Debt Settlement vs. Debt Consolidation Loans

A consolidation loan pays off your existing balances and replaces them with one new loan, ideally at a lower rate. It solves a different problem than settlement does, and it only works if you can still qualify for one.

Consolidation tends to fit when

- Your credit is still strong enough to qualify for a reasonable rate
- You can comfortably afford one new, lower monthly payment
- You want to simplify multiple bills without any credit disruption

Settlement tends to fit when

- Your credit no longer qualifies for a meaningful rate improvement
- Even a consolidated payment would not realistically fit your budget
- The core problem is the total amount owed, not just the interest rate

The trap worth knowing about

A consolidation loan does not reduce what you owe, it just repackages it, ideally at a lower rate. If the underlying budget problem is not solved, some people end up with the new loan payment and new balances building back up on the accounts they just paid off. That is not a reason to avoid consolidation, but it is a reason to be honest about whether the loan is addressing the actual cause of the debt or just moving it around.