

INFO ON SETTLEMENT AGENCIES

Settlement Agencies are companies who promise to negotiate settlements with creditors on your behalf. You must make a payment to them each month. You make no payments to your creditors while they accumulate the money that you send. Eventually, they accept settlement offers from your creditors. The problem is that you could have arranged the same settlement with the creditors. The settlement agencies usually charge a large percentage as a fee. They have no agreement with the creditors. The creditors may go ahead and sue you, garnish your pay or place liens on your property.

THE AFTERMATH

In conclusion, you can do it yourself and should proceed with great caution. Contact a lawyer for further assistance should you have additional questions. It is very helpful to be familiar with the Fair Debt Collection Practice ACT (FDCPA). Always keep good records and ask for a copy of all repayment terms.



Financial Literacy for the consumer provided by:

CACC is a licensed not-for-profit credit-counseling



237 First Avenue Suite 305 New York, NY 10003 212.260.2776

www.creditadvocates.org

*Providing realistic solutions for solving credit
and debt problems since 1996.*



Debt
Settlements:
Good Idea
or
Bad Idea?



**The FACTS about
debt settlement.**

Settlements are a way to eliminate a debt by paying less than the full amount owed. You may be able to pay the debt off for a fraction of what you owe and stop the creditors from taking further action to collect the debt. This may seem like a good alternative when you can't afford to pay the debt, but you should look at the pros and cons before making a decision.

CHECK THE COMPANY

Usually, a settlement is not the best way to satisfy your financial obligations. Before you enter into any agreement to settle, you should get information from a reputable credit counseling agency or the Federal Trade Commission. Check out any company that you plan to use with the Better Business Bureau. Always read any contract or settlement offer carefully. You may want to consult an attorney before agreeing to a long-term contract. You may contact **CACC** for more information on settlements at **1-212-260-2776**.

FEES

Creditors will usually only settle with debtors who are several months behind or in collection. By the time the settlement is offered, there will be substantial damage to your credit. The creditor may refuse to settle (especially if they feel that they can get the money in some other way) or by the time they offer the settlement, they have added on so many fees and so much interest that the debt is much more than the original amount.

DAMAGE TO YOUR CREDIT

A settlement may be reported to the credit bureaus negatively. It will be clear to anyone looking at your credit report that you did not pay the debt in accordance with the agreed terms. A settlement can be damaging to your credit report and may lower your credit score. It may make it difficult or impossible to get credit for several years. If you can get credit, you will probably pay a higher interest rate.

TAXES

The amount that you do not pay back will be considered taxable income, if it exceeds \$600. You will receive a 1099 from the creditor and you may have to pay taxes on that amount. If the amount of debt that you are forgiven is substantial, you could be facing thousands of dollars in additional taxes.

PAYMENT

Settlement offers usually require one lump sum payment. If you are able to make that payment, you might be better off making an agreement to pay the entire debt over a period of time and avoid the negative consequences.



OTHER CREDITORS

Settling with one of many creditors to get them off your back doesn't make sense if you have no plan to deal with the other creditors. You may end up in bankruptcy and the money that you used to settle could have been used to pay expenses for the bankruptcy or debts that could not be discharged.

DECIDED TO SETTLE?

Many consumers make verbal agreements to settle their debt with a collector who calls on the phone. They make the payment required and continue to get billed for the rest of the debt and ever mounting fees and interest charges.

If you do decide to settle a debt, you should always get the offer in writing including the amount to be paid to settle the debt in full, the schedule for any payments that must be made and the time limit during which the offer is good. You should also get in writing how the settlement will be reported. The best way settlements can be reported to credit reporting agencies is "**Paid in Full**".

Collectors may also ask for a "**good faith**" payment before they will send something in writing. This is not a good idea. First, if you don't get the written agreement you will have made a payment that you would not otherwise have made. Second, making the payment may affect the amount of time that the negative item will stay on the report and may extend the time limit that the collector has to collect the debt.