Is Debt Consolidation Loans Available with Bad Credit?

Generally, a person’s credit rating has already taken a beating by the time they look into debt relief programs, such as debt consolidation or credit counselling. It is typical for these debtors to have one or multiple late payments, missed payments, or no payment sent in months. This often leads to the concept of never getting out of debt, and why they are now looking for assistance. Many people believe that the only way they will qualify for a debt relief program is to apply for personal bankruptcy or consumer proposal, both of these will greatly ruin an individual’s credit report for many years.

Luckily, there are other debt relief options available, even with poor credit. For example, debt consolidation.

Why Choose Debt Consolidation?

If you owe under $10,000 in debt, debt consolidation often provides the best advantages for consumer debt relief. The reason is, it will not damage your credit rating like the other options, only by a few points like applying for a new loan. Long as you are making your scheduled payments on time, it can actually help improve your credit rating. Whereas, other options, such as debt settlement only offers benefits when more than $10,000 is owed or you cannot maintain current minimum payments, but harms your credit.

How Does Debt Consolidation Save Money?

In addition to combining all of your debts into a single monthly payment, debt consolidation saves money in the long-term a couple ways. First, you have a chance to receive a lower interest rate than your current average interest rate. This reduces your monthly payment. Additionally, your repayment period could be shorter, which saves you more over the entire term.

Poor Credit and Debt Consolidation

Poor credit is common for people looking into debt consolidation, the main factor in qualifying is being able to maintain minimum payments on the new debt. Although, the lower your credit score is, the higher the interest rate will be on your new debt consolidation loan. Therefore, a person with poor credit will pay more on a consolidation loan compared to the same loan with better credit, but it can still save money.

The willingness to approve loans to those with bad credit vary between lenders. Therefore, it is recommended to contact your personal bank first when considering debt consolidation, as you already have an on-going relationship with them. This can assist you in getting a better interest rate compared to a different institution. However, if your credit score is really bad, you should expect many lenders to deny your request for a consolidation loan before finding one that will.

Debt Consolidation and Debt Settlement

Prior to jumping in and choosing debt consolidation or any option it is recommended that you first contact a professional. However, you should at least compare the benefits between debt consolidation and those of a debt settlement program.

Debt consolidation only lowers interest rates and sometimes payback period. However, debt settlement programs often result in creditors reducing both the interest rate, along with the principal owed. This results in more savings, and an even lower monthly payment plan and faster debt-relief. However, the downside is debt settlement has a negative impact on your credit rating, making it challenging to qualify for any type of loan for years.

To get help determining the best debt relief option for you, fill out our debt relief form. One of our professionals will reach out with further information.