

Debt Consolidation Factsheet

What is Debt Consolidation?

Consolidating your debts means that you get a new single loan and use it to pay off all your other debts, which is why it is called a consolidation loan. This is the most obvious and perhaps the most attractive feature of a consolidation loan.

There are some pitfalls to consolidation however. For a start the lender providing the consolidation loan may well want to take a charge out on your home, if you own it. That means that if the consolidation loan is not repaid in accordance with the terms and conditions agreed, the creditor will have a claim on the sale proceeds of your home, if it is sold. You should therefore seek independent legal advice before agreeing to such a course of action.

Is Debt Consolidation a practical debt solution?

While a consolidation loan may appear attractive at first glance, you need to check if the term of the loan is longer than those of the existing loans which you are consolidating. The projected monthly repayments may be lower than what you are currently repaying in aggregate on your existing loans but if the term of the consolidation loan is significantly longer than your current loans, the total amount of money to be repaid may be much higher. Check out also if the interest rate to be charged is fixed or variable. Are there penalties for missed or late payments? Does the new loan pay off all of your existing debts or just some of them? And of course, if your new monthly repayments exceed what you have been paying in aggregate, perhaps you will only be worse off by taking it out.

Are you consolidating your debts for the convenience of making just one monthly payment or because you cannot afford to service all of your debts? If you have already missed making repayments or if you have been making late payments, your credit rate may already be adversely affected and you may not be getting the best deal on the proposed consolidation loan. You should shop

around for the best deal available from high street and internet lenders. Get written offers from each lender you approach and do read these before proceeding. If you can get a professional assessment at no significant cost of the various offers, it may be worthwhile to do so.

Will there be fees?

Have you checked whether there is a fee for arranging the loan? Ask your new lender for details of all fees before proceeding. Sometimes the matter of fees is conveniently overlooked until it is too late. Be aware that if the loan is secured on your home or on some other asset, then there is a possibility that that asset could be taken from you by repossession or forced sale if you cannot adhere to the repayment terms and conditions. Compare the quoted interest rates with what you are paying on your current mortgage if you have one. Be aware that if the consolidation loan does not clear all of your existing unsecured debts, your debt problems may become worse rather than better.

We're here to help - providing a free debt advice service.

www.nationaldebtreief.co.uk

freephone 0800 888 660