

## **TAKE CARE OF YOUR FISCAL HEALTH**

### **AVOIDING DEBT RELIEF SCAMS**

Helping yourself get out of debt

Including tips for choosing a credit counseling service or a debt settlement company

Are you up to your eyeballs in debt? Are debt collectors hounding you? Are you seriously looking for a company to help you get out of debt? **STOP!** Beware of credit relief company promises that sound too good to be true, because they are. Before you are caught in the hype about an “easy way out,” please do yourself a favor and save some money, too. Read these hints first.

**HELP YOURSELF!** The best defense is a responsible offense! Many creditors are willing to work with you if you have had a good payment history with them. It is always better to deal directly with the original creditor. Once the account is turned over for collection, the original creditor loses control over what would be an acceptable payment. Collection agencies are more aggressive and less willing to compromise.

Here are a few steps you can take yourself in negotiating with your creditors:

1. Prepare a budget: You need to know how much you owe to whom and how much you can afford to pay. Make sure to list your basic needs such as rent or house payment, food, and utilities and child support first.
2. Contact the creditor as soon as possible when you know you are not going to pay as agreed. Attempt now to negotiate a lower payment at lower or no interest. Ask if the creditor has a “workout” program. Explain that you want to pay your account as due, but right now, you can’t.
3. Keep in contact with the creditor. If, during negotiation, a request of yours is denied for any reason, ask to speak with a manager or supervisor. Remember that negotiation might take several rounds of offers and counter-offers.
4. Never agree to pay more than you can afford.
5. Get your agreement in writing. Make sure everything that’s been agreed to is in writing, signed, and dated by both parties.
6. Treat every creditor fairly. It’s not necessary every creditor receive the same monthly amount; it’s reasonable to make larger payments for larger debts.
7. Fulfill your part of the contract. Make payments when due and in the amount due. You don’t want to negotiate a payment or settlement package and then not be able to live up to it.
- 8 Review your credit report. You’re entitled to a free credit report a year from each of the major credit bureaus. Go to <https://www.annualcreditreport.com> for more information.

**USE A REPUTABLE CREDIT COUNSELING SERVICE:** If you have problems using the self-help method then search for a reputable credit counseling service to assist you. Not only will a reputable credit counseling service negotiate with your creditors for a lower payment at lower or no interest, it will also provide a wide array of other financial services, such as debt counseling, budget counseling, money management education, housing counseling (HUD-certified agencies).

Credit counseling may negatively affect your credit score. Closing some of your accounts may drop your credit score a little. A reduction in your total amount of credit may also drop your score. Most people

find their credit scores will drop a little in the first few months of enrollment. However, as time goes by their scores begin to climb higher because payments are being made in a timely manner.

Here are some suggestions on finding a reputable credit counseling organization:

- Find an organization affiliated with a national body such as the National Foundation for Credit Counseling (<http://www.nfcc.org/>), or the Association of Independent Credit Counseling Agencies, (<http://www.aiccca.org>). If you need counseling for housing issues, such as foreclosure prevention, choose an organization certified by the US Department of Housing and Urban Development (HUD) at <http://www.hud.gov/>
- Ask about the fees associated with the services provided. The organization should provide free counseling or charge only a nominal fee. Get a price quote in writing. Beware of the company that wants fees up front before any services are provided.
- Make sure your counselor is a Certified Consumer Credit Counselor. Credit counselors are certified by various independent agencies including the National Foundation for Credit Counseling or another qualified organization.
- Find a credit counseling service that will work with all of your creditors.
- Find a credit counseling service that offers a wide variety of debt settlement solutions tailored to your particular needs and circumstances. If a debt management plan (DMP) is the only solution offered, look for another credit counseling service.
- Make sure your credit counselor reviews all of your financial records so you can discuss your income, expenses, and debts and develop a plan just for you.
- Find out how much of each payment is disbursed to your creditors. The more the better. When are the funds disbursed to the creditor? A reputable credit counseling service will send you a detailed statement (at least quarterly, preferably monthly) that itemizes your payment, which creditors were paid, the payment amount, and estimated balances.
- Is the organization bonded or insured to protect you from fraud or the organization's own financial difficulties?
- Does the organization have a clean business record? If you have questions, please contact Wyoming Attorney General, 123 Capitol, 200 W 24<sup>th</sup> Street, Cheyenne, WY 82002, (307) 777-5838.

There is no quick fix for credit problems. Your credit score will be damaged whether you're able to help yourself or use a credit counseling service, but you can work your way out of debt, improve your credit legitimately. It takes time, a conscious effort, and sticking to a personal debt payment plan.

**Avoid a Debt Settlement Scam:** With debt settlement, a creditor agrees to accept less than the total amount of the debt owed. A debt settlement company will require you to stop making payments to your creditors and to deposit a specific amount of money monthly into a specially designated savings account (sometimes called a "trust" account) instead. Once you have built up a certain amount of cash in your trust account, the company will offer a lump-sum payment to one of your creditors. After one account is settled, the company will do the same with the next, continuing in this manner until all of your creditors are paid. This process can take up to 5 years; not the months (usually 6 to 8 months), as advertised.

Don't be persuaded by the following:

- That using a debt settlement company to settle your debts won't harm your credit score. The reality is that your credit score is adversely affected by using a debt settlement company. Your credit score is based upon information contained in the credit report on how you repay your debts. If you're not repaying your creditors or have missed payments, it will show on your credit report and lower your credit score. When your debts are paid by the debt settlement company, the report will show your debts as "Paid by Settlement." This indicates to a prospective lender that your repayment did not cover the total debt you owed, but that your creditor accepted a lesser amount than owed. This can lower your credit score because the debt wasn't "paid in full.
- The claim that so long as you are working with your creditors, they won't be contacting or suing you for non-payment. The harsh reality of this is that when you stop making payments to your creditors, as instructed by the debt settlement company, creditors will start calling you demanding payment. Interest, late payment fees, etc. continue to grow, and soon you find yourself in court. You might be responsible for the attorney's fees and costs of the creditor, too.
- The claim that debt settlement services have a special relationship with your creditors and therefore, can get a better settlement than you can. The truth is debt settlement companies don't have any more of a special relationship with creditors than you do. In fact, you could save yourself some money and negotiate a settlement yourself.

There can be adverse consequences when you use a debt settlement company:

- There may be income tax consequences to you. The IRS considers the amount of debt that is forgiven by your creditors as taxable income to you.
- You pay large fees upfront before you receive any benefits. Normal fees are 13% to 20% of your total debt or up to 35% on the amount of debt reduction they can negotiate. Many companies also charge a monthly fee that typically runs between \$19 to \$89 a month. Settlement fees can be thousands of dollars.
- Because fees are collected up front, it may be months after you start the settlement program before your creditors receive any payment. In the meantime, your payments to creditors are even further behind. You continue to accrue late fees and interest with each creditor. Moreover, the creditor becomes impatient. Over this period, you have paid several hundreds of dollars to the debt settlement company for services you have not benefitted from to the detriment of your credit and your peace of mind. Your credit has been ruined.

**BE A SMART CONSUMER.** Learn what a credit counseling organization or a debt settlement company can do for you. Check the options available. Investigate the company you think you want to use. Use the resources listed in this article to assist you. It's your money and your credit reputation at risk. Use them wisely.

For more information about self help, credit counseling services, and debt settlement companies, go to the Federal Trade Commission, the government consumer-affairs watchdog, website at <http://www.ftc.gov/>. This website is an excellent source for consumer credit information.