

Debt Consolidation Traps

This factsheet is about problems that can happen with debt consolidation.

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If you have lots of debts that are hard to handle then there are better options than debt consolidation

What is Debt Consolidation?

Debt consolidation is where one lender buys out the loans from the other lenders and puts you up for one big loan. You then have one payment arrangement to pay off the big loan to one company. Mob might choose that if they are struggling to catch up on multiple loans.

It sounds easier to manage – but there are some traps.

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- It can cost you more all up because of more fees and higher interest rates. This could include hidden or small print fees.
- You may lose your right to complain against the previous lender if the loan is closed after consolidation.
- It could free up some credit for you, but it might be a mistake and you could end up with more debt.
- You may not get a better deal with debt consolidation. You still have to pay the debt.
- Longer repayment terms – you may end up paying the loan back over a longer period with added interest.
- If the old loan was secured to an asset (like a car) and you stop paying when you apply for the debt consolidation loan, you risk that asset being repossessed – so keep paying until you're sure the consolidation loan is in place.
- If you are offered a 'Debt Agreement', always get independent legal advice first before signing. You could end up with something that is not what you wanted and could cause more stress.

Think about why you need debt consolidation

If you're struggling to catch up with debt, it's useful to have a yarn with a financial counsellor. Debt consolidation can't fix underlying issues.

Financial counsellors are free and can help you think about your personal budget and spending habits to get the debt under control.

Tips

- Check the new fees and interest rates are better with the new lender (especially if the loan is longer).
- Speak to a free financial counsellor about managing your debts before agreeing to debt consolidation.
- Check that the debt consolidation will help you actually get ahead.

What are some other options out there for me to consider?

- Hardship arrangements – free to ask and lender has to consider it properly.
- Think you could never afford the debts from the start? Get some free legal advice from us. about loans and responsible lending.
- Fee free options for debt consolidation.
- Talk with your bank about their loan options and compare – ask if there's a better deal they can give you.
- Where there are larger debts that can't be managed, other options such as bankruptcy can be considered.

Speak to a financial counsellor at Mob Strong to help you understand your options.

Help

Call Mob Strong on 1800 808 488 for more information. We are a free First Nations driven legal advice and financial counselling service. We help Aboriginal and Torres Strait Islander peoples from anywhere in Australia. We are a free and independent service. We keep your information private.