



Consolidating Debt: Is it the right choice?

If your wallet is full of credit cards and your mail carrier has a strained back due to an overload of your bills, it might be time to reorganize. There are numerous advertisements soliciting consolidation. First, decide what you want to achieve with consolidation. Do you want to lower your interest rates? Do you want to lower your monthly payments? Or just stretch out the terms on your loans? If it's one of the last two, be careful.

If solving the situation with debt consolidation only means charging the cards again, you could be better off staying where you are. At least there is a maximum amount the cards will allow you to charge. It is important to understand how you got in to the shape you are in!

Living beyond your means usually translates into abusing credit. Another reason for over use of credit cards is not having adequate emergency savings and not planning for future spending. Do you save monthly? Is your savings divided in to various categories? You should have a savings for emergencies, Christmas, medical, personal and family goals, retirement, etc. Review past credit card accounts to see when you were pushed to using credit.

If you are paying high interest rates on credit cards and need a lower interest rate, consider consolidating to another credit card or borrowing money from a bank or credit union. Banks and credit unions offer signature loans and although these are unsecured and the interest rate is a little higher, it is possible it is much lower than the current rate your credit card offers.

To consolidate your balances onto fewer cards, follow these guidelines:

- Pay off any low-balance cards you will not be keeping and then close the accounts.
- Transfer the remaining balances to the card with the best interest rate. Don't use this card until it's paid off. This will avoid additional interest charges on revolving purchases. Once the balance is paid, close the account.

There are some circumstances when you would not want to close the accounts. If you are looking to purchase a high price ticket item in the next few months it is possibly a better idea to leave these cards open and just not use the card.

When transferring your balance to another card read the fine print on your credit card agreement and asks questions. Otherwise, you could end up paying fees and a much higher interest rate than you expected. Many of the answers to these questions can be found on your credit card statement. If you cannot find the answers to these questions, call your credit card company and request a copy of your credit card agreement. Read over the agreement several times. Sometimes it is difficult to interpret. Once comfortable with the terms of the offer, be sure to fill out the balance-transfer form carefully.

Ask these questions before transferring your balances:

1. How long does the current rate last?
2. How does the current rate apply to transferred balances or new purchases or both?
3. Does the card have an annual fee?

4. What about late fees and over-the-limit fees?
5. Are there balance-transfer fees?

Keep making the minimum payment on your old card while waiting for the balance transfer to take effect; that may take anywhere from two to four weeks. The last thing a person who is trying to minimize their credit card cost needs is a \$29 late fee and penalty rate. It is a good idea to make sure you have a zero balance. If the company doesn't send one, request it.

Consolidating credit card debt is not without danger. The most immediate dangers have to do with how well you manage to make the transfers.

Watch out for these costly errors:

- Canceling a card that still has a balance. This could cause your rate on the card to shoot up, costing you quite a bit in interest charges. In fact, don't even let a card issuer know that you're thinking of leaving until you've paid off the balance. Some issuers will increase your rate if you try to cancel while you have a balance.
- Not finding out the rate and fees for balance transfers.
- Not paying the minimum on all your cards until the transfers are officially complete.
- Not paying all your cards on time. Realize that it may only take one slip-up for a super-low rate to disappear. One late payment can result a low rate to double or more.
- Canceling cards before you apply for a mortgage or car loan. This could actually worsen your chances of getting favorable terms. Credit-scoring models look at a number of factors when calculation you're score, including the result of the following formula; the total amount of debt on credit cards and revolving accounts divided by the total amount of debt available on those accounts. Maybe you ought to wait until after you have received the loan to cancel your cards.

Most importantly, remember that the debt, even at better terms is still there. And you still have to be diligent about paying it off before you add to it. In other words, remember that consolidating your debt doesn't mean you are free to make charges on your available cards.

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