How to approach debt consolidation when your credit score is low

When monthly payments start to feel like a heavy weight, many South Africans look for a way to simplify what they owe. The idea of rolling several debts into one single payment sounds clean and manageable. But for someone with a less-than-perfect credit record, the path to that single payment can be full of traps. Knowing what to look for and what to avoid makes all the difference.

What debt consolidation actually means for you

Debt consolidation works by taking out one loan large enough to pay off several smaller debts. After that, you make only one monthly repayment instead of juggling store cards, personal loans, and credit card balances. The hope is that the new loan comes with a lower total interest rate and a more manageable term.

In theory, that sounds like a clear win. In practice, the outcome depends heavily on the loan terms you qualify for. If your credit score is already low, lenders see you as a higher risk. That often means a higher interest rate rather than a lower one. So the same strategy that helps someone with good credit can end up costing you more if you are not careful.

This is where **debt consolidation loans** enter the picture. Used wisely, they can reduce the number of payments you track each month and help you avoid late fees. But they are not a magic fix. The real work is in finding the right lender and understanding exactly what you are signing up for.

The risk of upfront fees and unregistered lenders

One of the biggest red flags in the South African lending space is the request for an upfront fee. Legitimate lenders do not ask you to pay money before they give you a loan. If someone asks for an administration fee, a processing fee, or any kind of payment before you receive the funds, that is a clear warning sign.

Unregistered lenders also operate outside the protections that registered credit providers must follow. In South Africa, the National Credit Regulator oversees all registered lenders. A registered lender must follow the National Credit Act, which caps interest rates and requires transparent disclosure of all costs. An unregistered lender answers to no one. Borrowing from one puts you at risk of excessive interest, hidden charges, and even illegal collection practices.

Before you apply anywhere, check whether the lender is registered with the National Credit Regulator. That single step can save you from months or years of financial trouble.

What to check before applying

- Confirm the lender is registered with the National Credit Regulator
- Read the credit agreement carefully before signing anything
- Ask for a full breakdown of the interest rate, fees, and total repayment amount
- Make sure the monthly instalment fits comfortably in your budget
- Never pay any money upfront to secure a loan

How to choose the right loan for your situation

Not all debt consolidation loans are created equal. Some are structured as secured loans, meaning you put up an asset like your car or home as collateral. Those loans often come with lower interest rates because the lender has something to take if you stop paying. But the risk is real: if your financial situation does not improve, you could lose that asset.

Unsecured personal loans do not require collateral, but they carry higher interest rates to compensate for the lender's risk. For someone with poor credit, that rate can climb quickly. Before you commit, compare the total cost of the new loan against what you are already paying. If the new loan saves you money on interest and fees over the full term, it may be worth considering. If it only lowers your monthly payment by stretching the term out for years, you could end up paying more in the long run.

Questions to ask yourself

- Will this loan reduce the total interest I pay, or just spread it over a longer time?
- Do I have the discipline to stop using credit cards and store accounts once they are paid off?
- Is the monthly repayment low enough that I can still cover my essential living costs?
- What happens if I miss a payment? Are there penalty fees or repossession risks?
- Have I spoken to a debt counsellor or financial advisor about whether consolidation is the right move?

Alternatives worth considering first

Debt consolidation is not the only way to get your finances back on track. Sometimes a different approach works better, especially when your credit score makes it hard to qualify for a decent rate.

One option is a debt management plan arranged through a registered debt counsellor. Under the National Credit Act, you can apply for debt review if you are over-indebted. A debt

counsellor negotiates with your creditors to lower your monthly payments and stop further interest and fees. This process protects you from legal action while you repay what you owe. It does damage your credit record temporarily, but it keeps you out of the hands of unregistered lenders.

Another route is to prioritise your debts yourself. List everything you owe from the highest interest rate to the lowest. Pay as much as you can on the most expensive debt each month while making minimum payments on the rest. Once the first debt is cleared, move to the next one. This method takes discipline but costs nothing in fees.

If you do decide to consolidate, keep the purpose clear. The goal is to reduce your total debt burden, not to free up credit for new spending. Many people who consolidate fall into the trap of running up their old credit cards again, leaving them with more debt than they started with.

Practical steps to move forward

Start by gathering all your current loan statements. Write down the outstanding balance, interest rate, and monthly payment for each one. Add up the total monthly amount you are paying now. That number is your baseline.

Next, approach a few registered lenders and ask for a consolidation quote. Give them the exact same information so you can compare offers fairly. Look at the total cost over the full term, not just the monthly payment. A longer term might lower your instalment but increase the total interest you pay.

Once you have a few offers, compare them against what you are currently paying. If none of them save you money or provide a meaningful reduction in monthly payments, consolidation may not be the answer right now. In that case, focus on paying down your existing debts one at a time, starting with the highest interest rate.

If you find a loan that works, commit to a plan. Pay off the smaller debts immediately and close those accounts if you can. Do not cancel your oldest credit card if it helps your credit utilisation ratio, but do stop using it for new purchases. Treat the consolidation loan as your only debt until it is paid off.

Remember that your credit score is not permanent. Every on-time payment builds a better record. Over time, a consistent history of paying your debts on time will improve your credit profile and open the door to better loan options in the future. The key is to avoid shortcuts that look easy but cost you far more in the end.

Taking control of your debt does not happen overnight. But with careful planning and a clear view of your options, it is possible to find a path forward that works for your specific situation.

The real value of debt consolidation is not in the loan itself. It is in the structure and discipline it can help you build. If you approach it with your eyes open and a clear plan, it can be a useful tool. If you rush into it without checking the fine print, it can make a bad situation worse.