Should You Consolidate Your Debt?

wiseinvestments.ca/consolidate/

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We all have debt. However, most of us do not know how to handle it. From balance transfers to lines of credit, there are many ways to accumulate and help manage debt. I'm sure you've heard about consolidation and if you haven't then you've come to the right place! Consolidating your debts is the act of combining your loans so that you have one payment and interest rate. This can be a useful tool. However, there is a lot that needs to be known before you decide to consolidate! If you need an amazing and cheap book that'll help you get out of debt, try Lynette Khalfani-Cox's Zero Debt: The Ultimate Guide To Financial Freedom

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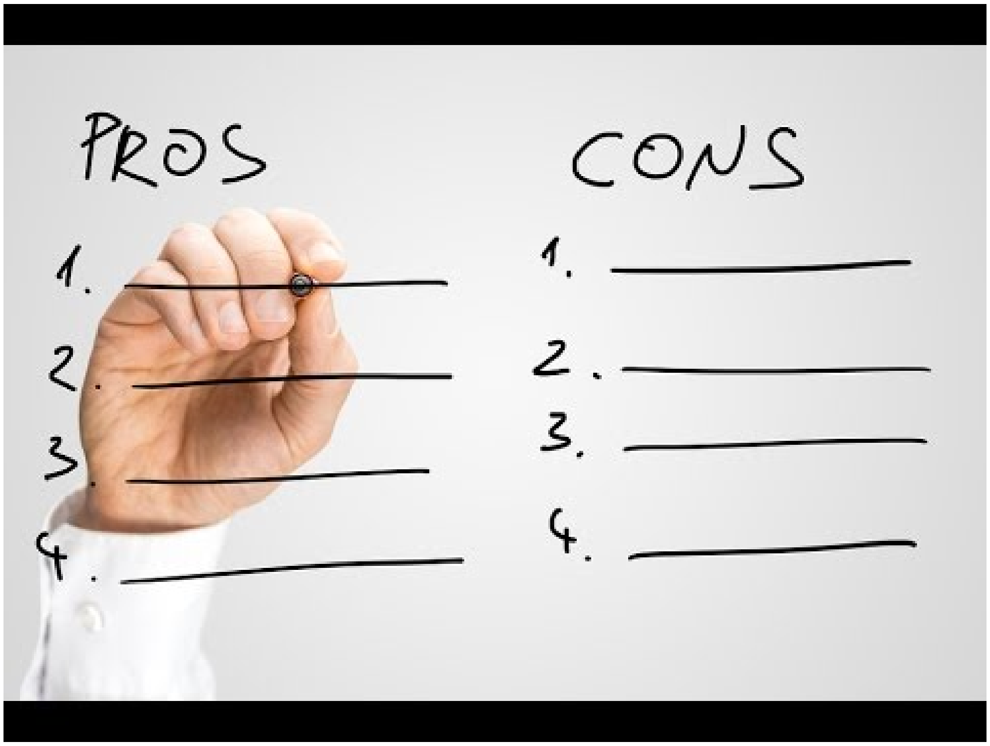

https://youtu.be/uMVPMtrNx3w

There are many factors that you need to look at before you consolidate. Usually when people consolidate they go after debt consolidation loans. These loans take all debts you have and pile it into one large sum. This sum needs to be paid off in a certain amount of time for a set interest rate. This can sound extremely appealing but you shouldn't jump right into it. First, you need to evaluate all the debts that you have, your current monthly payments and interest rates. Often times when people have multiple debts, they have different interest rates as well. Above is a video by Michael Bovee where he explains some pros and cons for debt consolidation!

Once you've looked through all of your debts, its time to crunch some numbers. Find the average amount you're paying for your loans and compare that to the amount of money you're making per month. If you have incredibly high interest rates and are making a small amount of money per month, it would be smart to find a way to lower interest rates.

Say you have a debt consolidation loan available and it has a 5-year term at 2% interest. If your debt is $10,000, your monthly payment will be 183.33. However, $16.67 of that will be interest charges. This means that at the end of the 5 years you would have paid $1,000 in interest. Although this number may seem higher than your regular credit card payment. Please remember that most of your money is going towards the principal. In most cases, credit card minimum payments mainly go towards the interest.

If the amount you were to pay on a monthly basis is lower and you pay less interest then you might want to consolidate. However, there are other aspects that need to be review before you go and request that debt consolidation loan.

2. When You Shouldn't Consolidate

One factor that may deter you from getting that consolidation is your habits. Just because you cleared off your credit cards and line of credit does not mean that you'll suddenly be money savvy. Many people who consolidate their debts run up their credit cards. This leaves them with even more debt than they originally had! Before consolidating you should always adjust your spending habits.

Another disadvantage may come with the length of the loan. Although these loans have a lower interest rate. If you are going to take the full amount of time to pay it off, you may be paying more in interest. Furthermore, the payments for these loans can be considerably higher than your regular credit card payments. If this is the case you may find it harder to keep up with these payments over the course of 5 years. Miss or late payments can have horrendous penalties.

If you want lower monthly payments, there may be the option to get a longer term. However, since the term is longer, that means you'll have more interest payments. Also, there is the chance that you may have to pay a higher interest payment, similar to a car loan. One strategy that many people utilize is getting the loan and paying it off before the 5 years is over. This is smart for a number of ways. The open payment allows you to pay as much as you want, whenever you want. If you've paid the whole loan off in a year, you've essentially paid 2% interest for a single year. Whereas if you took a year to pay your credit card, you could be paying more than 10x the amount of interest!

Summary

It all really comes down to your financial situation. Take a look and evaluate how much you are paying on a monthly basis. If the numbers make sense and you are able to control your spending, consolidation may be your answer. However, check with your creditors if you can get lower interest rates before anything else because chances are they may be able to help you. Always look for other solutions because you may find one that's better for your particular situation!