DEBT REPAYMENT OPTIONS

OPTIONS FOR THE REPAYMENT OF YOUR UNSECURED DEBT

DMCC

Your Guide To Debt Freedom

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The subject matter contained in this educational publication is for informational purposes only. We suggest that you consult financial, legal or other expert advisors when planning for your specific needs or requirements.

DEBT REPAYMENT OPTIONS

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Appendix A.

Self-Help Options

Establishing a Budget

This is the first and most important step when trying to reduce or eliminate your debt. Whether you choose to repay your debt on your own or through one of the alternative repayment options described in this guide, a budget is a necessary tool. A budget will help you determine your disposable income and the amount of money you can apply toward your debts each month. The amount of funds you have left over to repay your debts after budgeting your expenses will determine the repayment options that are available to you. Ideally, budgeting will provide you the ability to repay all your debts on your own in accordance with the terms of your creditor agreements.

Negotiating Lower Interest Rates

Creditors want your business, especially if you are a good customer, but they do not just lower your interest rates without you asking. If you have consistently paid your creditor in a timely manner for at least the past twelve months, you should call and ask them to reduce your interest rate. Let them know you may transfer your balance to a lower interest account with another creditor if they cannot help you (see Transferring Your Balances below). Having your interest rate reduced by even 2 percent, amounts to a great financial savings over time. Please note that if you have recently been late in paying your creditor, they will consider you a higher risk and it is unlikely that they will reduce your interest rates.

Transferring Your Balances

If you are unable to get your creditors to reduce your interest rates (see Negotiating Lower Interest Rates With Your Creditors above), you should consider transferring high interest rate account balances to new or already established lower interest rate accounts with other creditors. Again, your ability to obtain lower interest credit card accounts to facilitate balance transfers will depend on your payment history and credit rating. Make sure you shop for the best interest rates and terms available before transferring any balances. Look out for short-term introductory offers that will later result in higher interest rates and balance transfer fees that will effectively negate the lower interest rate on the account. Avoid credit cards with excessive transaction fees and default interest rates.

Targeting Your High Interest Credit Cards

Continue to send more than the minimum payments to your credit cards while putting the bulk of your funds toward the credit card with the highest interest rate. When this account is repaid, apply those funds to the card with the next highest interest rate. Continue this process until all of your cards are repaid.

Using Your Home Equity

Home equity loans may be used to pay off credit card debt. However, although the terms often seem attractive, using your home's equity is not the cheapest or safest way to pay off your credit cards and is not recommended. Converting unsecured credit card debt into debt secured by your home is very risky, particularly in an economy with suppressed home values and a poor job market.

Debt Elimination Programs

Debt Elimination Programs, whether done on your own or through an agency, are designed to help you pay all of your debt in full, including mortgages and car loans, within a typical time span of 7 to 10 years. For most families, this can put hundreds or even thousands of dollars a month back into their hands and allow them to begin building real wealth, even on a modest income.

Countless retirees are living very comfortably because they didn’t have debt. They didn’t have high paying jobs, but they grew up with the mentality of saving instead of borrowing. The credit boom is a relatively new phenomenon and the marketing of it is exceptional. As society has shifted from being savers to being borrowers, many are sacrificing a stable retirement in the future for the immediate gratification that credit brings now. The problem is that the typical family with a mortgage and one or two car payments is literally handing their creditors several hundred to several thousand dollars in interest alone. Over the full terms of the loans, this can add up to hundreds of thousands of dollars, and the debt cycle never seems to end.

The idea of a Debt Elimination Program is to help you to start using your money to earn interest for yourself rather than to pay interest to your creditors. They will organize your debt in a repayment schedule that will not only look great on your credit report, but it will systematically eliminate it completely. The best programs will also work with you on ways to lower interest rates, spend more wisely, and will have a trained professional work with you throughout the entire process.

Internal Creditor Hardship Programs

Many creditors offer internal programs for people that are struggling with payments or have suffered a temporary setback. This can be an alternative to a DMP or DSP if your situation is short term and you will be able to get back on track and easily pay your debt once you have recovered from the situation.

You need to be sure that a hardship program will work for you. There are situations where you are better served by getting outside help rather than relying on the creditor programs. Before entering into any agreements, you need to have a good overall picture of your financial situation to make sure that any decision you make will not hurt you later.

Hardship programs vary from creditor to creditor, but one constant is that they are for a limited time frame, meaning that you must be sure that you will be in a situation where you can pay comfortably once the program has been completed. Most programs last from 6 months to a year.

Possible programs include the following and in some instances may include more than one concession:

- Temporary payment reduction
- Waiving of late or over limit fees until you either bring the account current or bring the balance below the credit limit. In some instances you will be required to pay extra until the account is in good standing
- Lowering of your interest
- Re-aging your account, or bringing the account to a current status without your having pay the full amount that you are delinquent.
- Stopping collections calls

There can be some *negative* results of a creditor hardship program as well. Be sure that you are prepared for the consequences.

- Limited time period. Once the program is over, you need to be able to afford the preprogram rates and payments.
- Some creditors will only offer you a hardship program after you have become seriously delinquent. If you intentionally miss payments to become eligible, you could severely reduce your credit score.
- While on a program, you will not be able to use the card in most cases.
- Once on a program, there may be no grace period at all. Being late by a day can be enough to have you removed from the program. In contrast, most creditors have much more lenient drop policies for cardholders enrolled in a Debt Management Plan.
- You may be required to give them a series of post dated checks over the telephone. If you forget that the money will be pulled, there could be consequences that go beyond the creditor.
- Some creditors may report you as delinquent while you are on a program.
- Being dropped from a creditor hardship program could make you ineligible for any other internal or even external programs for as long as 5 years. This can include eligibility for a DMP. If you think you will struggle to make a hardship program work, you may want to contact a credit counseling agency and review your budget and options.
- Some programs will require a higher than normal payment if you are seriously delinquent or over the limit.

The most important thing that you can do is ask questions and make sure that you are very familiar with all possible conditions before you enter into any agreement. You may only have one chance to get it right.

Debt Management Plans

A Debt Management Plan is a program designed to help people living in financial distress to get control of their credit cards and other unsecured debt. While on a plan, you would make one payment a month, and your Credit Counseling Agency would then pay each of your individual creditors.

In general, people that qualify for a DMP have high interest rates and one of more of the following:

- No money left over after paying the bills each month
- Falling behind on payments
- Inability to get creditors to reduce rates
- Harassing phone calls
- Over the limit
- Trouble handling several individual payments

While a DMP is not for everyone, if you fall into one of the categories above, you would certainly benefit by having a certified credit counselor review your situation and make some recommendations.

If a DMP is recommended, you will find one or more of the following outcomes:

- One payment a month to the counseling agency instead of several payments to creditor
- Reduction in interest rates
- Reduction in payment
- Stopping of late and over limit fees
- Breathing room in your budget
- Stopping of harassing phone calls
- A specific time frame for which to pay off your debt (usually 2 to 5 years)

While a DMP itself does not actually affect your credit score, you will be required to close all accounts that are placed on the program, and refrain from trying to obtain new accounts until you have completed or quit the program. You have the right to leave the program at any time. Individual creditors may notate your credit report that their account is being managed, but the notation will be removed once you are no longer on a DMP.

Results vary from person to person because each creditor has its own guidelines for a DMP, and every individual's situation is unique. Selecting a reputable agency is extremely important. There are many agencies that will only try to sell you on a plan rather than take the time to review your budget, make recommendations, and give you alternatives.

Things to look for that will tell you that you are dealing with a reputable agency are as follows:

- There may be a small fee to enroll in the DMP but be sure the agency does not keep your first regular payment as a fee (a common practice of unscrupulous agencies with front-end enrollment centers or law firms). This payment needs to be disbursed to your creditors.
- They require a budgeting session, and review your expenses to help find ways you can save in other areas.
- The servicing of your DMP is done by the same company and preferably the same office that does the enrollment and budgeting session. Many companies are simply enrollment centers that farm the actual servicing to other companies. Once you have signed an agreement, you will never deal with them again. A stand-alone enrollment center is more of a sales room than a legitimate credit counseling agency, and they may not be as concerned with the potential negative consequences of enrolling someone that really should not be on a DMP.

- Look at the agency website. There should be memberships in professional associations such as ACCPROS, AICCCA, or NFCC. Membership in the BBB is a positive sign, and any legitimate agency that services its own clients will also carry ISO certification.
- Also on the website, look for links to other resources, plenty of educational materials, and an actual physical address. If they don't make it easy for you to know exactly where they are located, you may want to consider another agency.
- If your state requires licensing, make sure that the agency is licensed to do business in your state. Most states that require licensing will maintain a list of approved agencies.

NOTE: *Debt Management Credit Counseling Corp ("DMCC") is licensed, or works closely with other nonprofit credit counseling agencies who are licensed, to provide debt management plans in most States. If you would like to speak with a certified credit counselor to discuss your debt relief options and receive a free no obligation debt management plan quote, you may request help at the DMCC website www.dmcccorp.org or call toll-free (866)618-3328.*

See **Appendix A** for more information about the DMCC debt management plan program.

Debt Settlement Programs

Like DMP's, Debt Settlement Programs (DSP's) are not for everyone. On a DSP, you would make one payment a month to your settlement provider and they would hold onto the funds until it has grown to an amount that will be acceptable to one of your creditors. In the meantime, your creditors will not be paid anything. One at a time, they will be offered lump sum payments once your settlement account has adequate funds to do so. It is likely that your creditors will attempt to collect from you during the waiting period.

Because of this, you need to have a settlement provider that is familiar with both federal laws and your state laws regarding debt collections. There are also advantages to using an attorney. When you have an attorney working for you, any third party debt collector must direct all communications to that attorney once they have been notified that the attorney has been retained. This can take a large amount of the stress off of you while you are working to build your settlement account.

The person that should consider a Debt Settlement Program falls into one or more of the following categories:

- Has accounts with collections agencies.
- Has accounts that are severely past due.
- Is using credit cards to pay monthly bills and cannot possibly pay all the bills without them.
- Is experiencing creditor harassment.
- Cannot afford payments even with the help of a Debt Management Plan.

People on a Debt Settlement Program will generally see one or more of the following results:

- Affordable payments.
- A reduction in the overall debt to be repaid.
- Payoff of account in 4 years or less.

In searching for a settlement company, you should look for the following:

- There may be a small fee to enroll in the DSP and a monthly fee to maintain your account, but be sure the company does not charge you any other fees until such time your debts are settled.

- A company that will tell you about the potential negatives of pursuing a settlement including potential credit issues and possible lawsuits.

- The agent does not make any guarantees on the amount or timeframe for your completion. Estimates are fine, but nobody can guarantee an exact amount of money that your creditors will accept.

- Takes the time to review your situation and your to make sure that you do not have alternatives that might be better suited to you.

- Takes the time to get a full list of your creditors to make sure they are eligible for settlement, instead of just getting a total on your debt to use for a quote.

- Be sure that any agency you speak with has licensing for your state if required.

- If not an attorney, look for an agency that has you send payments to them to be placed in a trust account. Many companies have you keep the funds in your own account, which could make them susceptible to garnishment.

NOTE: *DMCC does not provide a debt settlement program, but can help you identify a reputable agency or attorney who provides debt settlement services in your state. If you would like to speak with a certified credit counselor to discuss your debt relief options, you may request help at the DMCC website www.dmcccorp.org or call toll-free (866)618-3328.*

Bankruptcy

Easy credit and lots of demands on our money lead far too many of us into debt. What is bankruptcy? Is it a viable option?

There are two major types of bankruptcy filings for individuals:

Chapter 7

When filing Chapter 7, the court would discharge most of the debts. However, your assets, excluding certain property exempted under federal and state laws, could be subject to liquidation to satisfy those debts. In other words, you could lose some personal property and even your home, if they are not exempt. This bankruptcy is reported on your credit report for 7 to 10 years.

Chapter 13

The bankruptcy court would restructure the repayment terms of your liabilities. The court would appoint a trustee to disburse the excess income provided by you to satisfy the debts. You still has to make payments to the creditors and this is reported as a bankruptcy on your credit report for 7 years. However, it can show for 10 years if it is dismissed instead of discharged.

The Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA), has been constructed to make it more difficult for serial filers to abuse the bankruptcy protections. For example, consumers who have the ability to pay their debt will be required to pay back at least a portion of it; anyone seeking to file Chapter 7, will have to wait eight years from their last bankruptcy filing before they can file again; consumers will have to take a means test, which will determine if they qualify for a liquidation of their debt. The BAPCPA also requires consumers to seek credit counseling with an approved agency prior to filing a bankruptcy petition. It also requires petitioners to engage in education in personal financial management from licensed agencies prior to being granted a discharge of debts under either Chapter 7 or Chapter 13 bankruptcies.

Which debts do I still owe after bankruptcy?

Certain types of debts are NOT discharged in bankruptcy. The following debts are among the debts that generally may not be cancelled by bankruptcy:

- Alimony, maintenance or support for a spouse or children.
- Student loans. Almost no student loans are cancelled by bankruptcy. You can ask the court to discharge the loans if you can prove that paying them is an "undue hardship." Occasionally, student loans can be cancelled for reasons not related to your bankruptcy when, for example, the school closed before you completed the program or if you have become disabled. There are also many options for reducing your monthly payments on student loans, even if you cannot discharge them.
- Money borrowed by fraud or false pretenses.
- Most taxes. The vast majority of tax debts cannot be discharged. However, this can be a complicated issue. If you have tax debts you will need to discuss them with your lawyer.

- Most criminal fines, penalties and restitution orders. This exception includes even minor fines like traffic tickets.
- Drunk driving injury claims.

If you feel that you are in a situation where bankruptcy seems to be your only option, we suggest you contact an attorney.

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NOTE: *If you determine that bankruptcy is your best option, you will be required to obtain budget counseling from a U.S. Bankruptcy Trustee approved agency within 6 months prior to filing, and complete an approved personal financial management education course after filing and prior to your debts being discharged. DMCC is an approved provider of both the pre-filing counseling and pre-discharge education course in most States. If you would like to speak with a certified credit counselor to discuss your debt relief options and obtain the required bankruptcy counseling or education, you may request help at the DMCC website www.dmcccorp.org or call toll-free (866)618-3328.*