

Taking a Secured or an Unsecured Loan

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There are a lot of different kinds of loans. There is what we call the personal loan, auto loan, paycheck loan, payday loan, cash advance loan, secured loans, unsecured loans, consolidation loan and debt consolidation loan. In this article we will focus more on the debt consolidation loan, what it is and how it works.

Debt consolidation loan is a kind of loan that takes out just one loan to pay many others. Sometimes, or should I say most of the times, it comes from an unsecured loan that is put into another unsecured loan. However, there are certain cases in which it involves secured loans and therefore includes also collateral that serves as an assurance for the creditor.

And because there is collateral, the creditor offers smaller interest rates because in here, the debt consolidation loan purchaser agrees to the foreclosure of his or her asset in the event that he or she failed in paying. Foreclosure simply means that it is a process, legal process, where the collateralized asset is sold to cover up the debt of the defaulting debtor.

Debt consolidation loan works this way. Debtors that are endangered of bankruptcy searches for consolidators that will agree to buy their loan. It usually involves high discounts so that it could be attractive. So that, if the debtor is need of money, or his or her company becomes financially unsteady, then, some of the consolidators could pay off the needed money first.

But, this is not that easy for the reason that debt consolidation loan usually makes it difficult for the debtor to pay the borrowed money. Debt consolidation loan is high encouraged for those with credit cards, especially if these card holders have cars or houses that they could get into a secured loan as collateral.

And then, with the cash flow, interests and all that, little by little, they could cover up their debts with it. But by doing so, card holders involved in debt consolidation loans should be responsible, because if they continue to spend more than they what they have, then the debt will just increase. Debt consolidation loans are usually offered by refinancing companies.

These companies charged high rates so that they could maintain again their financial stability. One example of the debt consolidation loan is the student loan in the United States where students are consolidated by the government and the Department of Education. Student loan allows the involved students to consolidate or ask help from private lending companies and later reconsolidate to the Education Department. Student loan does not incur interests on the students.

On the other hand, the interests are being paid of the government and its subsidies. Debt consolidation is one good solution to money problem. However, because it a loan under a loan, it only treats 'symptoms' of the problem rather than the problem itself. That's why many people refers to unsecured debt consolidation loan and just make a payment plan.