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DEBT CONSOLIDATION: Not always the right answer

Interest rates haven't been this low for decades, tempting some consumers to take on additional debt to ease existing credit issues. The goal is to consolidate various higher-interest balances into one, easier-to-handle and less-costly package. Most credit experts would not recommend this because it does not address or change the behavior that created the credit problem in the first place.

Although a consolidation loan offers a longer repayment term and lower monthly payment, you will have a much higher interest payback over the life of the loan because you're making smaller payments over a longer period of time. Some loans such as student loans are especially difficult to consolidate because consolidation usually changes the terms of the loan and increases the interest rate.

But be careful of what looks to be a quick fix. There are debt-consolidation loans, balance transfers to a zero-percent credit card and home equity loans or lines of credit. 70 percent of Americans who take out a home equity loan or other type of loan to pay off credit cards end up with the same (if not higher) debt load within two years.

The major problem with debt consolidation is it feeds upon the tendencies that got you in trouble in the first place. If you've taken on so much debt that you're looking for more as a solution, chances are you won't qualify for the very low interest rates you see advertised. Those generally go to people with stellar credit ratings.

A major appeal of consolidation loans is convenience. Instead of paying 20 different creditors who are charging different rates at different times of the month, you take out one big loan and pay off all those accounts. Then you make a single payment on that loan once a month. But ease doesn't automatically translate to savings.

Before you sign on the dotted line, be sure that the costs of the new, bundled loan will truly be less than what you're already paying various creditors. For many consolidation-loan candidates, their current credit problems mean they won't get the lowest-available interest rate. Plus, when there is nothing to secure the loan (such as your home), expect the lender to bump up the rate.

Calculate interest and fees on all your existing accounts to determine the total of the payments you now make. Then compare those amounts with the consolidation loan numbers to make sure it truly is a better choice. As with any product, shop around. The bank down the street may offer an attractive loan rate, but your local credit union could turn up better terms.

A consolidation loan is only advisable when the credit problems have been caused by something outside the debtor’s control that is unlikely to recur, such as a large medical bill or health crisis that is now resolved.