How to Determine if Debt Consolidation is for You

Most of us fall upon hard times at one point or another in our lives, and the vicious cycle of revolving debt that seems too large to ever pay off is no exception. Before you know it, late fees and penalties make your outstanding balances grow exponentially, and you feel as though there is nowhere to turn!

Consumers are increasingly turning to debt consolidation services to help get hold of their debt and outstanding balances. These companies are ideal for several situations that may be leading to bankruptcy, but some consumers find they can produce the same results themselves. Debt consolidation and credit counseling companies provide a valuable service that includes both pros and cons to consider carefully before using.

Debt consolidation programs may include taking out a debt consolidation loan that is unsecured or secured (such as with your home). Credit counseling companies may settle your debt for less than is actually owed, or negotiate lower interest rates and monthly payments to make them more affordable for you and easier to pay off in a shorter amount of time.

These options make paying debt off much easier, as you make only one payment to one creditor on a monthly or weekly basis. You may also be able to have that payment automatically deducted from your paycheck. If you have a debt consolidation loan, your credit report will show the original creditors as being paid off. Credit counseling companies disperse payments to all creditors included in the agreement, and your credit report will show that you are enrolled in a credit counseling payment plan.

Different types of plans will create different results when it comes to the total monthly payments due, interest paid on the debts, or the total debt balances owed. Ideally, you want all three of these to happen, though it is highly unlikely. Most programs can negotiate lower interest rates and monthly payments, but the original balances will not decrease.

Creditors are more likely to agree to changing terms of a loan or credit card debt because lower payments become more affordable to you, and are more likely to be paid. Be careful, though – even one late payment can eliminate any and all agreements, putting you right back where you started!

Becoming debt-free is the goal with any debt consolidation or credit counseling program, so ensure that lowering your payments will not increase the life of your payoff period. This is what will happen if only your payment and not the interest rate is lowered.

Also remember that some companies will charge a small fee, typically paid monthly, to negotiate these terms for you. You may have the option to do it yourself, however.

Start by calling all of your creditors, and explain your current situation and the reasons you have fallen behind. Ask if there are any special programs which you qualify for; most creditors can lower your interest rates and payments for long enough to make it feasible and able to be paid completely off. This option will not have any negative effect on your credit report if the companies agree to report your account as paid up-to-date.