

Know the Basics of Debt Settlement

courtesy of AICCCA member Pioneer Credit Counseling

When debt seems to be piling up and you are beginning to feel like you are running out of options you can be easily tempted into programs that are too good to be true. Debt settlement may sound like a great solution but before you decide on this make sure you understand how it works.

Debt settlement usually starts with a call to a debt settlement company. You will talk to a representative and explain your situation to them. They will ask you for all of your creditors' information along with the amounts that you owe. They will give you a new estimate for what they believe they can negotiate with your creditors.



If you sign up with them they will figure out what your monthly payments will be and what fee they will charge you. They will also inform you on what they will be charging you for their services.

The debt settlement company will then advise you to stop making payment to your creditors. You will be making payments to the company, but they will not be paying your creditors right away. The first payments you make to them will be collected for their fees. Then the payments will be collected and accrued in your account until they are ready to pay your creditors.

The debt settlement company will then be negotiating with your creditors for a settlement. However, your accounts can only be settled after they have been charged-off. Accounts are usually charged off after at least six months of missed payments. So if you are current with your payments or even a month behind you will have to wait 6 months until anything can be discussed in the matter of settlement.

During the six months prior to charge off you will be receiving collection calls from your creditors pressuring you to make payments to them. If you were to make a payment than the six-month period will start over. Your creditors will also be reporting your delinquency to the credit bureaus and will negatively affect your credit report.

Creditors will only agree to a settlement if you can prove that you are having significant financial hardships. If they think that you are trying to take advantage of them they may try to take you to court to collect what you owe.

If everything goes smoothly your creditors will accept your settlement proposal and your account will be noted as "Charge-Off Settled" or "Paid-Settled". Settled accounts also have a negative effect on your credit reports.

Why would your creditors agree to your settlement that can be significantly smaller than the amount you owe? Because if you were to file for bankruptcy chances are they may not receive any money. Still, they do not encourage anyone to wait for a charge off. They want to get as much money from you as they can. That is why they will continue to try and get payments from you.

There are plenty of healthier options besides debt settlement.

First of all, you can try and negotiate a payment plan with the creditors yourself. It may not be a settlement but they may be able to reduce your interest, or allow you to make smaller payments.

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They may have hardship programs that you may qualify for if you have had some financial setbacks. You can never know how much a creditor is willing to work with you if you don't contact them and discuss your situation with them. Many creditors want to reach a solution with you before you explore other options.

You can enter a debt management program, where credit counselors will negotiate with your creditors to arrange for better interest rates and more comfortable repayment schedule. You make one payment a month and it is distributed among your creditors. Consumers can also receive valuable financial education that will help them prevent future financial downfalls.

This is the best option for both consumer and creditor. The consumer continues to make payments without major damage to their credit while creditors receive the total amount owed to them.

So debt settlement may be a better option than bankruptcy, but there are still a lot of negative marks that will haunt your credit report. Explore all of your options and try and find a solution that is best for you.

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