Debt Consolidation Loan – How Does It Help You

How it works

A debt consolidation loan essentially pays off all the smaller debts and replaces the multiple minimum payments with a larger single loan. When you have such debts as credit card or medical bills, you often will be saddled with a minimum monthly payment. Three or four monthly payments of $25 or $50 or even $100 will quickly add up to a sizable chunk of your income. With a consolidation loan, you will still have a minimum amount to pay, but it is likely to be less than the total of the other minimum amounts. You may also be able to obtain a lower interest rate than with some of the high interest rate credit card debts

Saving money

By acquiring a debt consolidation loan you can choose carefully and you will be able to save money on your overall debt especially in the portion that you have been paying in interest on the principal. By consolidating debts into one balance and one payment, you have only one minimum payment amount to remit each month. Another way in which you can use this type of loan to save money is to obtain a loan which has a lower interest rate than the higher rates typically charged on credit card debt. Potentially, you can save several percentage points in interest plus additional monthly payment savings which can apply to the principal, rather than to interest.

Improving your score

When you are taking out a debt consolidation loan, you should be certain that the cost of the loan is offset by the savings in overall cost of the loan. A sure fire way to do so is to improve your credit score prior to obtaining the loan. You are almost certain to save money because your interest rate will drop as your credit score increases in most cases. If you improve your credit score, it will open up some other alternatives for financing so that you no longer need to pay those high credit card interest rates.

Tie it to your home equity

Another way to save money on your debt consolidation loan is to obtain the loan and link it to the equity you have in your home. If you are a homeowner with equity in your property, you often can access that equity in the form of cash for any purpose you like, including that of paying off your debts. By using equity from your home, you can pay off nagging and high interest debts and replace them with a single loan attached to the value of your home.

Negatives

A debt consolidation loan is not the answer to all your financial worries. If your spending has been out of control and you use a loan to pay off other loans so that you can continue to spend at the same level, you will soon find yourself and your finances in even deeper trouble. Conversely, you can use the loan very effectively to save money in interest, in minimum payment amounts and potentially some tax savings

About the Author

Debt Consolidation or Debt Consolidation Loan is the best web site to find resources on the subject of debt consolidation loan. How to obtain one, what to avoid and lots more information is all available.