

Debt Settlement, Debt Management, Debt Termination What's the Right Choice?

When you're facing a mountain of credit card debt, the stress can be overwhelming at times. Collection calls, daily harassment, rude bill collectors, and nasty letters all add to an already intense situation. Consumers facing this kind of pressure naturally seek out the services of professional debt companies. But the search for reliable assistance can actually add to the stress! For example, just type in "debt help" on any search engine and you'll see page after page of results. There are literally thousands of debt companies out there. How to choose? How to tell the scams and schemes from the legitimate services? Should you consult with a non-profit credit counselor? One company tells you they can cut your bills in half. Another outfit says you really don't owe the banks any money at all and they can wipe the debt away for you. Who should you believe? Where should you turn?

Consumers face a bewildering range of choices when seeking debt assistance. As with any service, when considering a debt reduction program, "let the buyer beware." Yes, there are some good debt companies out there. But many are only in the business to take your money. Some actually leave you much worse off than when you started.

Where to start? Let's categorize the different types of debt program. This will cut down on the confusion and help you decide where to start your search. I'm assuming here that you are trying to avoid bankruptcy. I'm also assuming that you are struggling every month to keep up with the minimum payments on your debt obligations and have fallen behind or are about to start falling behind. Further, in what follows, I assume that you can't borrow against your home or otherwise pay off your debts off. In other words, we're talking about a financial rescue situation.

To simplify matters, let's look at debt companies in terms of three rough categories:

1. Debt management plans require 100% repayment of the debt through a structured payment plan. This is what non-profit credit counseling agencies do, as well as for-profit debt consolidators.
2. Debt settlement or debt negotiation plans require payment of part of what you owe, usually around 50% or less, with the remainder forgiven by the creditor. Virtually all of these companies operate on a for-profit basis.
3. Debt termination companies claim to wipe away 100% of your debt through special legal procedures, so your total payout consists only of their fees.

Right off the bat, let's cross #3 off the list. Sorry, but this one is a scam. You can recognize this type of company very easily. They make the claim that because of how our monetary system works, you never really borrowed any money in the first place! Their system is based on the false belief that credit card banks are operating illegally by extending credit to you. Absolutely do not give your money to one of these outfits! The fees start at \$2,500 and go up from there. I spoke with one fellow who lost \$15,000 in this scam.

Folks, there is no free lunch. The only thing such "debt termination services" will do for you is take your money. Their legal theories are total nonsense, and the courts do not recognize their arguments. These are the same people who also claim you don't need to pay your income taxes either. As tempting as it might be to try one of these services, you'll only get yourself in deeper trouble with your creditors.

That leaves #1 (debt management plans) and #2 (debt settlement). Debt management plans (DMPs) are offered through credit counseling companies that generally operate on a non-profit basis, and also through for-profit companies that use a similar business model. The essential idea is that you write one monthly payment to the agency, and they in turn distribute that money to your creditors. Companies offering DMPs work with your creditors to lower your interest rates so that more of your money goes toward paying off the debt. Of course, there are fees involved. The non-profit organizations are not free - a point that often confuses consumers. Also, "non-profit" does not mean the company is any good at what they do. Sometimes, a for-profit company can afford to provide a better quality of service because they can pay their staff a higher wage! So don't automatically think that non-profit services are good while for-profit services are bad.

When should you consider enrolling in a DMP? While many financial advisors seem to think that DMPs are the answer to every debt problem, in reality companies in this end of the business are basically acting like collection agencies for the banks. In the real world, a DMP only makes sense if you are in a relatively short-term financial crunch. Let's say you are between jobs but know that your income prospects will get better in 6-12 months. A DMP would make sense in such a situation because it would bring the temporary relief that you need until you can take your bills over again and start paying down your debts at a faster pace. On the other hand, if your situation is long-term and you don't see any light of the tunnel, then a more aggressive approach might make sense.

Debt settlement or debt negotiation can provide a more aggressive approach to debt reduction that makes sense for many consumers. It should be viewed as an alternative to bankruptcy. In fact, it's a very good alternative to Chapter 13 bankruptcy in particular. (For a detailed comparison between debt settlement and Chapter 13 bankruptcy, see <http://www.new-bankruptcy-law-info.com>.) It also gives consumers a fighting chance to work their way out of serious debt problems without the feelings of failure and loss of privacy that come with bankruptcy. One of the best features of debt settlement is that it involves a reduction in debt principal (the amount you owe), rather than just interest rates as with DMPs. The result is a much faster path out of debt. It's also a much more flexible approach than other types of programs, because it's the ONLY approach that allows for adjustments up or down in the monthly funding commitment. That's especially important for consumers with unstable finances.

Debt settlement isn't a perfect solution though. One of the major drawbacks is that the fees are usually quite steep, often amounting to 15% or more of your starting debt level. Also, settlement has a negative impact on your credit score (although your credit will take a hit under a DMP as well). However, when viewed as an alternative to bankruptcy rather than a cure-all for financial woes, it provides a good solution for many consumers. Essentially, debt settlement is really nothing more than a negotiated compromise with your creditors. It's actually a win-win scenario for you and the creditor.

Further, you don't need to hire a professional to do this for you. Debt settlement has become so common and popular in the last few years that many of the major credit card banks will automatically offer 50% settlements (or less) in order to cut their losses. Why pay those big fees when you can do it yourself and save \$1,000s? Even if you don't get as big a reduction as you would with a professional negotiator, you'll still come out ahead by not having to pay the fees. For more information on the DIY approach to debt negotiation and settlement, see the free 32-page consumer report, "How to Eliminate Your Debts Quickly and Safely Without Filing Bankruptcy," available for instant download at http://www.zipdebt.com/free_eliminate_debt_ebook.php.

If you're drowning in debt, the time to act is now. Explore your options, establish a game plan, and take action!

Short note about the author

Charles J. Phelan has been helping consumers become debt-free without bankruptcy since 1997. A former executive with a national debt settlement firm, he created the Debt Elimination Success Seminar, a 5-hour audio-CD course that teaches consumers how to choose debt program options based on their financial situation. The course focuses on comprehensive instruction in do-it-yourself debt negotiation & settlement, designed to save \$1,000s. Personal coaching available. Visit <http://www.zipdebt.com>.

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