets have a look at the effects of making the minimum monthly payment on a credit card. I am from the UK so am using Pounds but the effect is the same in Dollars, Euros etc.

As more and more credit card companies are being "friendly" and allowing even lower minimum payments you may think this is a good thing. And you may be right if you are really broke, but beware, it is costing you a fortune in the long run, which of course is why they do it. Yes, I know it is a surprise, you thought they were being friendly! Unlike a debt consolidation loan that has fixed monthly payments (Assuming rates don't change), you can vary the monthly payment on a credit card. Lets say you have a £3,000 balance on your credit card with an interest rate of 19% APR (Annual Percentage Rate) and the minimum payment allowed is 3%. In this case the minimum monthly payment is £90. By making this payment and not using the card for anything else, it will take 12 years and 5 months to pay off this card, and you will have paid a total of £2,714.16 in interest!

Now, the next month you receive a letter with your statement saying that you are such a good customer they are going to reduce the minimum payment to 2%. Great, you think, I've only got to pay £60 month and I can spend another £30 down the pub. But lets look at what you are really paying. By making the new minimum payment only, it will now take you 28 years and 5 months to pay off your card and you will be paying a whopping total of £7,845.73 in interest. This is an extra 16 years and £5,131.57 in extra interest, rather an expensive trip to the

pub I would say. So, maybe the credit card company isn't being so friendly after all, maybe a debt consolidation loan with it's higher monthly payments isn't such a bad idea.

Oh yes I can hear you asking, but what about the credit card with zero interest, well, that is another article, but basically most people forget to change at the end of the period and end up with high interest.

So I would advise you to pay more than the minimum payment and pay off the card as soon as you can. If you can, get a debt consolidation loan with a lower interest rate and a shorter term. You will save money in the long run!

Colin Warburton is a qualified mortgage broker.

You can visit here for a [debt consolidation loan](http://www.one-loans.com)

or here for an [Independent Mortgage Broker](http://www.thefinancehouse.co.uk)

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