How Does Debt Consolidation Work?

For those that have a high interest rate and pay on multiple debts each month, debt consolidation may be a good option. Where debt settlement lowers the overall principal amount owed, debt consolidation aims to reduce monthly payments by grouping all debt into a single payment with a lower interest rate if possible. A lower interest rate results in lower minimum payments, which makes them easier to maintain or pay off earlier.

Therefore, with debt consolidation, you’re taking out a single loan to pay off all other unsecured debt. This is referred to as consolidating debt, and because it’s paying debts off it isn’t written off like personal bankruptcy. You still have a monthly payment, but it’s usually much lower.

For example, imagine having five credit card and consumer loans between you and your spouse. If each account has a $5,000 balance, and various interest rates (8%, 10%, 12%, 14% and 16%). Your total debt would come to $25,000; your average interest rate would be 12%. While having 5 payments to manage each month, you would have the following minimum payments:

* Card 1: With 8% interest, minimum payments would be $60.66.
* Card 2: With 10% interest, minimum payments would be $60.08.
* Card 3: With 12% interest, minimum payments would be $71.74.
* Card 4: With 14% interest, minimum payments would be $77.63
* Card 5: With 16$ interest, minimum payments would be $83.76

This comes to a total of $360 per month (minimum) for a 10-year repayment plan with an average interest rate of 12%.

Consumer credit counselling agencies often tell people how risky it is to have a high number of payments to keep up with each month. The more debts to pay each month, the more likely to overlook a payment and get behind. That is one of the major benefits, in addition to reduce interest rates, people consider about debt consolidation. There is a single payment each month, and the interest rate could be reduced or payment period extended. Based on the above scenario, an 8-year term with 10% interest would be $315 per month. Not only would it be cheaper, it shortens the pay-off time by 2 years!

Get Assistance Today

Contact us today to determine if a debt consolidation loan is the best option for you. Simply fill out our short debt relief form and one of our professionals will reach out to you with more information regarding the best debt relief options for your situation.