Clean Up Your Finances by Consolidating Debt

College bills; credit card over-reliance; or a traumatic event such as divorce, death, illness or job loss may occasionally cause anyone to rack up considerable debt. If you're feeling overwhelmed, you can take control of your finances and get on the path to debt-free living.

One strategy many Americans use to help make payments more manageable is to consolidate debt into one lower-rate loan. It's easier to budget for just one monthly payment. And with a lower interest rate, you may pay off the loan faster.

Find the Best Solution

Student loans generally have affordable interest rates, but you may be able to lower your rate even more by consolidating all of your student loans into one. If you have substantial college debt, even a small decrease in the loan rate could save you considerable money over the years.

For debt that is mostly tied to high-interest credit cards, transferring balances to a lower rate card could be a sound move. By shifting $2,000 from credit cards with 18% interest rates to a card with a 12% rate, for example, you could save $212 in finance charges if you don't charge anything else and pay off the debt in three years.*

In contrast, if you were to leave the $2,000 balance on the high-rate card and only pay the minimum each month, it could take up to 18½ years to become debt-free and cost you an additional $2,615 in interest.**

Consider consolidating with a personal loan or a home equity loan or line of credit if your credit card debt has mushroomed or you have loans from a number of sources. Unlike most credit cards, a personal loan has a fixed rate – typically lower than many credit cards – and a set term, resulting in steady payments. This makes it easy to budget and stay focused on getting out of debt.

For homeowners, a home equity loan or line of credit may be a better solution. Because your home secures the loan, the interest rate is usually lower than rates available for other consumer loans. And the interest may be tax-deductible, reducing the cost of the loan even further.***

Before taking out a home equity loan, however, consider your ability to meet the payments. If you default, you could put your home at risk.

Figure Your Savings

To determine if loan consolidation makes sense for you:

1. Calculate your total debt and how much you pay each month.

2. Figure how long it will take to pay off the debt under the current terms.

3. Compare this to the payment and term length of the consolidation loan.

4. Consider how this new payment will affect your budget and how the potential tax break (if one applies) will work into your debt repayment plan.

Break the Cycle

Often the biggest challenge once you've refinanced debt is using your renewed credit limits responsibly. Make a conscious effort to charge only what you can afford to pay off each month or leave your credit cards at home. In addition, look for ways to free up cash in your everyday budget to build savings, so you can pay for future expenses in full.

For more information about our loan consolidation options, call us at 503.215.6090 or come to one of our convenient branches. We will help you find a way to break free of debt.

* Assumes the interest rate is fixed.
** Source: Bankrate.com.
*** Consult a tax advisor for deductibility in your situation.