

Consolidating Your Debts: Ignore those Adverts!

"Loans from 4%! End your debts today!" the advert screams. Indeed, one person's dream is another person's business opportunity. Since many dream of being free of debt, unscrupulous companies have arisen to lure debtors into consolidating under the umbrella of one loan with false promises of becoming magically debt-free.

The reality is that you won't be debt-free with this approach; you'll simply have one large bill to pay each month rather than several small ones. The good news is that this can make debt repayment a bit easier and tidier. The good news probably ends there if you don't get the right type of loan however.

The key, alas, is found in the interest rates and fine print that you may be tempted to skip over. "Loans from 4%" means that the average loan will be closer to 8% or more, possibly with a £1500 brokerage fee. Looking for a solution to his problem, a debtor may find himself in more debt than ever, with unfavourable terms.

High street banks should offer lower rates for this type of loan, although they don't run adverts specifically for debt payoff. Consolidation companies' loans often carry payment insurance with protection if you can't pay, but buried in the fine print you'll see that the insurance won't cover signers in case of illness or other common situations.

These companies' secured loans may come with a lower interest rate than their unsecured loans, but with a steep cost-- if the payments aren't kept up your house or property could be taken away. A trip to the High Street for comparison on flexible, unsecured loans seems a small price to pay to avoid loans with these types of terms. Flexible loans allow early payoff with no penalty.

Most importantly, if you're taking this route remember that you are already in debt and need to get out of it, not owe more. Don't be tempted to top up your loan (even if offered a lower interest rate to do so!) or run up your credit again. "If you think you might take out more with visions of a holiday in Bermuda, DON'T! Forget about consolidating your loans and pay them off as they are. If you really are determined to have that holiday, set up a loan with the maximum amount you can pay each month and the shortest possible length to reduce accrued interest. The money you'll save in interest rates will allow you to really take a holiday debt-free.

To check whether one loan would be useful for you, use Camelot Finance's [consolidation loan](#) calculator.

If you've shopped for a loan and consolidation doesn't seem to work in your case, you'll need to begin managing your debts. Start by creating a monthly budget comparing your necessary expenses to your income and pinning down what's left over. Compare necessary expenses (tax, food, travel, etc.) to other expenses (clothes, entertainment) and determine which you can shed. The more unnecessary expenses you can snip out, the sooner you can pay off your debt.

Rather than put money into savings, put money into paying off your debt, because the interest rate on saving is less than the rate you're charged for borrowing. Pay your most essential bills first, including housing, food, gas and electricity. Remember to make the minimum payments on all your loans otherwise the penalties and fees will quickly add up.

Contact your lenders as some of them will be willing to work out a repayment schedule for smaller payments each month. If you simply can't resist the lure of the plastic, cut up your credit cards. Once you have your finances sorted and spending in line, you can apply for new ones with lower interest rates.

If you do decide to manage your debts without the help of a loan, there are many free services to assist you. These include the Consumer Credit Counselling Service (0800 1381111), National Debtline (0808 8084000) or [Citizens Advice](#) (www.adviceguide.org).

About the Author

Gloria Lloyd is Finance and Research Analyst for [Liberty Debt Advisors](#). She focuses on [debt help](#) and helping consumers [avoid bankruptcy](#).

Source: <http://www.articletrader.com>