What is a Debt Consolidation Loan?

Today, the majority of Canadians think about debt relief, and while there has been a decrease in average debt, there has been an increase in average consumer debt held by Canadian consumers. When a consumer amount of debt increases, it results in higher interest charges, this increases monthly payments and takes longer to pay off. This is where the thought of debt relief comes in, because this snowball effect can quickly turn into unmanageable debt that one cannot get out of without help.

However, when Canadians are finding debt payments difficult to keep up with, there are ways to reduce the stress of high interest payments. One of the available options is a debt consolidation loan, which can help save money and get debt paid off.

**Debt Consolidation Basics**

Debt consolidation loans allow consumers who qualify to receive a single loan to pay off multiple debts. Below are some advantages to debt consolidation:

* Usually reduces average interest rates, which reduces overall amount paid back. This could save hundreds, to thousands of dollars.
* Have a single monthly payment, which is often lower than you paid prior to combining all payments into a single loan.

**Debt Settlement vs Debt Consolidation**

Debt consolidation is not the same as other types of programs, such as debt settlement that reduce the principal. Therefore, debt consolidation does not typically reduce your monthly payment as much as debt settlement would, because consolidating lowers interest rates, while settlement lowers overall principal.

However, the advantage to debt consolation is that it will not impact your credit as bad, where as debt settlement will have larger negative impact. Furthermore, when making your debt consolidation loans on time each month, it can help improve credit scores.

**Who Should Get Debt Consolidation?**

Generally, a debt consolidation loan would benefit Canadian consumers that have under $10,000 of unsecured debt, but do not struggle with minimum payments each month. However, those that owe over $10,000 in debt will be repaying the consolidation loan longer than it would be beneficial compared to other options, including consumer proposal, debt settlement or bankruptcy.

How Are Debt Consolidation Loan Rates Calculated?

Interest rates for debt consolidation loans are based on credit ratings, therefore, the higher your credit rating, the lower interest rates you are offered. Typically, consumers that have excellent credit and qualify for a debt consolidation loan can reduce interest rates an average of 5% or more. This results in an average savings of $500 over a 1-year period on $10,000 in debt consolidation (based on an average 10% starting rate). Although, the $500 savings should always be put towards paying off the principal.

**Is Debt Consolidation Right For Me?**

To determine if Debt Consolidation is your best option, you need to contact a professional for a free debt consultation. They will be able to review your individual situation and answer any of your questions and let you know the best debt relief option for you.