Managing Your Finances

The Tricks And Traps Of Debt Consolidation

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(NAPSA)—Here are some facts about debt consolidation consumers may want to lend an ear to. First, it's important to understand that a debt consolidation loan is no easy fix. It can actually multiply your debts. Watch out for sky-high rates, hidden fees, costly add-ons and damage to your credit rating.

The trouble with debt consolidation loans is twofold:

• The kind of borrowing typically does nothing to solve the problem that got the consumer into trouble in the first place: overspending.

• The loans can be far more expensive than the debt they're designed to pay off, full of hidden fees, expensive insurance and other profit-boosters for lenders.

There are actually two types of loans that are typically used to consolidate debt: home-equity lending, which allows the consumers to borrow against the value of their houses, and personal lending, which is usually not backed by a home or other collateral but essentially relies on the borrower's promise to repay.

Personal loans offer interest rates of 14 percent to 15 percent for people with good credit. Those with heavy debts or troubled credit, however, usually pay more—18 to 21 percent and up. These borrowers may also face upfront fees of as much as 10 percent of the loan amount.

As with any loan, the devil is in the details. If borrowers can secure a low rate, low-cost loan and pay their debt off faster than they might otherwise, then debt consolidation makes sense.

You may be able to lower your interest rate without a debt consolidation loan.

Too often, consumers look for lower payments, rather than lower costs. Lower payments usually mean it will take you longer to pay off your debt and they inflate the total amount you ultimately pay.

Many people compound the problem by continuing to run up credit-card balances after they've consolidated their old debt. By adding more to their debt loads, they're bringing themselves closer to the financial brink.

You may be able to lower your interest rate without a debt consolidation loan. If you have good credit, your credit card companies may be willing to lower your rate if you simply ask. You may also be able to transfer balances to a lower rate card, but use this tactic with moderation: applying for too many cards can hurt your credit.

For more tips on handling debt, visit MSN Money at www.moneyman.com or use the debt-reduction tools in Microsoft Money software.

• *Liz Pulliam writes for MSN Money.*