



Debt Consolidation: Expectations vs. Reality

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Introduction

If you are overwhelmed with debt, it may feel like you are sinking into financial quicksand. If you are worried if your next paycheck will cover the minimum payment on the next round of bills, you are not alone. The good news is that it is possible to get out of debt and stay out of debt! Debt consolidation strategies can help you take the first step towards financial freedom.

Securing one of the many available debt consolidation solutions and regaining control over personal finances certainly proves beneficial, but it can sometimes create unrealistic expectations. It's essential for members to weigh the realities associated with debt consolidation and existing spending and budgeting habits to fully understand the complete financial picture. By understanding what debt consolidation entails and the pros and cons of different strategies, members can make informed decisions and get the relief and results they deserve.





What Is Debt Consolidation?

In a broad sense, debt consolidation involves a financial strategy of securing a low-interest loan product and leveraging it to pay off balances. The conventional wisdom is that borrowers save money by moving outstanding debts into loan products that require lower interest payments and fees. Debt consolidation approaches also seek to minimize the amount of money being applied to multiple accounts every month. This typically frees up money for people to enjoy a better quality of life or focus those savings on debt reduction.

It's also important to understand that "debt consolidation" is a type of catch-all phrase that covers wide-reaching solutions. Debt consolidation loans come in all shapes and sizes. [Home equity loans](#), [personal loans](#), and [low-rate credit cards](#) are examples of loan products typically used to help members consolidate debt. At times, some people use the term interchangeably with "debt settlement." One of the critical differences between the two approaches stems from the common practice of hiring a third party to negotiate a debt settlement agreement. Companies that work in this niche usually charge consumers a fee that may range between 15-20 percent. Some of the outfits are more akin to a scam than a legitimate debt reduction organization.

And, truth be told, debt consolidation loans remain easily available for everyday people who qualify, by simply scheduling [an appointment with their local lender](#) to discuss which solutions are available based on their unique financial situation. Reducing debt to regain financial freedom is possible! It requires an understanding of the basic concepts and loan options along with a commitment to stick to a budget and plan.

Credit Card Consolidation vs Debt Consolidation

When people start to look for ways to reduce debt, it's not uncommon to hear a variety of seemingly similar terms and strategies. Don't be surprised when the phrase "credit card refinancing" is used interchangeably with credit card consolidation. There is a subtle difference between debt consolidation and credit card consolidation even though both concepts describe the process of bringing credit card debt under one roof.

- **Credit Card Consolidation (Credit Card Refinancing):**

This debt reduction strategy typically involves taking out a high-limit, [low-interest rate credit card](#) or a [credit card offering zero percent interest on balance transfers](#) and transferring other existing balances with higher rates into it. By zeroing out credit card accounts charging higher interest and fees, consumers reduce wasteful spending and bring everything under one manageable monthly payment.

- **Debt Consolidation:**

In terms of reducing credit card debt, a debt consolidation loan such as a [home equity loan](#), [personal loan](#), or [low-rate credit card](#) will accomplish the same feat. The strategy mirrors that of credit card consolidation, however, interest rates offered on a home equity loan or personal loan would never match a zero percent credit card balance transfer offer. Depending on the solution you select, you may find a fixed rate and a set timeframe to pay off your debt beneficial.

For more in-depth tips and other factors to consider when consolidating credit card debt, [review our blog that covers the pros and cons of both credit card consolidation and debt consolidation](#)





How to Pay Off Credit Card Debt Fast

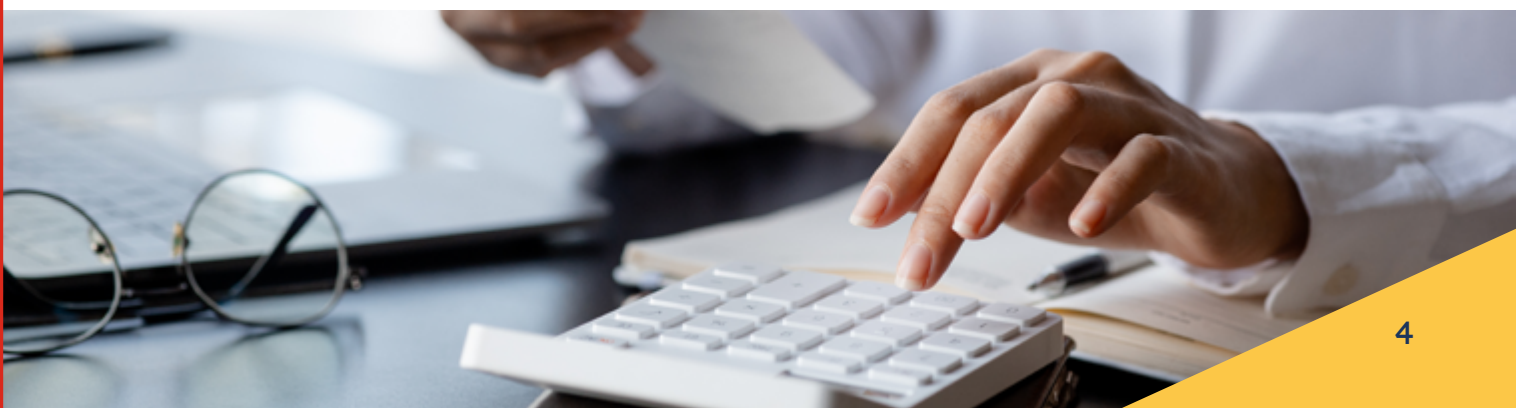
Credit card debt gets a great deal of emphasis in reduction strategies largely because Americans carry far too much. According to reporting agencies, the average cardholder shoulders balances that exceed \$5,500, and per-person debt is nearly \$4,000. Total U.S. credit card debt pushed close to \$1 trillion in 2021 and shows no significant sign of slowing. Take advantage of the following approaches to pay off credit cards quickly.

- **Pay Off Lowest Credit Card Balance First:**

Often called the “debt snowball” method, the basic strategy is to pay off debt starting with the lowest balance first. By targeting credit cards with the lowest balances, borrowers can eliminate the monthly payments more quickly, providing more frequent “wins”. Consumers focus resources on one card while making minimum monthly installments on the others. Once a low-balance card has been zeroed out, consumers target the next account, rolling the additional payment from the first payoff into this one. Perhaps the greatest benefit to this strategy is motivation. When people see a credit card hit zero, the accomplishment tends to inspire them.

- **Target Card with Highest Interest Rate:**

This seemingly opposite approach is often referred to as the “debt avalanche” method. By concentrating payments on high-interest accounts and knocking them out one at a time, people can feel good knowing they are saving money that would have been spent on interest. Once the highest APR account has been defeated, the number two card becomes the primary focus. Borrowers usually pay only monthly minimums on other accounts while employing this strategy. With this method, it is not unusual for credit cardholders to make a payment above the monthly minimum only to feel disheartened by how little the outstanding balance ticked down. This is why the debt snowball method can be a favorite due to the frequent “wins”.



- **Reduce Personal Spending:**

The single greatest culprit in accumulating credit card debt is overspending. Sometimes even otherwise frugal people decide to make purchases on credit that improve their quality of life. Other times, income hiccups prompt consumers to make purchases on credit with the intention of balancing their finances once a positive revenue stream has been restored. Turning the corner on debt requires fiscally responsible spending habits and a goal to pay off credit card bills in full each month, otherwise pass on the additional purchase when possible.

Regardless of how people find themselves in excessive credit card debt, the underlying cause is that spending exceeded income, and interest costs only added to the problem. Before embarking on a debt consolidation strategy, creating a monthly budget may be in your best interest. It's crucial to be realistic about your necessary and discretionary spending to ensure the debt reduction plan succeeds.

For more tips on consolidating credit card debt, [review our blog that reveals 7 secrets for how to pay off credit card debt fast.](#)





Debt Relief vs Debt Consolidation

While a debt consolidation plan involves funneling multiple credit cards and loan products into one manageable monthly payment, debt relief opportunities typically look at ways to eliminate portions or entire balances. Options such as debt management plans, settlement, and the final option of filing bankruptcy all provide “debt relief” in some sense. But the ramifications of these alternatives often make them less than palatable.

- **Debt Management Plans:**

People can work with a credit counseling agency that negotiates with organizations on your behalf. The goal is to persuade creditors to accept a monthly installment while waiving mounting late fees and interest. Creditors agree to this plan when they believe the choice is between recouping the principal balance or getting nothing at all. The inherent problem with debt management plans besides the fees usually involves people taking a hit on their credit score. And if the plan crumbles, the next step could involve a bankruptcy filing.

- **Debt Settlement Plans:**

Consumers may try a debt settlement approach after waiting too long to effectively reduce balances. In this instance, people usually work with a third party to negotiate a payoff amount that includes some debt forgiveness. Although people gain debt relief, in a sense, this strategy often results in a damaged credit report and makes future borrowing increasingly difficult. Again, check on the fee that is charged when each debt is settled.

- **Filing Bankruptcy:**

Individuals who cannot overcome debt problems may file for Chapter 7, also known as personal bankruptcy. This legal relief option can erase wide-reaching debts that include credit card balances, medical bills, and many unsecured loan products. What it typically cannot erase are things such as student loans, back taxes, and child support arrears, among others. Although Chapter 7 stops collection agencies and creditors from hounding people, the long-term ramifications prove debilitating. The debt purge usually sticks to credit reports for upwards of seven years and impedes people from securing credit cards, automobile loans, and mortgages, among others.

By contrast, savvy debt consolidation strategies provide relief that doesn't upend someone's ability to access credit. In fact, leveraging high-limit, low-interest credit cards and debt consolidation loans like fixed-rate [home equity loans](#) and [personal loans](#) can position members for improved financial freedom.

For more tips on which strategies to avoid, [review our blog on debt relief and what they didn't teach you in school.](#)





Benefits of Debt Consolidation

It's essential for people struggling with debt to take proactive measures to turn their financial situation around. The longer good people wait to implement a debt consolidation plan, the greater the chances things will get out of hand. Procrastination often leads to a rocky financial road that requires unpleasant options such as debt management, settlement, and bankruptcy. By contrast, taking out an effective low-interest credit card or securing a debt consolidation loan delivers proven benefits. These include the following.

- **Single Monthly Payment:**

Whether people take out a high-limit credit card and transfer balances or secure a home equity loan or personal loan, the result is streamlining multiple monthly installments into one manageable payment. This debt consolidation strategy generally reduces borrower stress and saves money on otherwise higher-interest accounts. In terms of relief, everyday people can stop watching their hard-earned salaries walking out the door, and they can apply the savings to improve quality of life amenities.

- **Lower Interest Rates:**

Members can [apply for a credit card](#) or debt consolidation loan with lower rates than they are already paying. Enjoying lower interest rates represents immediate net savings in terms of monthly income. By reducing interest rates through a debt consolidation loan, that otherwise wasted money can be applied to the principal. The key benefit is that community members can reduce debt faster without having to work overtime.

- **Improved Credit Score:**

It may seem counterintuitive that relying on a debt consolidation strategy to deal with overwhelming financial stress would improve someone's credit score. But the fact of the matter is that major reporting bureaus analyze items such as credit utilization and repayment histories. By paying off multiple accounts, reducing overall utilization, and making consistent monthly payments, debt consolidation solutions often improve credit scores.

- **Simplifies Repayment:**

Although credit card strategies such as debt snowball and avalanche may be effective, they may be too complicated to maintain for someone with a busy lifestyle. The inherent difference between those strategies and taking out a debt consolidation loan involves the interest portion of payments. While one account is being paid down, consumers are typically throwing away money on the other cards' high-interest balances. By securing a consolidation loan that provides lower interest, the principal can be reduced more quickly without wasting hard-earned salaries. Debt consolidation loans rank among the simplest and most effective ways to curb negative monthly spending.

One of the sometimes-overlooked benefits of securing a debt consolidation loan to get finances under control involves flexible repayment. America's Credit Union offers a wide range of debt consolidation loans that can be tailored to fit into family budgets. Qualified borrowers can negotiate repayment timelines and have access to low-interest products and minimal, if any, processing fees. Members who decide to secure a debt consolidation loan find themselves in the repayment driver's seat.





The Reality of Debt Consolidation

The expectations surrounding debt consolidation must be tempered with reality. It may prove helpful to look back at the missteps that led to financial overextension. Some have experienced unanticipated revenue shortages, while others found themselves confronted with medical expenses or taking on other necessary debts. While some events are uncontrollable, poor spending habits are also a potential contributor. People who are poised to move forward with a debt consolidation plan would be wise to consider the following.

- **Fiscal Responsibility:**

Securing a debt consolidation loan or transferring balances to a low-interest credit card help resolve financial struggles only if people curb spending habits. One of the harsh realities is that too many people continue to swipe plastic and spend beyond their means. Reckless habits turn the savvy consolidation loan or credit card into just another onerous debt. It's crucial to craft a reasonable monthly budget that supports debt reduction and eliminates unnecessary spending.

- **Added Costs:**

Some lending institutions charge fees and interest rates that do not necessarily result in long-term savings. These may include origination fees, transfer fees, closing costs, and annual fees, among others. It's crucial to take a comprehensive accounting of the total interest paid and the sum of the fees to gain a clear picture. Not every debt consolidation loan saves people money. Be sure to conduct research and discuss your unique situation with a [trustworthy local lender like ACU](#).

- **Interest Rate Changes:**

Zero percent interest promotional credit card offers are extremely helpful when it comes to consolidating credit card debt. These offers typically allow cardholders to transfer other balances into them and enjoy a zero-interest repayment period. But if proper research isn't done ahead of time to determine the end date for the promotional period, or to find out the new interest rate, people may be disappointed.

People determined to regain financial freedom have an opportunity to merge the expectations and realities surrounding debt consolidation to create a successful plan. By practicing good spending habits and qualifying for a debt consolidation loan, members can achieve their goals.





What Debt Consolidation Loans are Available?

There are wide-reaching debt consolidation loans available for qualified borrowers, as well as high-limit credit cards that offer low-interest and minimal fees. Like any investment consumers make, choosing the best option to serve your interests requires due diligence. Each consolidation option helps reduce debt, but there are unique pros and cons associated with each product. By weighing the following debt consolidation solutions carefully, people can get on the road to financial freedom.

Do Home Equity Loans Make the Best Debt Consolidation Loans?

Homeowners who have built equity in their houses are uniquely positioned to leverage that asset. Lenders consider equity the difference between fair market value and the balance remaining on the mortgage. That amount is then used to secure a second mortgage that can be used to pay off a wide range of outstanding debts.

The advantages of leveraging equity include providing an asset like a house as collateral allowing borrowers to typically gain access to lower interest-secured loans. Unsecured loans and credit cards usually come with higher rates and fees because lenders take increased risk should a borrower default. Another home equity loan and HELOC benefit may include tax-deductible interest and the ability to customize a repayment timeline.

The biggest risk homeowners take by utilizing equity involves loan default. It's essential to understand the home is the collateral. Defaulting on a home equity debt consolidation loan puts your house in jeopardy. Conduct due diligence and be realistic about repaying the loan before moving forward.

For more tips on how home equity loans can help you regain control of your finances, [review our blog on how home equity loans make the best debt consolidation loans.](#)



Credit Cards

People with reasonably sound credit scores may be well served by using a [credit card with a low interest rate](#) to pay off other debts. This strategy reduces interest expenses and brings balances under one umbrella. This method can certainly improve your financial straits and put you on the road to financial recovery, as long as you stop deficit spending habits.

This strategy doesn't have a significant downside, per se, but research is required ahead of time to confirm the promotional period end date as well as the interest rate charged once that promotional period ends. Unsecured credit card rates may also be higher than unsecured personal loans, so be sure to research the details.

Personal Loans

[Personal loans](#) provide flexible repayment schedules, and credit unions like ACU often offer reasonably low-interest rates. These unsecured loans usually charge lower interest than credit cards but somewhat higher rates than secured products such as home equity loans and HELOCs. For people worried about leveraging equity or repaying a note in a timely fashion, unsecured loans come with less risk. Of course, failure to make good on a loan or credit card triggers collection protocols.

That being said, credit unions have wide-reaching personal loan opportunities with varying repayment timelines, rates, and nominal processing fees. Therefore, it's up to potential borrowers to weigh the savings associated with secured loans against unsecured products to reach an informed decision about how much money they want to save while improving credit scores.

For more tips to help you decide if debt consolidation is right for you, [review our blog that dissects common myths associated with debt consolidation loans.](#)





Consider Debt Protection Insurance

Debt protection insurance offers borrowers an additional safeguard in the event of an unanticipated financial setback. Lenders typically offer debt protection insurance in conjunction with consolidation loans. Some may be able to help borrowers circle back and add protection while in repayment. These programs generally pay the monthly premiums when borrowers fall ill or cannot make installments for reasons covered in the policy. Not only do they provide financial relief, but debt protection insurance also protects credit scores because payments arrive on time and in full.



How To Get Out of Debt

For people with overwhelming debt, strategies such as the debt snowball method can help you take the first step toward getting your finances back on track. If you are in a reasonably good financial position to successfully eliminate balances and stick to a budget, trying this technique may prove helpful.

On the other hand, credit card consolidation and debt consolidation loans usually save hard-working people money on higher interest payments and the hassle of managing multiple payments and schedules. Perhaps the quickest pathway to debt-free financial freedom is to eliminate wide-reaching balances, bring them into one easy monthly payment, and sticking to a budget.



How to Choose The Right Debt Consolidation Loan For You

Selecting the right debt consolidation solution requires taking some proactive measures. First, consider [requesting a free copy of your credit report](#) from the three major reporting bureaus — Equifax, Experian, and TransUnion. Next, take some time to review the information and clear up any errors or oversights. Then, consider any potential quick fixes that could also improve your credit score.

With the best possible score in hand, weigh the pros and cons of each debt consolidation solution, including [a low-rate credit card](#), [home equity loan](#), and [personal loan](#), among others. Finally, [contact ACU](#) to set up an appointment with a lending specialist to help find the best solution for your unique financial situation.

For help convincing your partner to get on board with debt consolidation, [review our blog on how to explain a debt consolidation loan to your partner.](#)





We're Here to Help!

These tips will help you find the best debt consolidation loan for your needs and budget.

Don't forget, ACU offers affordable [home equity loans](#), [personal loans](#), and a [credit card](#) to help you streamline multiple outstanding debts into one manageable payment.

If you have questions about which debt consolidation loan is best for your unique financial situation please [contact us](#), we're here to help!



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