

## Bankruptcy

Bankruptcy should be viewed as the last alternative to managing an overburdened debt load, although for some it may be the only alternative. Bankruptcy is a legal process whereby an individual's outstanding debt is either reduced or eliminated under protection and supervision of the court. If there are payments to be made to creditors, schedule is drawn up under court supervision.

## Making Informed Choices

Regardless of the choice you make to eliminate your excessive debts, it is very helpful to have accurate information to make the right choice. Always speak to a qualified professional to receive correct information on the action you intend to take. In some cases speaking to a lawyer may be beneficial. If you have general concerns about what your options are a certified credit counselor can be an excellent resource. Make sure to choose a counseling agency that is licensed, accredited and non-profit. Additionally, make sure the counselors giving you advice are certified as well. Once you receive the accurate information and choices on your situation you can make an informed decision. In many cases deciding on a course of action based on accurate information can be a very liberating experience!



# 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](http://www.creditadvocates.org)

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



237 First Avenue Suite 305 New York, NY 10003 212.260.2776

[www.creditadvocates.org](http://www.creditadvocates.org)



# 6 Ways to Eliminate Excessive Debt

Options for managing excessive debt include self help, debt management plans, debt consolidation, debt settlement, offer in compromise, and bankruptcy.

**Self Help**

Self Help is when you attempt to repay creditors by managing your cash flow. Self help is useful only if you have money available in your budget to make credit card payments and are not being sued by your creditors. You would want to work out a written plan for repaying creditors and setting goals for incurring no new debt.



**Debt Management Plans**

Under a debt management plan (DMP), a third party organization negotiates with your creditors on your behalf to set up a plan for paying off the debt. Payments are made to the agency, and that firm would then pay the creditors. If a debt management plan seems to be appropriate, advise the client to work only with a properly licensed DMP provider in the your state. You can refer to the Federal Trade Commission website at [www.ftc.gov](http://www.ftc.gov).



**Debt Consolidation**

Debt consolidation should only be considered for those who can consolidate debt with lower rate debt and NOT take on any new debt. If you consolidate unsecured debt with secured debt, such as a home equity loan, be cautioned that your home will be at risk if you fail to make payments.



**Debt Settlement**

Debt settlement is a process in which a debt settlement company or a lawyer negotiates with your creditors in the hopes that the creditors will accept reduced payment in lieu of full payment. Debt settlement will advise you to save a stash of money to pay off your debt. An important aspect to remember is that any amount of debt forgiven is considered taxable income. Often times you may be able to settle an outstanding debt yourself. Our recommendation would be settling an account on your own or with a lawyer's assistance if necessary. If you consider a debt settlement firm, check the firm thoroughly through the Better Business Bureau.



**Offer in Compromise**

Offer in Compromise is an agreement between a taxpayer and the IRS that serves to resolve the taxpayer's outstanding tax debt. The IRS has the authority to settle, or "compromise" federal tax liabilities by accepting less than full payment under certain circumstances. A tax debt can be legally compromised for one of the following reasons:

**Doubt as to Liability** – There is doubt that the assessed tax is correct.

**Doubt as to Collectability** – There is doubt that an individual would ever be able to pay the full amount of taxes owed.

**Effective Tax Administration**- The tax owed is undeniably correct, there is no doubt that the amount owed could be collected; but an exceptional circumstance exists that leads to the IRS to consider the taxpayer's OIC. To be eligible, the taxpayer must demonstrate that the payment of the tax would create an economic hardship, or would be unfair and inequitable.

