Defuse Debt - Before it's too Late

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Preface

If life is a rope then we're on a tricycle, juggling our various responsibilities. Things tend to go south when something throws 'debt' into the mix. Debt is often preceded by unforeseen emergencies or unexpected expenses. However, if your reason for borrowing is to cope with lavish spending, it's time for some introspection. Here are some figures that might help:

Over half of the adults in the UK headed into 2020 with the burden of debt. As of July 2020, the average total debt in a UK household was recorded as £60,403. Of this, £3947 accounts for the total unsecured debt per UK adult, and £2238 is the average credit card debt per UK household.

Personal finance is unquestionably a slippery slope to walk on. Even one wrong move can be detrimental to your finances. While debt itself isn't a big problem, not dealing with your debt responsibly can have serious consequences.

A single loan is relatively easier to manage. But what happens when you take multiple loans? Missing repayments can gravely harm your credit profile. In such a case, a debt consolidation loan could be your holy grail/saving grace!

While some take out a loan owing to pressing needs and urgent expenses, some are bound by habit. If you're living life payday to payday and feel stuck in a cycle of debt, it is time to reflect on your credit behaviour. Stop and take a minute to think about your future, are you doing enough?

To start using your money responsibly, you need to develop an understanding of your relationship with money. Once you have more clarity on that, devise an executable, realistic plan to stabilize your finances.

Through our eBook, we aim to help you understand the intricacies of personal finance and do more with your money. We understand that everybody has varied needs and a unique take on money. Which is why, we've got something for everybody here!

Managing your finances smoothly is an act that depends on your spending habits, borrowing habits and the lifestyle you maintain. Some of us borrow personal loans or use our credit cards or overdrafts when we are running short of money. We repay the borrowed on time to avoid getting into any financial mess. But what if we fail to repay the personal loan that we have taken? What if we cannot manage timely repayments on our credit card? The answer is quite simple – the debt gets piled up. We procrastinate the repayment and one day we find ourselves staring at the debt mountain.

We panic and we try to find out every possible option to help us tackle the problem of debt. One such possible option to tame your unmanageable debts is debt consolidation. It is an effective way to get rid of all your debts. Let us learn more about how it works.

In this Ebook, we will discuss:

- **How much debt is too much?**
- **Debt statistics of the UK**
- **5 ways to keep your debt under control**
- **What to do if you have existing debts?**
- **What is a debt consolidation loan?**
- **5 steps to consolidate your debts with a personal loan**
- **How LoanTube can help you get the best rate for a debt consolidation loan?**

How much debt is too much?

Chapter-I

How much debt is too much?

Managing money is a critical skill that we must acquire. Minute mistakes can muddle your finances, which will impact your physical and mental health alike. Not assessing your financial condition may add to your woes. But how do you know that you have too much debt? Is there a way to determine that your debts are way more than you can handle?

Here are a few signs that indicate financial turbulence:

1. You pay your bills late

This is the most obvious and clear sign that you are not doing well financially. If you are not able to pay your bills on time that means you are struggling with your finances. Paying late adds up to your debt. And gradually, the debt mountain gets bigger making things more difficult for you. Keep an eye on how you are doing with your monthly bills and if you feel a slight deviation in your repayment behaviour – rejig your financial plan.

2. You have no idea about your outstanding debt

If you have intentionally ignored your debt that means you are scared to understand your financial condition. You do not want to face the situation you are already in. You are simply escaping or running away from your money problems. Doing so may provide you with temporary relief, but later on, things get worse. It is better to keep your debt level low so that you can manage to repay the outstanding that you owe.

3. You have trouble sleeping

Sounds weird? But it's a fact. If you are facing debt issues, it might lead to loss of sleep and concentration, which will also impact your work performance. You keep tossing and turning while thinking about how to manage your bills. A lot of studies have shown how sleep deprivation leads to mental health issues. Taking care of your finances builds a better lifestyle that yields great results.

Reasons why people go into debt

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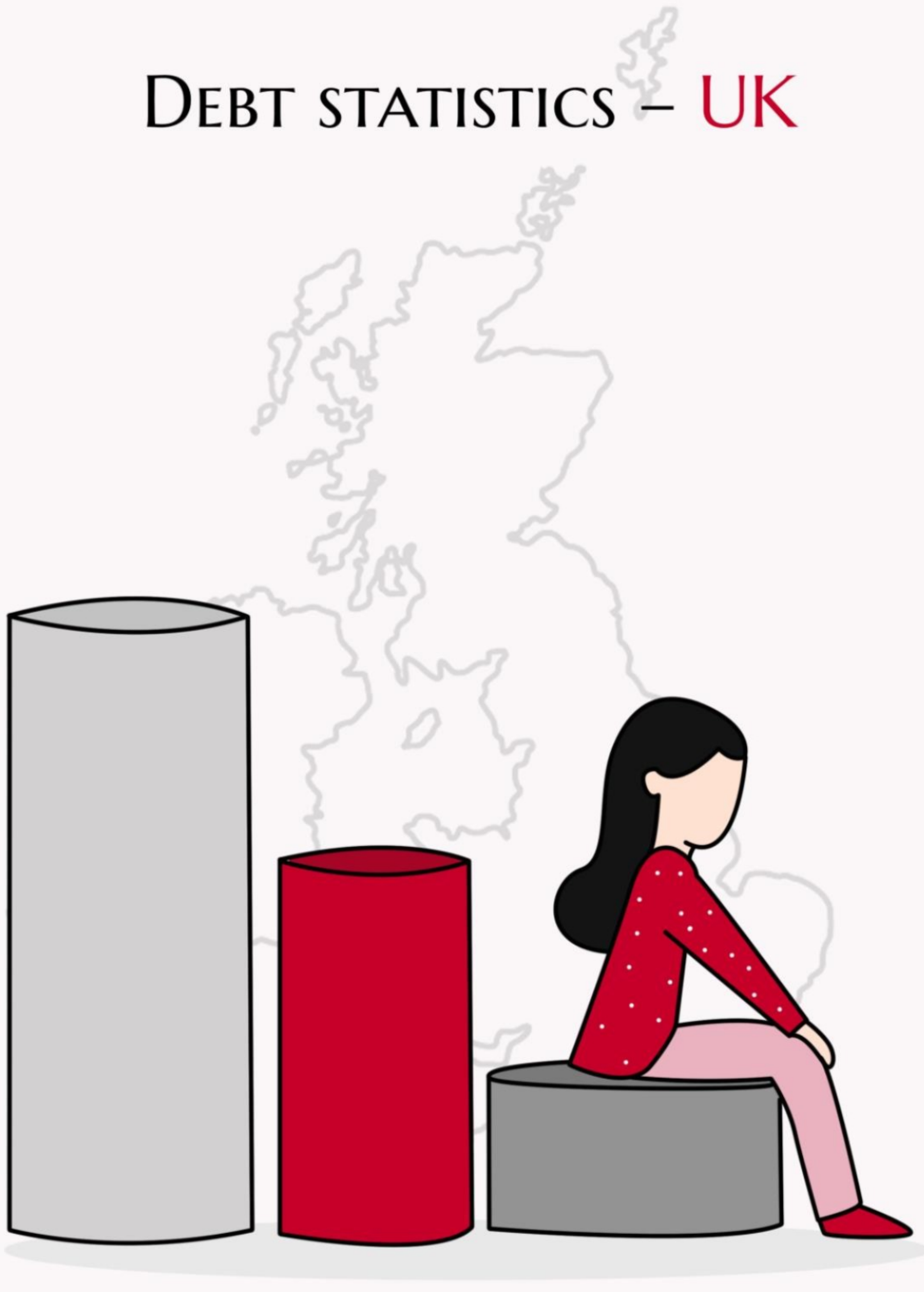
REASONS WHY PEOPLE GO INTO DEBT

For all of us, the ultimate goal is to lead a debt-free life. But before you start building a strategy against debt, you need to understand why you're falling prey to it. We've listed out some of the most common reasons below:

- **Reckless spending:** All of us have our vices, but some of them are more detrimental than others. Spending your money recklessly when you don't have enough disposable income is a recipe for a disaster. Going on a spending extravaganza when you lack the means, can put you into debt.
- **Emergency / Medical expenses:** Some expenses are simply unavoidable and your savings may not suffice. Some medical procedures cost thousands of pounds if you're not insured. Unprecedented medical emergencies are some of the most common reasons people acquire debt.
- **Economic crisis:** Given the current scenario, it's not a surprise to see people acquire new debt. An economic plunge or natural catastrophe can cause serious monetary damage. If your finances take such a hit, you are more likely to fall into debt.
- **Insufficient Savings:** If you are not in the habit of saving money, an emergency expense may swipe away all your cash. This will leave you with no choice but to take a loan to recover from the loss.

Now that we've narrowed down the reasons that lead to debt, let us understand how the households in the United Kingdom are doing with their finances.

Debt statistics – UK



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Debt statistics – UK

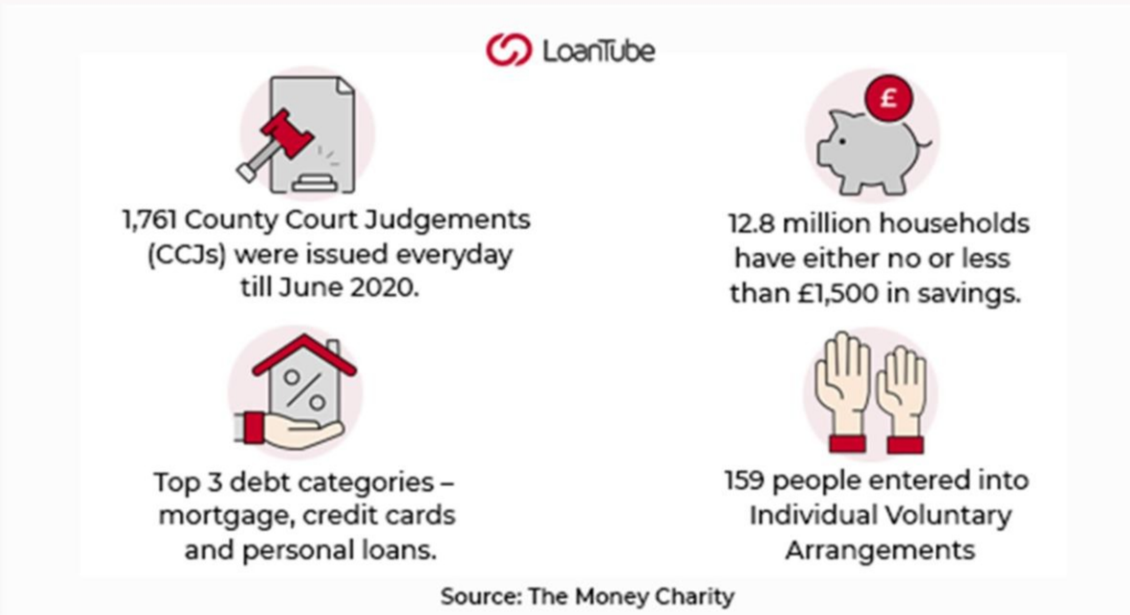
The pandemic has hit people all over the world – financially and mentally. We all are trying to cope up with the “new normal” while juggling with our finances. In June, households paid off record £7.4 billion in credit and personal loan debt. Does it mean that the debt crisis of Britain is winding up? While another recent survey has revealed that a quarter of parents have dipped into their children’s savings since the lockdown started. It further revealed that an average of £17 million a day was taken out and this figure may witness a surge in the future.

Let the numbers talk.

At the end of July 2020, people owed £1,681 billion, which has increased by £28.4 billion as compared to July 2019.

Type of Personal Debt	Total Personal Debt	Per Household	Per Adult
Secured (Mortgages)	£1,742.8 billion	£52,931	£27,960
Unsecured Consumer Debt	£207.9 billion	£7,471	£3,947
Of Which, Credit Card Debt	£62.3 billion	£2,238	£1,182
Grand Total (July 2020)	£1,680.6 billion	£60,403	£31,907

Here are some more startling numbers:



5 WAYS TO KEEP YOUR DEBT UNDER CONTROL

Chapter-4

5 ways to keep your debt under control

Debt is an inevitable part of our life. Either we are planning to step up the property ladder or we want a new vehicle, taking out a loan is the only answer if we do not have money to pay upfront. And saving for such huge amounts may take a lot of time. However, piling up unnecessary debt can disturb the way you function. And it's not easy to keep your debt level low and manageable all the time. However, there are various ways that you can adopt to track your finances.

Listed below are 5 ways that can help you keep your debt under control:

1. Make a budget

Before you start anything, you need to have a planned budget. Budget is a cringe word for many of us. However, people who are financially independent and who manage their money smoothly follow their budget. It helps in keeping a track of the money that you earn. A detailed budget will also help you understand where you are going wrong with your money. Write down all your expenses in one place and filter out the unnecessary expenses. In that way, you will be able to understand and control your spending.

Learn how to create a monthly budget.

2. Prioritize your repayments

Once you have an idea of your finances, you can easily plan out your repayments. Not paying debts on time and in full will increase your debt load. Sort out your debts and pay the expensive ones first. Expensive loans will attract more in interest charges. So, if you pay off the expensive debts first, you are more likely to stay on track with your repayments and finances.

3. Keep making minimum repayments

If you are not able to pay off the entire outstanding that owe on your credit card, at least pay the minimum repayment amount. Not paying on time will impact your credit score. Late payments will show up on your credit report and your profile may be considered as risky by the lenders. So, the next time when you apply for a loan, you may not get loans at a favourable rate of interest.

4. Build an emergency fund

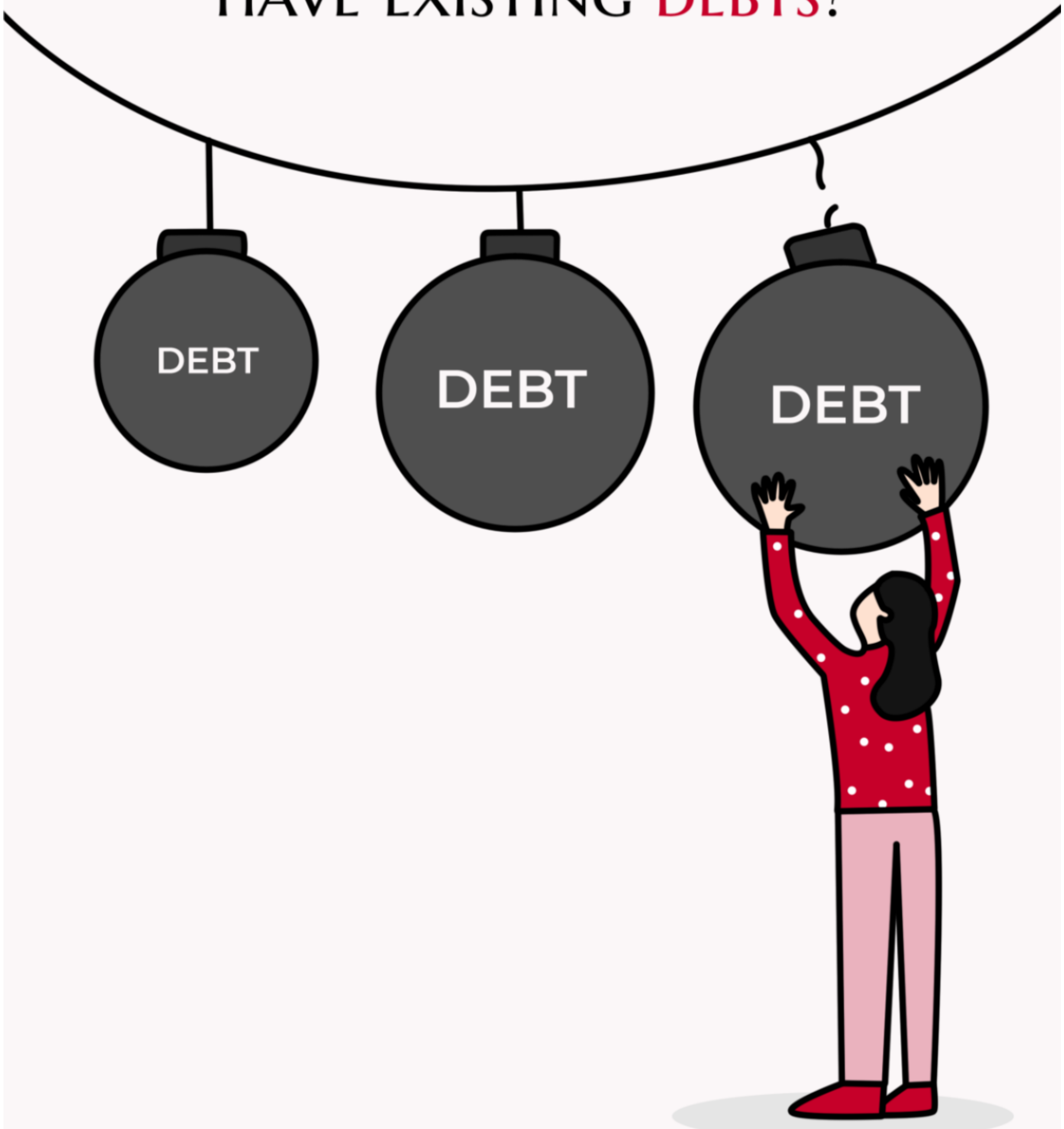
Most of us do not pay enough heed towards building an emergency fund. A safety net is an essential financial tool that will help you in times of need. So, rather than going out and borrowing a personal loan from a direct lender, you can dip into your savings. That way you will not have to pay the interest rate and you can refill your savings according to your financial situation.

5. Don't apply for new loans

This is the best way to stay afloat. More debt will only create more financial troubles for you. A credit check will be conducted by the lender or credit card company every time you apply for a new loan or credit card. Hard credit checks will knock off a few points from your credit score. Also, if you fail to manage the repayments on time, the lender may take legal action to recover the money you owe to them. If you receive a County Court Judgement (CCJ), it may stay on your report for quite a long period.

Learn more about County Court Judgements.

What to do if you have existing debts?



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What to do if you have existing debts?

Debt is not a problem as long as you know how to manage the repayments deftly. Learning some basics of personal finance may help you prepare a financial plan. We do not accumulate debt with the intention of not repaying it. However, emergencies can occur anytime and without a financial cushion – it becomes a nightmare.

If you have accumulated a lot of debts and you are trying to get rid of them fast, then there are many ways in which you can do it. Try these 5 easy ways to tackle your debt crisis and come out of it stronger and better.

1. Cut down your monthly expenses

If you are considering to pay off your debt fast, then this is the primary area that should have your attention. We often spend more than our necessities. Sometimes, we even go a little further by spending from our credit cards on things that we cannot afford. Such spending habits are dangerous for your financial health. Prepare a budget and reduce your monthly outgoings. Spend only on the essentials at least until you pay off all your debts.

2. Pick up a side hustle

Take out some time after your usual 9 to 5 grind and pick up a side hustle to earn a little more. Even if we earn a decent amount, we have liabilities in the form of debts, mortgages and overdrafts. Repaying these debts on time will need money. And if you are already in a financial crunch, it's better to work a little extra to get sufficient funds for timely repayment.

Here are 3 amazing ideas for starting a side hustle that you may want to explore.

3. Consolidate your debts

You can also borrow a personal loan to roll all your debts into one. But this option is feasible only if you have multiple debts. If you manage to get a personal loan for debt consolidation at an interest rate that is lower than the overall interest rate that you are paying for all your existing debts – then you are likely to save some money.

4. Refinance your loan

Refinancing a personal loan may help you get a new loan at a favourable rate of interest. So, you can easily replace your current loan with the new one. A loan refinancing is not the same as a debt consolidation loan. With a debt consolidation loan, all your existing debts are merged into one and instead of making multiple payments, you are expected to make a single repayment. While a loan refinancing simply means that you are replacing a single loan with a new one that has a lower interest rate.

Read 5 reasons to refinance a personal loan.

5. Use an authorised overdraft

Reach out to your bank for availing an overdraft. An overdraft arrangement agreed with your bank allows you to withdraw money even with insufficient funds to cover the requested amount. You are responsible for repaying the used amount within an agreed period like any other personal loan. Talk to your bank and understand the terms and conditions that are associated with the overdraft. Some of the banks also charge an additional fee apart from the interest rate.

Read: The latest changes in overdraft regulation

While you can’t completely eradicate the possibility of a debt, there are ways to handle it smartly. You need to start by taking small steps to avoid going into debt each month.

How to avoid going into debt each month?

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How to avoid going into debt each month

It's never too late to bounce back onto the right path. So, if you want to avoid acquiring more debt the next month, you need to act immediately. Take command of your finances to secure your financial future. The following are some steps to help you get back on track:

• **Jot down your income and compare the expenses:** This is the first and foremost step to understand if your income can support all the necessary expenditures. Necessities include food, shelter, clothing, and laundry. If your income can't cover these, you might want to consider maximizing it or slashing other expenses. For instance, if you're renting a place and the rent is taking up over 25% of your income, you might want to consider moving to cheaper accommodation.

• **Create a budget and stick to it:** After comparing your expenses with your income, the next step is to allocate money to each expense through a Budget. A budget allows you to control where your money is going. Tracking your money can help you identify and rectify your problem areas when it comes to spending. If you sincerely adhere to your budget, it'll help you to stop spending at the end of the month. A well-planned budget should ideally allocate money to all necessary expenses. You can avoid trivial expenses until you're no longer in the habit of overspending.

• **Curb your temptation to spend:** A credit card is a quick and convenient mode of payment. A lot of us tend to overspend while using a credit card, mostly because it helps us cover our tracks. Money, on the other hand, leaves a 'paper trail' because you'll simply know when you're out of cash. If you find it tough to stick to limits, switch to cash payments. The key is to treat this cash as the only available mode of payment, without relying on a credit/debit card. So when you're on a shopping spree next time, leave your card at home and carry limited cash. Because, needless to say, you have a budget to abide by!

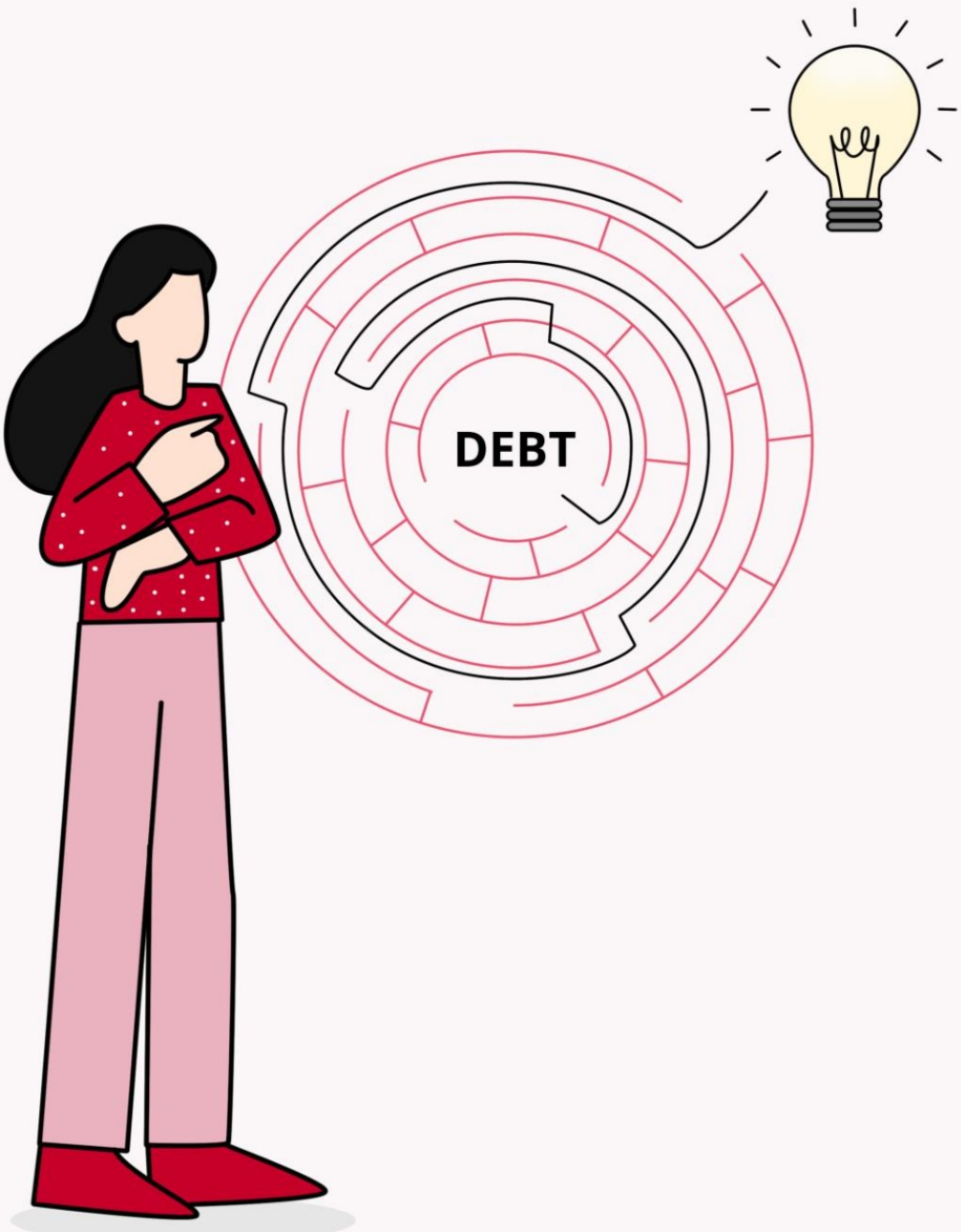
• **Starting building an emergency fund:** In case of an emergency, you would instinctively use your credit card to cover the expense. Thus, a fund designed especially to cater to such situations will help you minimize your credit card usage. Start by setting aside £1000 – £2000 for the emergency fund. This should suffice for most emergencies, including car repair or medical costs. Once you find your way out of the debt cloud, keep adding more money to grow this fund.

• **Cut the inessentials loose:** If you have an ongoing debt, you need to push extra money towards it. A good way is to cut down on the inessential expenses. If you have a gym membership and you barely use it, cancel it and get the money reimbursed. Similarly, you could switch to cheaper cable and cellular plans to save up some more. How about selling that old treadmill hiding in the attics? That could free up some more cash. Alternatively, you could find a side hustle to make extra money and put your skills to use.

• **Make a separate savings pot:** Now that you've figured how to get out of debt, you can make a savings pot for some major purchases that are in the pipeline. The aim is to make a purchase only when you've saved up to afford it to avoid additional debt. Even if you want to finance your purchase, you'll have the peace of knowing that you can afford the monthly repayments. You can use budgeting apps to make savings pots for your upcoming purchases.

It's never too late to put your finances back on track. Debt can have serious repercussions on your financial and mental health. The more money you raise, the sooner you'll be out of debt. To ease the whole process, try devising a plan to deal with your repayments.
If you have multiple debts, the best way to speed up the process is by taking out a personal loan to consolidate debt. A debt consolidation loan will help you combine all your loans and make your repayments hassle-free. The sooner you recover from your debt, the sooner you'll be able to spend on the things you want.

What is a debt consolidation loan?



CHAPTER-7

WHAT IS A DEBT CONSOLIDATION LOAN?

A debt consolidation loan is a personal loan that can be used to consolidate all your existing debts into one. It does not mean that you will not have to repay your existing debts. It simply means you can roll all your debts into one single bundle. So, instead of paying different loans, you can pay back one single loan against them all.

However, if you fail to repay the loan – your credit score will be impacted. A low credit rating will be a major blocker when you apply for any financial product in the future. Also, the lender has the right to take legal action against you so that they can recover the amount you owe to them.

5 steps to consolidate your debts with a personal loan?

A debt mountain is a financial nightmare that none of us would like to witness ever. Consolidating debts is an easy and planned way to get out of the mess that is ruining your finances. Borrowing a personal loan for consolidating debts is a viable option if you can manage to repay it.

Borrowing a debt consolidation loan means you are taking additional financial responsibility. To clear your debt stack, you need to be extremely careful of your money spending habits. Here are 5 steps to help you plan to consolidate your debt with a personal loan:

1. Calculate your outstanding

Create a list of all your outstanding debts including credit cards, personal loans, overdrafts, mortgages and other debts that you have. Because the debt consolidation loan that you want should cover all of your debt amounts.

Compare the overall interest rate that you are paying towards your debt to the new loan that you are about to take up. Draft a repayment plan with a budget outline and keep some room for adjustments if needed.

2. Review your credit report

Your credit score is an important factor that is taken into consideration by the lenders while assessing your loan application. If you have an excellent credit score, you will get loan offers with a low-interest rate. Reviewing your credit report before applying for a loan will help you get an idea of the offers that you may receive and your eligibility to borrow.

There might be some errors in the report as well. Scan your report thoroughly and if you spot any mistake, flag it to the Credit Reference Agencies for correction.

3. Compare loan offers

Before choosing a personal loan, it is wise to compare different loan offers from multiple lenders. Different lenders have different lending criteria and therefore, the rate of interest they propose may vary.

If you compare different products, you can choose a debt consolidation loan with a low-interest rate.

Learn more on how LoanTube can help you compare loans with real interest rates.

4. Apply for a debt consolidation loan

After assessing your financial circumstances and finding out the lender that you need to apply with – gather important documents that will be needed. Before signing on the dotted line, ensure that you have checked the fine print thoroughly.

Read the Terms & Conditions carefully so that you are aware of the deal you are entering into. If you find anything on the document that you do not agree with, contact the lender and discuss your issue to sort it out.

5. Make timely repayments to close the loan

Once you have the loan, you will have to be strict with your budget. Make the repayments on time and in full. If you somehow fail to meet the repayments, it will impact your credit score. In addition to this, the lender may take legal action against you and you may receive a CCJ.

Also, if you repeatedly fail with the repayments, it will add to your debt woes. The debt mountain that you have will keep growing making it difficult for you to manavge.

Explore these 7 amazing tips to manage to repay a personal loan efficiently and on time.

Busted: 5 age-old Debt Consolidation myths

Chapter-8

Busted: 5 age-old Debt Consolidation myths

Managing debt is no cakewalk. On top of it, unsolicited opinions and myths can make it harder for you to make a better decision. Here are some of the most common, age-old debt consolidation myths keeping you from stress-free debt management

Myth 1: Debt consolidation loans cost a fortune

A lot of people think about whether they should borrow money to pay off their debt. The cost of a loan is majorly determined by the interest that you have to pay on it. Just like all other loans, the interest rate levied on your loan will largely depend on your lender. However, debt consolidation loans may cost you less than most credit cards.

A number of lenders would lend you a debt consolidation loan and charge no extra fee. While there may be some who would charge a one-time loan origination fee to cover the charges of processing your loan application. APRs usually include this origination fee, so if you compare loans beforehand, you can choose the best option.

LoanTube is a one-stop-shop for comparing loans from multiple lenders based on Real Interest Rates. All you need to do is fill a single, comprehensive application so that you can choose an ideal loan offer.

Myth 2: Debt consolidation affects your credit score

Most loans require a thorough credit check before handing out the money to the borrower. In case of debt consolidation loans, these checks are often more ‘rigorous’ than other loans. This may slightly affect your credit score, but perhaps just by a few points.

Although, consolidating your debt may actually help boost your credit score. Only if you manage the debt and repayments in a timely fashion. This is because timely repayments account for a major part in your credit score.

Thus, a little dent on your credit score may all be worth it if you’re able to keep on top of your repayments and manage your debt more efficiently

Myth 3: Debt consolidation loans will 'reduce' your repayment amount

A debt consolidation loan will help you pay off your existing debts so that you ultimately owe money towards a single loan. However, contrary to beliefs, debt consolidation does not reduce or waive off your loan repayments. It just merges your debts into a single one, to ease your debt management. All you need to do now is pay against this balance on a monthly basis (or as agreed upon by you and your lender) until the debt is over.

Debt consolidation is different from debt settlement, wherein you hire a debt settlement firm to represent you, to ask your lenders to reduce the money you owe them. Debt settlement can be a risky business as it can hugely impact your credit score.

Myth 4: You're guaranteed to save on interest

Having a strong credit score and a solid credit history might get you a deal where the interest rate on your debt consolidation loan is lower than all of your loans combined. However, if you were to increase your repayment tenure, you might actually end up paying more towards this loan.

To illustrate this through an example, let's consider £20,000 in credit card debt at an APR of 15%, and monthly payments of £600, means your total payments would be £25,800, and it would take three and a half years to pay it off.

If you consolidate to a personal loan with a seven-year repayment term at 10% APR, your new monthly payment is £332, but your total payment increases to £27,890.

Therefore, how much you pay or save, depends on your credit score, interest rate and the repayment tenure.

Myth 5: Debt consolidation could push you towards more debt

This is one of the most common myths surrounding debt consolidation loans. Getting into a debt trap depends on how responsibly you spend your money. If you have a strong and robust budgeting system in place, you will end up being more judicious with your spending. Debt relief plans can help simplify and detangle your repayments. But if you don't work on your spending habits, you may end up in debt again.

So debt consolidation only eases your repayment process to prevent you from falling behind your payments. It does not have a role to play in pushing you towards more debt.

This is when you should consider debt consolidation

CHAPTER-9

THIS IS WHEN YOU SHOULD CONSIDER DEBT CONSOLIDATION

A debt consolidation loan is a great financial product for those looking to organize their debts. Plan your expenses before taking out a debt consolidation loan. Contemplate on any events of the future that could potentially stop you from repaying the loan. Work out ways to ensure that you will be able to keep up with the repayments during the loan's term. A debt consolidation is idea when:

1. You're not exhausting all your savings while paying towards the charges and fees
2. You are sure about repaying the loan in full
3. You improve your spending habits and keep a check on unnecessary direct debits
4. You don't keep taking out loans. This is a debt problem, in which case, talking to a debt advice service should be your first and foremost step.

If you find it hard to resist the temptation of using your credit card, it would be better to seek some professional debt advice. Ceasing your credit card service might be a good idea in that case.

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Epilogue

Piling on debt can alter the way you live and function. You may think multiple loans help in alleviating your financial stress, but accumulating debt defeats the whole purpose. Your reliance on debt challenges the very idea of financial independence.

We do understand that some pressing issues might force you to take on debt. But the idea is to only borrow what you can afford. If you overstretch your finances beyond a limit, you might find yourself sitting over a heap of unpaid debt. Thus, it is imperative that you organize your debt, as well as your finances to the best of your ability. Sometimes, being a smart spender is wiser than being a spend-thrift.