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Title:
Breaking down Debt Consolidation

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Summary:
Debt Consolidation is a procedure that a number of different people follow nowadays and ultimately what it means is that the person that is swimming in debt.

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Introduction

Debt Consolidation is a procedure that a number of different people follow nowadays and ultimately what it means is that the person that is swimming in debt that happens to be far above what they have the ability to pay back is going to be the person that goes through a procedure that combines all of those different loans into one source of debt and therefore allows themselves to pay back the consolidated debt in a much easier and less stressful manner. Now, this is perhaps a definition that you’ve been exposed to before and while it sounds good on the top, ultimately it needs to be explained so that more people understand exactly what it is that is being talked about. We will break down a typical debt consolidation case over the rest of this article.

The Problem

The financial situation for the hypothetical person here has become very bleak. They have $10,000 left on their car loan, their mortgage still has a balance of $80,000 and when you toss in all of their other credit card debt, you get to the point where they are in debt up to $100,000 all things said and done. Now, $100,000 is a lot of money and in the case of a typical family it might even be more than three years worth of their wages, so ultimately when you take a look at the $100,000 of debt, you would want some plan that would allow you to deal with it.

The Solution

When you look at all of the different solutions, the first thing that you need

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to do in all of them is get your bearings. While the car loan and mortgage only represent two different sources of debt, the remaining $10,000 might come from as many as five or six other sources and that can make it very difficult to keep track of. So what you want to do is consolidate those debt sources into one debt source and the way to do that is to take out a home equity loan of $20,000 to pay off everything else and combine that $20,000 with the $80,000 mortgage that you already might have.

The Benefits

Aside from the convenience factor of only having one source of debt instead of several as was discussed above, there is also the interest rate factor. While the average mortgage will have an interest rate between 5% and 7% and most car loans will as well, credit card debt is usually going to be two to three times that amount and likely four or five times that amount if the debt is because of cash advances. So the interest rates would get lowered whenever you take a look at it that way.

Now, credit card minimum monthly repayment amounts are such that you are going to usually be paying at least 5% of your balance each month; in other words, credit card companies expect that any balance you happen to generate on your credit card can be cleared up in less than two years. Mortgages, as many people are aware, have 20 to 25 year terms and therefore the monthly repayment amount of consolidated debt will also be lower and therefore easier to manage.