



## Debt consolidation and credit

Fact sheet no. 49 EWS Debt consolidation and credit

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This fact sheet explains about debt consolidation, and the different sorts of credit that might be available to you. It will help you decide if you should borrow more money, and tell you where you can get the advice you need.

Use this fact sheet to:

- understand what you should think about before borrowing money;
- work out if you should consider consolidating your debts;
- see what different types of credit might be available to you; and
- find the right kind of debt solution for you.

Taking out more credit is usually not a good option if you are struggling to pay essential bills, or are already missing payments on your debts. Debt consolidation loans can seem like a good solution, but can sometimes just lead you further into debt.

There are different ways of borrowing, some of which may be better for you, depending on the situation you are in. This fact sheet will explain about the differences between the various sorts of credit that you can get.

## Budget before you borrow

Before deciding to take out credit, or consolidate your debts, you should complete a **personal budget**.

You need to work out how much money you have left after paying your day-to-day costs of living, to see:

- whether you can afford the payments on your existing debts; and
- how much you can afford to pay towards any new credit you take out.

See our fact sheet:  
**Budgeting and saving.**



Make sure your **personal budget** is accurate. If you take out credit but cannot afford the payments, you can end up having to pay back a lot more than you originally borrowed. If you are not sure if your figures are realistic, **contact us for advice**.

## Should I consolidate?

### I can afford my current payments

If you can afford your monthly payments, and have not defaulted, you will not need debt advice from us. However, you may still need help and advice, especially if you can only afford the minimum payments or if the interest repayments on your debts are high.



My Money Steps is our free, independent and confidential online debt advice service. My Money Steps will help you work out a budget and give you a personalised action plan setting out practical steps to deal with your debts.

www.mymoneysteps.org



It is always a good idea to get independent advice before you borrow money. The **Money Advice Service** can give you free general advice about credit. See [www.moneyadviceservice.org](http://www.moneyadviceservice.org). They can also help you find suitable independent financial advice.

Consolidation loans can sometimes lower your monthly payment, but can be more expensive in the long term. Always look at the overall cost, as well as how much you will pay each month.

There may be other cheaper and quicker ways of clearing your debts, so get independent advice. For example, if you have a credit card debt, it might be cheaper to just move the debt to another credit card with a lower interest rate. This is called a balance transfer. You may have to pay a fee for the transfer.

Whatever you decide to do, shop around to make sure you are getting the best deal you can. See **shopping around for credit on the net** later in this fact sheet.

## If you cannot meet your monthly payments

We do not generally recommend borrowing more money if:

- you cannot afford to pay your existing debts; or
- you have missed payments and have received default notices for some of your debts.

To consolidate, you will have to borrow enough to pay off your existing debts, but you will also have to pay interest on the new agreement. If you default on the consolidation loan, you will normally be asked to pay back the amount you have borrowed, plus the interest that would have been added throughout the term of the new loan. You can end up in a lot more debt.

If you have been missing payments on your current debts, your credit rating will usually have been affected. This means that you will miss out on the best deals, and be offered higher rates of interest, if you apply for more credit.

There may be other options available. Creditors may agree to freeze the interest on your debts if you make affordable offers of payment. If you cannot afford to repay your debts in full, you may be able to get at least part of them written off. **Contact us for advice.**

## Borrowing to buy

Lots of people take out credit for all sorts of items such as buying a new car or a new sofa. Working out a budget will help you find out how much you might be able to pay on a monthly basis. Think carefully about what you can afford, and shop around for the best deals.

### Warning: secured loans



Some loan companies may offer you a consolidation loan but want to secure it on your home. This means that the loan becomes a second mortgage on your home, and puts it at risk. Your home can be repossessed if you cannot keep up the payments. **Get advice first.**

### See our fact sheet: Ways to clear your debts.



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[www.mymoneysteps.org](http://www.mymoneysteps.org)



Freephone **0808 808 4000**  
[www.nationaldebtline.org](http://www.nationaldebtline.org)



If you already have debts that you are finding it hard to pay, taking out more credit might mean missing payments on your on-going household bills and your other debts. If you are already struggling with payments, **contact us for advice**.

## Taking out more credit

Taking out credit is not usually a good option if you are struggling to pay essential bills, or are already in debt. Below are some practical tips to consider before borrowing money.

- Make sure you know how much the credit will cost. Most forms of credit are expensive. If you feel the only way to afford something is to spread the cost by taking out a loan, be very careful to shop around for the best deals.
- Check the interest rates on offer and compare different forms of credit to see how much you have to pay in total over the whole borrowing period.
- The interest charges on credit are called the 'Annual Percentage Rate' or 'APR'. This tells you how expensive the loan will be. Generally, the APR will be higher than the quoted interest rate and will show the true cost of the credit.
- The longer you take to repay, the more interest can be added, so always try and pay things back as quickly as you can.

## Types of credit

### Credit cards

You may be able to get a credit card that has an interest free period and allows you to transfer the balance of your current credit card to it. This can be a good option if you can pay the whole debt within the interest free period allowed on the card. You need to check the cost of transferring any credit card balances as most companies will charge an initial percentage of the debt to make the transfer.

You can also use a credit card to purchase items. If you can pay the whole debt within the interest free period allowed on the card, this can be a good option. If you cannot repay the full amount in one go, you will be charged interest on the balance each month. This may be very expensive. Making the minimum payment on a credit card might be tempting, but it means your debt will decrease very slowly and could take years to pay off. Always clear as much of the balance as you can afford. This is also important because only making minimum payments can affect your credit rating, affecting your ability to borrow in the future. Shop around for cheaper deals on credit cards.

### Extra advice:



#### payment protection insurance

Check whether you can afford insurance to cover your payments if you fall ill or lose your job. Shop around to make sure you get the best deal.

Some insurance agreements have small print excluding you from cover if you are self-employed, or had a particular medical condition before you took out the agreement. Check the terms and conditions.

If the loan insurance being offered isn't suitable, you may still be able to get cover elsewhere.

**Contact us for advice.**

### Bank overdrafts

If you think you are going to need an overdraft, make sure you arrange this with your bank or building society in advance. The charges and interest on most unauthorised overdrafts can massively increase your debt. Some banks and building society accounts do not charge for an overdraft if you are within your limit. Shop around for the best accounts.



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- Check the balance on your account regularly so you know how much you have spent.
- Try not to 'live' in your overdraft. Aim to keep the account in credit when possible.
- Overdrafts are repayable on demand. This means a bank can ask you to pay the whole amount back in one go if they choose to.

## Payday loans

A payday loan is a type of cash loan, normally paid into your bank account. They are called 'payday loans' as they are intended to be short-term loans, meant to be paid back when you next receive your wages or benefits.

The interest rates are usually very high, so it can be easy for the debt to get out of control if you can't afford to repay on time.

See our fact sheet:  
Payday loans.



## Instant credit 'buy now, pay later'

It can be very tempting to take out credit, perhaps for a bargain in a sale, which you don't have to make payments on for many months. Be very careful to make sure you can afford future payments you will have to make under the credit agreement by doing a **personal budget**. Build in the future payments to make sure you will be able to afford them.

If you are offered interest free credit, check that the credit is really interest free. Some agreements say in the small print that interest will be added as soon as a payment is missed.

## Doorstep credit or catalogues

The interest on cash loans or catalogue goods can be high but tends to be 'hidden' because you may only look at your weekly payment amount rather than the APR being charged. Compare the total cost with the price you would pay for the same item in shops or online.

## Rent to buy

This is a type of hire-purchase agreement. With rent to buy you won't own the goods until you finish paying. This means you can't give or sell the goods to someone else, and the lender can sometimes take the goods back if you don't pay. Interest can be high but again may be 'hidden' because you only look at the weekly payment rather than the APR. Compare the price you would pay for the same item elsewhere.

See our fact sheet:  
Hire purchase and  
conditional sale.



## Guarantor loans

Some loan companies may ask you to get a friend or relative to be your guarantor. This means that if you miss payments, your guarantor will need to pay instead. Depending on the terms of your agreement, the guarantor may become liable to pay back everything that you owe, not just the payments you have missed.



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## Credit union

If you are a member of a credit union, you can usually borrow at least two or three times the amount you have in savings, depending upon the loan policy of your credit union. A credit union will also normally pay out a dividend to you once a year. If you miss payments on a loan, the credit union may be able to use your savings to repay the loan.

## LETS schemes

'Local Exchange Trading Schemes' (LETS) are a 'money free' way of bartering goods and services. You can 'buy' goods using tokens and 'earn' tokens by providing a service back, e.g. baby-sitting or window cleaning. Check in your library for details of any local scheme or check the LETSlink UK website [www.letslink.org](http://www.letslink.org).

### Warning:



#### loan sharks

Be very careful of making agreements with illegal lenders or 'loan sharks'. Lenders must be authorised by the **Financial Conduct Authority** or they are lending money illegally.

Don't be tempted to borrow from a loan shark as they will want repayment at a very high rate and you could fall behind on essential bills. Try every other option and **contact us for advice**.

## Shopping around for credit on the net

Giving personal information to organisations on the web can be a risky business and could lead to unwanted contact later. Read the 'small print' and the content of the pop-up boxes before you confirm that you agree to terms and conditions. Think carefully before you give away any information on the net.

## General, best buys, credit cards and personal loans

### [www.moneyadvice.service.org.uk](http://www.moneyadvice.service.org.uk)

The Money Advice Service's 'Debt and borrowing' section gives a range of financial advice and information with helpful guides, tools and planners and signposts on where to get free debt advice.

### [www.moneyadvice.service.org.uk](http://www.moneyadvice.service.org.uk)

The Money Advice Service's 'Tools and calculators' page includes a mortgage comparison tool and guides on issues such as equity release schemes and endowment mortgage complaints.

### [www.which.co.uk](http://www.which.co.uk)

Which? magazine's website has a 'Money' section with information on savings and investments, credit cards and loans, mortgages and bank accounts. Some areas of this website are for members only.

### [www.moneysavingexpert.com](http://www.moneysavingexpert.com)

Official website of independent financial journalist Martin Lewis. The website gives information about credit cards, loans and mortgages, with guides and tools to help with calculations and comparisons of different financial products.



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[www.ukfinance.org.uk](http://www.ukfinance.org.uk)

The UK Finance website has guides to choosing and using credit cards, debit cards and pre-paid cards. There is also help about how to use payment cards in the UK and abroad and information about protection from fraud.

[www.moneyfacts.co.uk](http://www.moneyfacts.co.uk)

The website of the Moneyfacts magazine. Moneyfacts is independent and has sections on mortgages, credit cards, loans and bank accounts. It has guides and tools to help with calculations.

## Mortgage deals

As well as the websites listed previously.

[www.which.co.uk/money/mortgages-and-property](http://www.which.co.uk/money/mortgages-and-property)

The mortgage microsite of the Which? website. It gives advice on finding a mortgage, best deals, first-time buyer help, buying and selling.

[www.moneysavingexpert.com/mortgages](http://www.moneysavingexpert.com/mortgages)

The mortgage microsite of MoneySavingExpert. It includes a guide for first-time buyers and a guide to remortgaging and help understanding household bills such as home insurance.

## Independent financial advice

[www.moneyadvice.org.uk](http://www.moneyadvice.org.uk)

For a list of independent financial advisers in your area.

[www.moneyadvice.org.uk](http://www.moneyadvice.org.uk)

For free financial help and information in your area

**MONEY**  
ADVICE TRUST



National Debtline endeavour to keep our fact sheets as up-to-date as possible, however, we cannot be held responsible for changes in legislation or for developments in case law since this edition of the fact sheet was issued.

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