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Debt Consolidation is a term frequently used when talking about money matters and debt management. Although it is considered to be a very good strategy for managing debts but it is not fully understood by a majority of people. In fact, there are a lot of myths and misconceptions that people hold about consolidation of debts. Some of the most common myths are discussed here.

The most common myth that people hold is that debt consolidation is the same as or similar to debt settlement, debt management and bankruptcy. The truth is that although, these terms are used together, they are not used to refer to the same thing. Consolidation of debts means that a person repackages or reorganizes his or her debts by combining them all together. Debt settlement and debt management are terms that are used to refer to the process of getting help from specialist firms to deal with creditors and reduce the total amount owed. The last term, which is bankruptcy, is completely different from consolidation of debts as bankruptcy is a legal procedure and completely releases a person from his or her debt obligations.

The second most common myth people believe to be true is that debt consolidation can harm a personâ€™s credit score. The truth is that, if the whole process is managed correctly, there is no way that a personâ€™s credit score can be harmed by consolidation of debts. In fact, the credit score might even be improved through consolidating debts. This is because, timely repayment of loans helps oneâ€™s credit score improve and this can be achieved by consolidation of debts.

Another commonly held myth is that debt consolidation requires a person to get help from an agency or a lawyer. In reality however, one can easily consolidate his debts on his own. Obviously, the debtor needs to have certain knowledge about the process before attempting to do it on his own. But by taking help from an agency, the debtor may benefit more as the agency has professionals with years of experience and specialized knowledge.

Many people also believe that only financially constrained people consolidate their debts. This is absolutely false since businesses and wealthy individuals also opt for this solution as they get great benefits from it.

One more myth held by people is that Debt Consolidation puts a person deeper in debt since it involves taking a loan to repay earlier loans. Although there is some truth in this, but one should remember that there are significant differences among various debts. Repaying loans with higher interest rates is more difficult than repaying one with a low interest rate. This is because the monthly payments are low and if the same amount is paid, the person becomes debt-free sooner.

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