You may be tempted to take out a new loan to deal with pressing debt, or to refinance some of your old loans into new loans that offer relief at least in the short run. This chapter examines when this makes sense and particularly when it does not.

Taking on new debt when you cannot make all your payments is a serious undertaking that can get you into a lot more trouble, so you must carefully consider a number of factors before deciding to do so. There are at least four guiding principles in deciding whether to take on a new loan to pay off old debt:

1. **How pressing is payment on the old debt?** You should never take on new debt just to get a debt collector off your back. The debt collector’s job is to push you into raising cash to pay them, whether it is in your interest to do so or not. There are easier ways to stop debt harassment, as described in Chapter 2. This book also has many other suggestions on dealing with specific types of debts to make them less pressing.

2. **Is your financial difficulty short-term or permanent?** If you cannot pay off your debts today and your situation is not likely to change in the future, taking on new debt is almost always a bad idea. If you cannot make ends meet now, things will get even worse in the future when you have to pay off not only the amount you borrowed on the new loan, but also additional interest and fees, which can be substantial. On the other hand, if extraordinary expenses or a temporary drop in income is the problem, you are more likely to be able to repay a new loan that gets you through a difficult time.

3. **Is the new loan a good deal or a rip-off?** Predatory lenders target those in financial distress and offer credit at much worse terms than you could find if you shop around. Particularly because you are looking for a loan when you in difficulty, you have to look out for hidden fees, bogus broker fees, shady paperwork, and more. On the other hand, you will be ahead of the game if you can find a new loan whose total cost to you will be less than your existing loans, considering interest, points, fees, and the like.

4. **Does non-payment of the new loan get you in more trouble than non-payment of the old debt?** Do not, for example, take out a home mortgage to pay for medical bills. Non-payment of the mortgage will lead to foreclosure of your home, while non-payment of the medical bills might only lead to debt collection (which you can stop) and a reduced credit score, where the damage to your score will be less than if there is a foreclosure.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library

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