

Consumers Have Options to Deal With Mounting Debt

Having trouble paying your bills? Getting dunning notices from creditors? Are your accounts being turned over to debt collectors? Are you worried about losing your home or your car? You're not alone. Many people face a financial crisis some time in their lives. Whether the crisis is caused by personal or family illness, the loss of a job, or overspending, it can seem overwhelming. But often, it can be overcome.

SELF-HELP

Developing a Budget: The first step toward taking control of your financial situation is to do a realistic assessment of how much money you take in and how much money you spend. Start by listing your income from all sources. Then, list your "fixed" expenses — those that are the same each month — like mortgage payments or rent, car payments, and insurance premiums. Next, list the expenses that vary — like entertainment, recreation, and clothing. The goal is to make sure you can make ends meet on the basics: housing, food, health care, insurance, and education.

Contacting Your Creditors: Contact your creditors immediately if you're having trouble making ends meet. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level.

Dealing with Debt Collectors: The Fair Debt Collection Practices Act is the federal law that dictates how and when a debt collector may contact you. A debt collector may not call you before 8 a.m., after 9 p.m., or while you're at work if the collector knows that your employer doesn't approve of the calls. Collectors may

not harass you, lie, or use unfair practices when they try to collect a debt. And they must honor a written request from you to stop further contact.

Managing Your Auto and Home Loans: Your debts can be unsecured or secured. Secured debts usually are tied to an asset, like your car for a car loan, or your house for a mortgage. If you stop making payments, lenders can repossess your car or foreclose on your house. Unsecured debts are not tied to any asset, and include most credit card debt, bills for medical care, signature loans, and debts for other types of services.

Most automobile financing agreements allow a creditor to repossess your car any time you're in default. No notice is required. If your car is repossessed, you may have to pay the balance due on the loan, as well as towing and storage costs, to get it back. If you can't do this, the creditor may sell the car.

If you fall behind on your mortgage, contact your lender immediately to avoid foreclosure. Most lenders are willing to work with you if they believe you're acting in good faith and the situation is temporary. Some lenders may agree to change the terms of the mortgage by extending the repayment period to reduce the monthly debt.

DEBT RELIEF SERVICES

Credit Counseling: If you're not disciplined enough to create a workable budget and stick to it, can't work out a repayment plan with your creditors, or can't keep track of mounting bills, consider contacting a credit counseling organization. Many credit-counseling organizations are nonprofit and work with you to solve your financial problems. But be aware that, just because

an organization says it's "nonprofit," there's no guarantee that its services are free, affordable, or even legitimate. Reputable credit counseling organizations can advise you on managing your money and debts, help you develop a budget, and offer free educational materials and workshops.

DEBT MANAGEMENT PLANS

If your financial problems stem from too much debt or your inability to repay your debts, a credit counseling agency may recommend that you enroll in a debt management plan. You should sign up for one of these plans only after a certified credit counselor has spent time thoroughly reviewing your financial situation, and has offered you customized advice on managing your money. In a DMP, you deposit money each month with the credit counseling organization, which uses your deposits to pay your unsecured debts, like your credit card bills, student loans, and medical bills, according to a payment schedule the counselor develops with you and your creditors.

DEBT SETTLEMENT PROGRAMS

Debt settlement differs greatly from credit counseling and DMPs. It can be risky, and have a long-term negative impact on your credit report.

The Claims: Debt settlement firms may claim they'll negotiate with your creditors to reduce the amount you owe. Some debt settlement companies may claim that they can arrange for your debt to be paid off for a much lower amount. Debt settlement firms often pitch their services as an alternative to bankruptcy. They may claim that using their services will have little or no negative impact on your ability to

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get credit in the future, or that any negative information can be removed from your credit report when you complete their debt negotiation program. The firms usually tell you to stop making payments to your creditors, and instead, send payments to the debt negotiation company. The firm may promise to hold your funds in a special account and pay your creditors on your behalf.

The Truth: There is no guarantee that the services debt settlement companies offer are legitimate. There also is no guarantee that a creditor will accept partial payment of a legitimate debt. In fact, if you stop making payments on a credit card, late fees and interest usually are added to the debt each month.

While creditors have no obligation to agree to negotiate the amount a consumer owes, they have a legal obligation to provide accurate information to the credit reporting agencies, including your failure to make monthly payments. That can result in a negative entry on your credit report. And in certain situations, creditors may have the right to sue you to recover the money you owe.

Fees: Amendments to the FTC's Telemarketing Sales Rule prohibit companies that sell debt settlement and other debt relief services on the phone from charging a fee before they settle or reduce your debt. If you do business with a debt settlement company, you may be required to put money in a dedicated bank account, which will be administered by an independent third party. The account administrator may charge you a reasonable fee, and is responsible for transferring funds from your account to pay your creditors and the debt settlement company when settlements occur.

Tax Consequences: Depending on your financial condition, the amount of any savings you obtain from debt relief services can be considered income

and taxable. Credit card companies and others may report settled debt to the IRS, and the IRS considers it income, unless you are "insolvent." You are insolvent when your total debts are more than the fair market value of your total assets.

DEBT CONSOLIDATION

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. Remember that these loans require you to put up your home as collateral. If you can't make the payments — or if your payments are late — you could lose your home. What's more, the costs of consolidation loans can add up. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

BANKRUPTCY

Personal bankruptcy generally is considered the debt management option of last resort because the results are long-lasting and far reaching. People who follow the bankruptcy rules receive a discharge — a court order that says they don't have to repay certain debts. However, bankruptcy information stays on your credit report for 10 years, and can make it difficult to obtain credit, buy a home, get life insurance, or sometimes get a job. Still, bankruptcy is a legal procedure that offers a fresh start for people who have gotten into financial difficulty and can't satisfy their debts.

DAMAGE CONTROL

Turning to a business that offers help in solving debt problems may seem like a reasonable solution when your bills become unmanageable. But before you do business with any company, check it out with your state attorney general, local consumer protection agency, and the Better Business Bureau.

Some businesses that offer to help you with your debt problems may charge high fees and fail to follow through on the services they sell. Others may misrepresent the terms of a debt consolidation loan, failing to explain certain costs or mention that you're signing over your home as collateral. Businesses advertising voluntary debt reorganization plans may not explain that the plan is a bankruptcy filing, tell you everything that's involved, or help you through what can be a long and complex process.

In addition, some companies guarantee you a loan if you pay a fee in advance. The fee may range from \$100 to several hundred dollars. Resist the temptation to follow up on these advance-fee loan guarantees. They may be illegal. It is true that many legitimate creditors offer extensions of credit through telemarketing and require an application or appraisal fee in advance. But legitimate creditors never guarantee that the consumer will get the loan — or even represent that a loan is likely.

You should be cautious of claims from so-called credit repair clinics. Many companies appeal to consumers with poor credit histories, promising to clean up credit reports for a fee. But you already have the right to have any inaccurate information in your file corrected. And a credit repair clinic cannot have accurate information removed from your credit report, despite their promises.

If you're thinking about getting help to stabilize your financial situation, do some homework first. Find out what services a business provides and what it costs, and don't rely on verbal promises. Get everything in writing, and read your contracts carefully.

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