

**Title:**

Avoid the Hidden Pitfalls of Taking out a Debt Consolidation Loan

**Word Count:**

544

**Summary:**

When in debt, one usually turns to debt consolidation loans to get out of debt quickly. Debt consolidation loan is a loan that replaces all the loans you have. So instead of paying your numerous creditors individually, you only have to pay the debt consolidation loan a monthly installment. It is their duty to disperse the money to the other creditors every month.

**Keywords:**

debt consolidation loan,debt consolidation,debt consolidation companies,debt consolidation company

**Article Body:**

When in debt, one usually turns to debt consolidation loans to get out of debt quickly. Debt consolidation loan is a loan that replaces all the loans you have. So instead of paying your numerous creditors individually, you only have to pay the debt consolidation loan a monthly installment. It is their duty to disperse the money to the other creditors every month.

The most important point that has to be taken into consideration when applying for a debt consolidation loan would be the annual percentage ratio of the loan. It is important that you choose the company offering the lower interest rate. Nowadays, lenders use different time frames to calculate your interest rates. So check out on the interest rate of the loan you apply for and thus find out how much interest you will have to pay. Some lenders lend money at variable interest rates that change through the period of the loan. So check if the loan is being given at a fixed or variable interest rate; a loan that had an interest rate of 4% at the beginning may produce an interest rate of 7% after a few years!

When taking out a debt consolidation loan, do check on the redemption fees of the company. This is because some lenders charge redemption fees of up to two month's interest if you intend to pay off the loan early. There are even some lenders who say that the interest penalty is the same, no matter if the loan is repaid at the beginning or the ending of the loan term. So this means that if you take a debt consolidation loan for five years, you have to pay the same interest penalty regardless if you pay it within one month of the loan or if it

runs the whole period.

When asking for quotes for a debt consolidation loan, check to ensure that there is no loan insurance money added to the quote. There are many lenders who will automatically add the cost of loan protection in the quote, without informing you about it. There are also lenders who add the full cost of the loan to the principle to leave you paying for the loan insurance and your debt consolidation loan monthly installment. If you feel that you need protection for your loan, it is better to buy the cover from an independent broker. It is cheaper, and you face a smaller redemption penalty in the long run. So make sure you check on the terms and agreements of the loan papers before signing on the dotted line and make it a point to compare quotes from different companies.

It is better to choose a debt consolidation company that offers daily interest. Those companies charging monthly interest make a big difference to you in the total interest costs, especially if you plan to pay off your loan quickly. And of course, there are some debt consolidation companies that receive your payments, but fail to pay your creditors. These are debt consolidation company scams that are very much in existent in the market. So to avoid this, do some research on the debt consolidation company and get testimonials from previous customers. Then approach the companies that are most popular with maximum positive testimonials.