

Published based on [Is Credit Card Account Debt Consolidation A Fast Fix Or Is It A Permanent Answer To Debt Problems](#)

Is Credit Card Account Debt Consolidation A Fast Fix Or Is It A Permanent Answer To Debt Problems

You may be considering a debt consolidation loans to help yourself get out of debt. Often Americans will take out a home equity loan or a second mortgage as a way to consolidate their loans. This will lump the debt payments into one single payment. It may also lower the annual percentage rate and lower your monthly payment amount (by extending the term of the loan). While you may think that consolidating your loans and making the payment more manageable is an easy way to begin to get out of debt, you need to carefully consider many things. When you consolidate your debt, you pay off the balances on your credit cards, and other loans with the money that you receive from the new loan. After you do this, you only have one payment to make instead of several. You can do this with a second mortgage or a home equity line. Some companies offer an unsecured debt consolidation loan.

You need to be careful with these because the interest rate is usually very high. Most people who take a debt consolidation loan will run their charge card balance back up within two to three years. A debt consolidation loan does not address the real problem, which is spending more than you make. If you do not address this issue, then you end up worse off than before, because you will owe twice much cash. Please be aware of changing unsecured debt into secured debt. Generally a debt consolidation loan will take unsecured debt and change it into secured debt. If something were to happen to you and you were unable to make the payments on your home equity loan, and then you could lose your home. If you were unable to make payments on your credit cards, your credit score will go down, but you are not likely to lose your home. A debt consolidation loan may not necessarily save cash. While the initial interest rate may be lower, because you are extending the length of the loan (with lower payments), you may end up paying more in interest than you would have otherwise. So you may not be saving the money that you thought you would by taking out this debt consolidation loans.

There are alternatives to a debt consolidation loan. You can take care of the situation by setting up your budget, and a debt payment plan. You can also work with your creditors to see if they can seek a consolidation debt loan help by lowering payments and interest rates for you. It is only through addressing the reasons that you have debt that you will be able to get out of debt and stay out of debt. Unfortunately interest rates haven't been this low for decades, tempting some consumers to take on additional debt to ease existing credit woes. The goal is to consolidate various higher-interest balances into one, easier-to-handle and less-costly package. But be careful of what looks to be a quick fix. You are getting symptomatic relief, not a credit cure. This fighting-fire-with-fire approach can take several forms. There are debt-consolidation loans, balance transfers to a zero-percent credit card and home equity loans or lines of credit. By taking on yet another creditor, you're adding the proverbial fuel to the fire. In this case, it's your cash that's burning. Plus, if you've taken on so much debt that you're looking for more as a solution, chances are you won't qualify for the very low interest rates you see advertised. Those generally go to people with stellar credit ratings. However, if you're at the end of your credit rope or swear that this time you'll be more disciplined, debt consolidation may be something to consider despite its risks.

There are five reasons to pay down debt consolidation loans. First, you'll pay less total interest. Interest is essentially rent you pay a lender for the use of its cash. The longer you keep the cash, the more rent you'll pay. If, for example, you borrow \$50,000 for 15 years at a rate of eight percent per year, you'll pay a total of \$36,009 in interest charges. The same loan amortized over 30 years would cost \$82,078 in interest. Refinancing your mortgage or auto loan over a shorter term can save you big bucks -- but only if you can afford the higher monthly payments. Second, you'll be able to borrow more economically. When lenders calculate the rate of interest at which you can borrow, they take into account the amount of debt you are currently carrying and your ability to repay it. The greater your debt load, the greater the risk you will default on your payments and the higher the annual percentage rate the lender will charge, to offset the risk. Pay off some debt -- particularly high-interest debt such as credit-card balances -- and you may qualify for a lower annual percentage rate on the rest if you refinance it.

Third, you'll have greater credit to draw on. When lenders calculate how much you can borrow, they look at the amount of debt you have outstanding now and how much more you can afford to service, given your current income. If you have a big mortgage or a lot of credit-card debt and pay high monthly installments, lenders will be wary of letting you borrow much more. Pay down your debts and free up some cash each month and you'll qualify for more credit. Fourth, you'll have better cash flow. By paying down debt, you'll reduce the amount of your monthly installments going forward. You'll have more money in your pocket for current expenses and extras -- and less need to borrow from high-interest lenders, such as credit card companies, for day-to-day needs. Fifth, you'll reduce your opportunity cost. You could put the cash you're paying in interest each month to better use if you pay

off your loans. If you deposit the same amount in a savings account, you will earn interest. If you invest it in a home that appreciates in value or brings in rental income, you will make a capital gain when you sell or earn extra income while you are renting it out. You'll be better off by the annual rate of return you make on your investment plus the annual rate of interest you've been paying on your loans.

This article is brought to you by www.JemCreditCards.com – Not just credit cards, we create financial stability! Compare the [best charge card](#) including Visa, MasterCard, [Chase credit cards](#), American Express, [Discover cards](#), IberiaBank cards, and much, much more!