UNIT 8 - Debt Consolidation- All You Need to Know

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Introduction

The term "Consolidate" means in general terms that 'To bring together (separate parts) into a single or unified whole.
Debt Consolidation means Combining several unsecured debts — credit cards, medical bills, personal loans etc. — into one debt bill and paying all of them with a single loan.
Debt consolidation is nothing more than a "con" because you think you have done something about the debt problem but debt is still there.
Let us take an example to understand debt consolidation. Let's say you have Rs60,000 in unsecured debt, including a two-year loan for Rs40,000 at 14%, and a four-year loan for Rs20,000 at 13%. Your monthly payment on the Rs40,000 loan is Rs1517 and Rs1583 on the Rs20,000 loan,
for a total payment of Rs3,100 per month. The debt consolidation company tells you they have been able to lower your payment to Rs2640 per month and your interest rate to 10% by negotiating with your creditors and rolling the loans together into one.
Sounds great, doesn't it?
Who wouldn't want to pay Rs460 less per month in payments?

Advantage of debt consolidation

1. The main advantage is that instead of writing 5–20 checks to creditors every month, you combine bills into one payment,
and write one check. This helps in eliminating mistakes that result in penalties like incorrect amount or late payments.
2. This process can result into a lower overall interest rate to the entire debt load and provide the convenience of servicing only one loan.

Types of debt consolidation

1. Debt Management Plans - Most financial experts agree that a Debt Management Plan is the preferred method of debt consolidation. DMPs are mostly managed by the non-profit organisations. Firstly, they started with a counselling session with us and try to know that how much can we pay monthly to the creditors. After that, they try to negotitate with the creditors for a lower interest rate. Now, You send one payment to the agency running the DMP and they split the payment into your creditors.Utilizing a DMP could affect your credit score. However, at the end of the 4-to-5 years process, you should be debt free, which definitely improves your credit score.

2. Debt Cosolidation Loans - A Debt Consolidation Loan (DCL) allows you to make one payment to one creditor in place of multiple payments to multiple creditors. A debt consolidation loan should have a fixed and lower interest rate than what you were paying previously, which reduce your monthly payments and make it easier to repay your debts.

3. Debt Settlement - Where an individual's debt is negotiated to a lesser interest rate or principal with the creditors to lessen the overall burden. Debt settlement companies promise to negotiate your monthly payment with each one of your creditors for less than what you actually pay.
While this sounds fair but there are drawbacks. Many creditors refuse to bestow with debt settlement companies and debt settlements may impact a negative score on your overall credit score.

Reasons to consider debt consolidation

1. Lower interest rates
2. Convenience
3. Pay off your debt fastely
4. Scheduling.

Types of Loans which can be considered under debt consolidation are

1. House Loans
2. Educatiom loans
3. Personal loans
4. Vehicle loans
5. Credit cards
6. Small Business loans and many more.

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Eligibility for debt consolidation loans

Anyone with a good credit score could qualify for a debt consolidation loan. If you do not have a good credit score, then it will be difficult for you to get the loan or whether you have to pay additional interest rate to get debt consolidation loan.

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