

Debt Relief

Resources

American Consumer Credit Counseling

www.consumercredit.com

Debt Consolidation Care

www.debtconsolidationcare.com

Federal Trade Commission

www.ftc.gov

U.S. Courts

www.uscourts.gov

Financial Stability

Knee Deep in Debt...

You may have worked with clients who feel weighed down by the vicious cycle of debt, where bills and expenses continue to pile up and getting out of debt seems almost impossible. Relief is available for consumers who are committed to setting goals and establishing a debt reduction plan that works for them.

Debt relief options vary depending on the type of debt. Secured debts, like mortgages and car loans, are linked to assets and can be foreclosed on or repossessed if payments are not made. Other debts, like credit cards, medical bills, and student loans, are unsecured debts that are not linked to assets.

Self-Help Strategies

There are a few initial strategies clients can use to reduce their debts:

- Create a spending plan
- Reduce expenses and devote more money toward debt repayment
- Contact creditors or lenders and inform them of the situation, work with them to develop a repayment plan



If your client is feeling trapped by debt, advise him or her not to ignore the problem but to seek help. Credit counselors can help clients explore available options and resources.

Credit Counseling

If a client has difficulty tackling debts on their own, they may seek assistance from a certified credit counselor. Make sure the counseling agency is reputable, low-cost, nonprofit, and registered under the National Foundation for Credit Counseling (NFCC). It may be wise to consult with credit counselors before attempting other debt relief options; they can review clients' finances and determine what services may be appropriate for their situation.

Debt Management Plan (DMP)

A credit counselor may recommend that clients enroll in a Debt Management Plan (DMP). Debt management, offered by consumer credit counseling agencies, is a 3-5 year process of reducing debts where clients make timely, regular payments to a credit counseling agency that uses the deposits to pay creditors.

A credit counselor may be able to work with creditors to reduce some finance charges or late fees owed, but clients may still be responsible for the full debt plus fees. Under the Maryland Debt Management Services Act, DMP fees cannot be more than \$50 for initial setup, and should not be more than about \$25/month.

Financial Stability

Debt Consolidation

Another debt relief option is debt consolidation, which reduces debts into a single monthly payment. Debt consolidation can be costly; interest charges, fees, and collateral may be expected. If clients do not pay they may lose their collateral, so find out the details before investing in a debt consolidation plan.



Clients should be cautious of debt settlement schemes that may not alleviate debt issues.

Debt Settlement

Clients probably saw the ads for debt settlement companies, promising to reduce debts 50-80% so that consumers only owe a small portion of their debt. These programs are risky, and there is no guarantee that their services are legitimate. Caution clients to consider other debt relief options before turning to debt settlement.

Debt settlement companies claim that they will negotiate down the amount of debt a client owes, so that they only have to pay off part of their debt. In return clients are often advised to stop paying creditors and to pay the debt settlement company directly. The debt settlement program tells clients they will use the money to pay creditors, but subtract monthly fees without providing any services.

Remember, creditors are not obligated to negotiate debts at all. Also, if clients stop paying creditors they may be contacted by bill collectors, and their credit reports and scores may suffer.

Caution clients that if they hear something that sounds too good to be true, it probably is. Advise clients to check the company profile, accreditation, fees & cost, and client testimonials before choosing a debt settlement program. These services may be prohibited in the future.

Some debt relief strategies can do more harm than good, so advise clients to research as many options as possible.

Bankruptcy

Clients with serious debt due to unemployment, medical bills, severely extended credit, or divorce, may have exhausted all of their options and feel hopeless. Under such circumstances, they may consider filing for bankruptcy.

Bankruptcy wipes out many, but not all, debts. As a public record, it remains on your credit score for 10 years making it difficult to qualify for home or car loans, and raising interest rates on credit card offers.

For immediate discharge of certain debts, low-income clients may consider filing Chapter 7 bankruptcy. This is a liquidation process requiring individuals to surrender non-exempt property, like their home, which is turned into cash to pay creditors.

For clients with steady income, and non-exempt property they would like to keep, Chapter 13 bankruptcy is another option. Under this option debts are not immediately discharged, but are discharged after repayment (typically 4-5 years).

Most states have exemptions to protect certain assets, so clients will not lose everything if they choose bankruptcy. It is possible to file for bankruptcy more than once in a lifetime, but it is unwise to have multiple filings.



Clients that have exhausted all other debt relief options can file for bankruptcy to free themselves from unsecured debts.