

## What is debt consolidation?

Debt consolidation is the process of combining multiple debts into one new loan. A single monthly payment on that new loan will then go towards all the combined debts.

### Pros and Cons of Debt Consolidation

#### Pros:

- You may receive a lower interest rate on the new loan, meaning you will pay less interest over time.
- If you do receive a lower interest rate, you may be able to pay the consolidated loan off faster.
- You will only have one monthly payment, making it easier to keep track of payments and budget.
- So long as payments are made on time, debt consolidation can lead to a higher credit score as you pay off several lines of credit.

#### Cons:

- Higher credit scores typically receive lower interest rates while lower scores receive higher rates.
- Falling behind on payments towards a consolidation loan could lead to more debt than you started with due to late fees and a damaged credit score.
- Consolidating your debts may come with additional fees outright.
- Debt consolidation is not a solution to recurring debt problem.

### Is Debt Consolidation Right for You?

#### Yes, if:

- You have a higher credit score than when you applied for the original loans, meaning you may qualify for a lower interest rate. This can help you save on interest, allowing you to pay less overall and pay off your debts faster.
- You have enough income to cover the cost of the new monthly payment in addition to your usual monthly expenses.
- You have enough debt to make consolidation worthwhile, but not so much debt that it affects your eligibility for a loan or lower rates.

#### No, if:

- Your credit score has not improved since applying for the original loans, and you likely will not qualify for a lower interest rate. Without a lower rate, it would not be as beneficial to consolidate.
- Your debt is too small or too large. Many lenders require higher rates for large amounts of debt, or they will reject the loan. On the other hand, if your debt is small and manageable, consolidation will not be worthwhile.
- You expect to continue accumulating debt.
- The root cause of your debt is lack of income or lack of budgeting.

This is not legal advice. To get free legal help with Bankruptcy:

[WWW.MVLSLAW.ORG/APPLY](http://WWW.MVLSLAW.ORG/APPLY)

Or call intake between 9 a.m. and 12 p.m. on Monday through Thursday at 1(800) 510-0050 or (410) 547-6537

## What to Do:

- Meet with a certified counselor to discuss your debt and organize a budget. Nonprofit counseling services such as the Consumer Credit Counseling Services of Maryland (CCCSMD) provide free or low-cost financial counseling. A counselor will help you determine the best next steps for your situation.
- If debt consolidation is not the best option, you may want to meet with a bankruptcy attorney. Many bankruptcy attorneys offer free consultations. You may also qualify for free or reduced legal services at nonprofit legal service organizations.

## Things to Keep in Mind:

- Home Equity Loans: Using a home equity loan for debt consolidation can produce the same benefits as personal loans. However, you risk losing your home to foreclosure if you are unable to keep up with the payments. Additionally, home equity loans may come with additional fees, such as closing costs and appraisal fees.
- Student Loans: Consolidating student loans can be much more complicated and can have several risks associated with it, such as no longer being eligible for certain loan forgiveness benefits. If you would like to consolidate student loans, get specific advice based on your situation from a nonprofit counselor.