Debt consolidation – does it work?

Many people have a hard time paying off their credit cards. In fact, the Federal Reserve estimates that the average American household has more than $15,000 in credit card debt.

When you're trying to make payments and have multiple cards to pay off, it can feel overwhelming. In these situations, many people turn to debt consolidation. Consolidating debt means that all of your separate payments are lumped into one monthly payment.

Some banks, credit unions, and other lenders offer debt consolidation loans. Having just one payment can alleviate some of the stress of paying off multiple debts. But there are some things you should know before you move forward:

- ***Contact your individual creditors to see if they can lower your payments first.*** Some creditors are willing to allow you to pay a lower amount each month when you can't afford the higher amount.
- ***Ask about the interest rate of a consolidation loan.*** You don't want to wind up paying more in interest, because this can make your debts even more difficult to pay off. It also adds up to more money out of your pocket.
- ***Ask about balance transfer fees before you consolidate.*** Some loans and credit cards will charge you a fee if you're transferring your other debts.

- ***Be wary of 0% or low-interest credit cards.*** Many of these only offer this low rate for a certain amount of time. After that, you may be paying a much higher rate and could end up with even more debt than before. Some will raise your rate if you're late on just one payment. Make sure you understand when this low rate will end, and whether your rate could be raised for late payments. Find out what the interest rate would be on new purchases. Keep in mind that many people who have lower credit scores can't get the advertised low rates.
- ***Make sure you're getting a good deal.*** Add up all of your current payments you make. Include all of the fees and interest you pay now. Compare this total with the amount you'd pay with a consolidation loan. In some cases, you're not getting a better deal by consolidating.
- ***Be aware of the risks of home equity loans.*** These loans allow you to borrow against the value of your home. If you can't pay it back, you could lose your home. These loans also decrease your home's worth.

Source: Consumer Financial Protection Bureau

Before you take out a new consolidation loan, you may wish to talk to a nonprofit credit counselor. He or she can help you figure out your options for paying off debt. To find one, contact your state attorney general's office or visit: www.justice.gov/ust/list-credit-counseling-agencies-approved-pursuant-11-usc-111