

Title:

Debt Consolidation Benefits and Drawbacks

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538

Summary:

Debt consolidation comes into play right after you realize that you are in an urgent need for money because you are deep in debt and interest rates, and the premiums you pay on your loans are no longer affordable.

Keywords:

finance, loan, dept, home, consolidation

Article Body:

Debt consolidation comes into play right after you realize that you are in an urgent need for money because you are deep in debt and interest rates, and the premiums you pay on your loans are no longer affordable. So in case you feel that your current loans are no longer manageable and can easily result in bankruptcy, it's high time that you considered borrowing money for consolidating debts. At best, unpaid debts can have a strong impact on your credit history and result in poor credit report; and as a last resort, you can lose your property. However, it makes no difference how appealing debt consolidation loan can be, you should realize that this is nothing else but one more debt and if you obtain it unconsciously, it can lead you to even more serious financial problems such as bankruptcy.

The main idea of debt consolidation loans is to combine all the debts in one manageable loan, one interest rate and APR (annual percentage rate) for one simple reason - paying off this very loan as soon as possible. Basically, such option as consolidation of loans is available to all borrowers irrespective of credit score and status but still you should remember that poor credit leads to much higher rates and more difficulties with applying and getting approved for this type of loans. All loans designed for consolidating debts are broadly divided into two categories: secured and unsecured loans. Secured loans require putting any valuable property against the loan as a collateral. Unsecured loans, in their turn, do not require any security but result in much higher rates and less beneficial conditions. Your choice should depend on your needs, your budget and your expectations. In case you hesitate whether to choose secured or unsecured loan, it's advised not to tempt the fate and consult with a qualified professional on this matter.

Debt consolidation loans, as well as all the rest of loans available in the market today, have their benefits and drawbacks, so you are to be well-aware of them before you take a decisive step and consolidate your debts.

In particular, the benefits are as follows:

- 1) Lower interest rates and monthly payments. It's useless to doubt that this benefit is not the major one because this is actually what all debt consolidation process is about.
- 2) One loan and one lender. You don't need to negotiate with many lenders every time you need to settle this or that issue regarding one of your loans. Debt consolidation loan means having one arranged loan and dealing with one lender you choose consciously.
- 3) Credit history improvement. Timely and regular payments will definitely improve your credit score and prove your paying capacity.

As for the drawbacks, you should consider these:

- 1) Higher overall cost. There are companies which conceal high additional fees you are to pay for the debt consolidation loan with low rates in order to attract the clients.
- 2) Property loss. If you fail to pay this consolidation loan, you can lose your property for all.
- 3) Scams. Since debt consolidation loans are highly demanded, there are quite many scams. Do proper research and consult specialists before you obtain debt consolidation loan and never trust offers which sound too good to be true.