

Consolidation Loans

People are genuinely intrigued by what I do for a living. Whether it's someone I'm just meeting or someone I've known forever, when it comes to the work I do, they're all questions. You can see the wheels turn as I answer their questions and queries, and a "thank God" look of serenity generally befalls the majority when I assure them they're doing just fine. The fact is, the majority are OK. Even for those in the middle of a quandary, chances are many aspects of their financial life are good in spite of the singular event causing strife at present.

People have generally made up their mind though. If you use a service like ours, you're always 100% in a mess; end of debate. But nothing could be further from the truth. Only one in four of our clients is genuinely in the kind of financial bind which requires us to do something radical or drastic like intervene with their creditors and take over the payment of their debts. The remaining three in four cases are people who want information and general advice. They want to look at a variety of financial issues and they are more than a little curious about options.

A great number, in fact the majority in some months, come to us with a resolution to their debt situation already planned. They've arranged a consolidation loan and they want to know for sure if proceeding in this direction is a good plan. The short answer? Maybe.

Consolidating debts is a financial relief measure that many consumers pursue. Essentially, consolidating sees the consumer successfully negotiate a new loan to pay out a number of existing credit

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Mission:

"To educate consumers in the wise use of credit and to facilitate the equitable resolution of financial problems for individuals and families in Newfoundland and Labrador."

accounts. Before signing on the dotted line though, there are a number of questions the astute consumer asks himself.

Here they are.

1.) How often do I do this?

People who find it necessary to consolidate their debts on a regular basis; i.e. every four or so years, have failed to confront the reason such action is necessary. Typically they pay off the existing accounts all right but they don't cut off the credit that's available to them. During the next 12 to 18 months, they almost always reactivate this credit for a small purchase or transaction. Before they know it, several hundred dollars has ballooned to several thousand and a new financial crisis is just around the corner.

So, to make consolidation work to its best effect, insure that you've eliminated or at least limited your access to the credit you're paying off. Destroying credit cards and/or closing department store and finance company accounts can achieve this most effectively. It could also mean canceling overdraft protection on your bank accounts, and abandoning any mindset or habit you might have developed around earning "points" or other loyalty programs the financial sector uses to market its products.

2.) What should I be aiming to get rid of?

Actually, you're aiming for two outcomes. First of all, consolidating should see you making fewer monthly payments. For example if you currently have five accounts, all requiring a payment by you every month, but by consolidating you should have only one. You also want to pay out less cash each month. So go back to the same five accounts for a moment. Currently they cost you an amount in total. You must ask yourself, what will the payment on this new loan be, and how much less in total than the current five payments is the amount? You should be aiming for a minimum saving of 35%. So, if your present monthly payments are requiring \$300.0, the consolidation loan should cost about \$195.00 each month to be most effective.

3.) Is interest rate a factor?

Definitely. In fact, the rate question is possibly the only thing a consumer needs to ask himself when making a decision on consolidation.

Consolidation works best if we're getting rid of a high interest account, replacing it instead with a more favourable rate of interest; favourable from the consumer's perspective that is. This is where you need to be particularly careful, especially if your lender of choice is a finance company.

This comment is not a wholesale attack upon finance companies. These firms are legitimate financial institutions who offer yet another choice in the market place. The finance company business involves, among many consumers, lending to tremendously high-risk people and consequently their losses are significant. This reality is manifested in the rates they charge on most of their products.

So if you're consolidating several banks charge cards into a finance company consolidation loan, you might want to reflect a little longer. After all your annual rate will likely be higher. And yes; it is entirely possible that upon reflection, you'll proceed in any event because the peace of mind of not having to find a number of payments every month is worth the cost in dollars and subsequently interest rate costs. You see, not all your decisions will come only from a financial viewpoint.

Many people come to us to talk about mortgage consolidations as well. The considerations here are huge too. So that's where we'll pick things up next time.

Al Antle is the Executive Director of Credit and Debt Solutions.

