

Answers to
50
possible
questions



Debt Consolidation *Care*

Debt Settlement **FAQ**

50 Answers: Which you should know before opting for Debt settlement

Have you heard about debt settlement but there are lots of questions in your mind? Will getting the answers to your queries help you choose whether or not debt settlement is right debt relief option for you? If yes, then here's the solution. Get the answers to 50 most important questions that may come to your mind when you think of debt settlement.

What you get to know:

1. What is it?
2. When to go for and how long it takes
3. Debts which can be settled
4. Are there any eligibility criteria?
5. How much debt can be reduced/eliminated
6. How to get the settlement agreement
7. Ways to pay for settlement
8. How a debt settlement plan works
9. Tips to choose a good company
10. Can you settle debts on your own?
11. Reaction of creditors and collection agencies
12. Advantages and Disadvantages
13. Implications on your life
14. Consequences to be ready for
15. How does it differ from other possible options?



What is it?

1. What is debt settlement?

“ It is an option by which you can reduce your debt amount. Thus, debt settlement (debt negotiation or debt arbitration) allows you to pay much less than what you owe and get rid of the debts. ”

In this process, you or a settlement company negotiates with your creditors for a reduced payoff amount, which you pay and get rid of your debts.

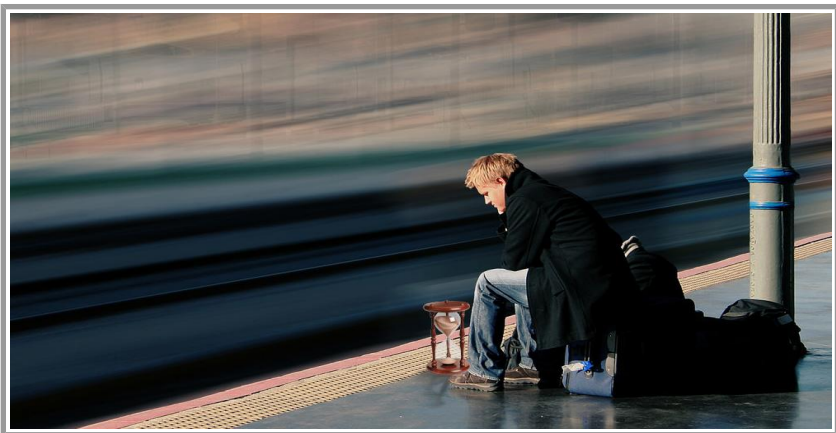


2. Is debt settlement a good option?

Debt settlement is a good option in the sense that it reduces your total debt amount. However, it can drop down your credit score. The effect will be maximum if your credit score is good and minimum if your score is poor. However, it is a relatively better option when you cannot make the full payment on your outstanding balances.



When to go for and how long it takes



3. When can I go for debt settlement?

You can go for settlement under the conditions given below:

- a.** You are 3 months (or more) behind on payments
- b.** Creditors have threatened to file a lawsuit
- c.** Your account is sent to collection
- d.** You cannot repay the outstanding balance in full

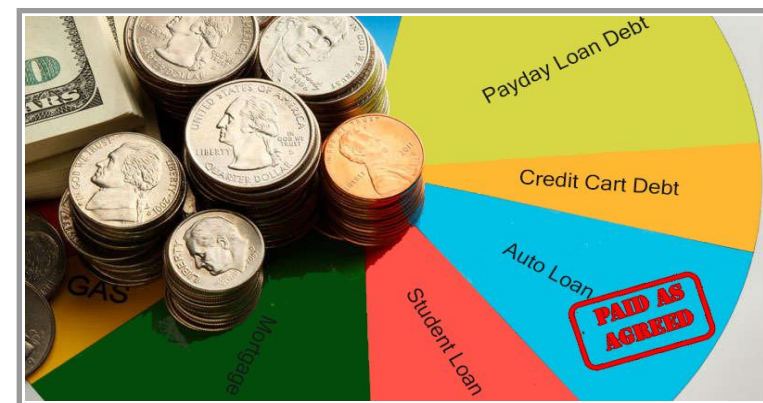
4. How long does it take to settle your debts?

It depends on the case. Sometimes, it takes only 30 days to settle debts. Other times, it may take several months (4 months - 6 months) to settle credit card debts. It depends on how fast you can accumulate the funds to pay off the agreed upon reduced payoff.

Debts which can be settled

5. What kind of debts can you pay off through debt settlement?

You can mainly pay off unsecured debts such as medical bills, payday loans, credit cards, department store cards, etc. through debt settlement. You cannot repay secured debts such as mortgage loans through debt settlement. Usually, you can't settle your student loans.



6. Can you pay off secured loans through debt settlement?

Usually, you can't pay off secured loans through debt settlement. You can mainly pay off unsecured debts such as medical bills, payday loans, credit cards, department store cards, etc. with the help of debt settlement.



Are there any eligibility criteria?

7. Can you qualify for debt settlement when you've variable income?

Yes. You can. If you're taking help from a settlement company, then they usually assess your financial condition and decide upon a monthly payment which you need to make to the company. And, if you're negotiating with your creditors yourself, then calculate how long it'll take to accumulate the amount and negotiate accordingly.

8. Is debt settlement a good idea when you are current on your payments?



No, it is not a good idea. Plus, it would be tough to settle your debts when you are current on your payments. **Most creditors won't agree to settle unless you're delinquent on your accounts.** It means you have to stop making payments to settle your debts. But once you stop making payments, your credit score might reduce, & the creditors and/or collection agencies will come after you for payment.

9. Is debt settlement possible before getting behind on payments?

Usually, creditors won't agree to settle accounts on which you're current. Creditors would want to see that you're facing financial hardship.

10. What if you cannot afford settlement?

In that case, you can try debt consolidation, debt management or bankruptcy. If your debt amount is too high, then you can consider bankruptcy. But, if you're struggling to repay your multiple credit cards, then consolidation is a better option.



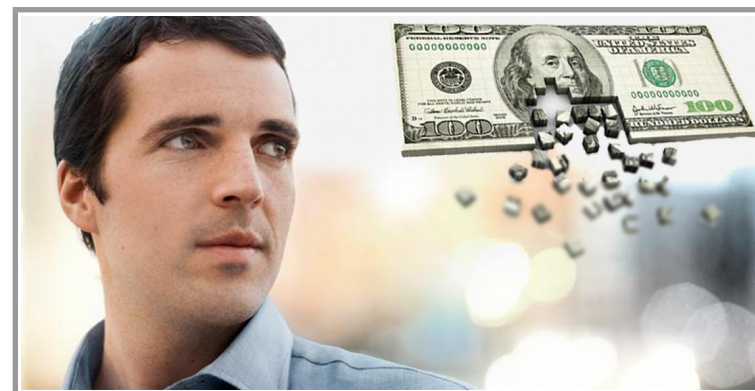
How much debt can be reduced/eliminated

11. How much reduction can I expect to get on my debt?

This amount or percentage is not fixed. It depends on some factors like the amount of debt you owe, the flexibility of the creditors and the delinquency of the accounts.

12. Will all of my debt be eliminated when I finish the debt settlement program?

All the unsecured debts included in the debt settlement program can be removed if you make all your payments as per the plan and follow the procedure. However, you will still be responsible for your secured debts like mortgages or car loans.



How to get the settlement agreement

13. Who writes the settlement agreement?

Collection agencies usually have standard letters drafted. You can't ask them to change anything. In some cases, creditors send the letter to the collection agencies. In other cases, collection agencies have a letter drafted for them by creditors.



14. Credit card settlement - What should you get in writing?

Collection agencies have a standard debt settlement offer letter authorized by the creditors. They won't agree to change everything. **A debt settlement letter typically consists the following:**

- The creditor and/or debt collector's name
- The date the letter was drafted
- Debtor's name
- Debtor's account number
- Outstanding balance owed on the account (This is sometimes missing and is not a deal breaker)
- The amount that is being agreed to as settlement and satisfaction of the debt (Less than the full amount owed)
- Terms and amounts of payments to be made (if you are settling the account over a period – instead of with one lump sum)
- Date your payments must be received by to have met the settlement agreement
- The settlement letter must reference that the account being satisfied in full i.e. “settled”, “settlement of this account”, “accepted as settlement in full”, “paid in full”

15. Should I contact the creditor or debt collection agency for final settlement letter?

You need to contact the collection agency, with whom you made the final deal, to get the settlement letter.



Ways to pay for settlement

16. What method of payment should I use to pay my settlement?

You can pay your settlement with a money order. But it would be best to send the money order via certified mail or FedEx. You can also try electronic fund or cashier's check.

17. What happens to the interest and/or late fees during the settlement process? Do they continue to accrue?

Yes, the creditors are not legally obliged to freeze the interest and late fees just because you have taken up a settlement plan. However, usually, the negotiators can talk with the creditors and get these charges waived off or reduced.

18. Do you always have to make lump sum payment for debt settlement?

Not necessarily. Some creditors may allow you 6 payments spread over 6 months. But, you're more likely to get a better offer if you can pay off the agreed amount in one or two installments.

19. What happens when you default on your settlement payments?

The debt settlement agreement would be revoked. You'll owe the full balance again. You will have to restart the negotiation process.

20. Should you have a separate account just for paying settlements?

Yes, you should have a separate account for settling your debts. Save money for settling your debts in this account. Send a money order or a cashier's check once a settlement agreement has been finalized. Make sure you don't reveal your account number to the creditor or the debt collection agency. They might withdraw funds from your account intentionally or accidentally.



How a debt settlement plan works

21. How does debt settlement work?

The debt settlement company negotiates with the creditors to settle your account with a fraction of the amount of what is owed. Creditors accept a reduced payment and forgive the debt rather than risking it to bankruptcy or insolvency. You can also directly contact the creditors to settle your credit card debts, yourself.

However, to do that, you need to have proper negotiation skills.

[Know more - 13 Tips on how to negotiate debts successfully.](#)

22. How does the settlement payment plan work?

In a debt settlement program, the settlement company negotiates with your creditors so that they agree on a reduced payoff amount. They also decide on a monthly amount based on your financial condition. **You need to send the required payments to the trust account opened by the settlement company.** After a creditor accepts the proposal, money is sent from the trust account to pay off the debt.

23. Do you have to pay an upfront fee for enrolling in debt settlement program?

No. You don't have to pay an advance or upfront fee for enrolling in a debt settlement program. You have to pay a fee only after your accounts have been negotiated.

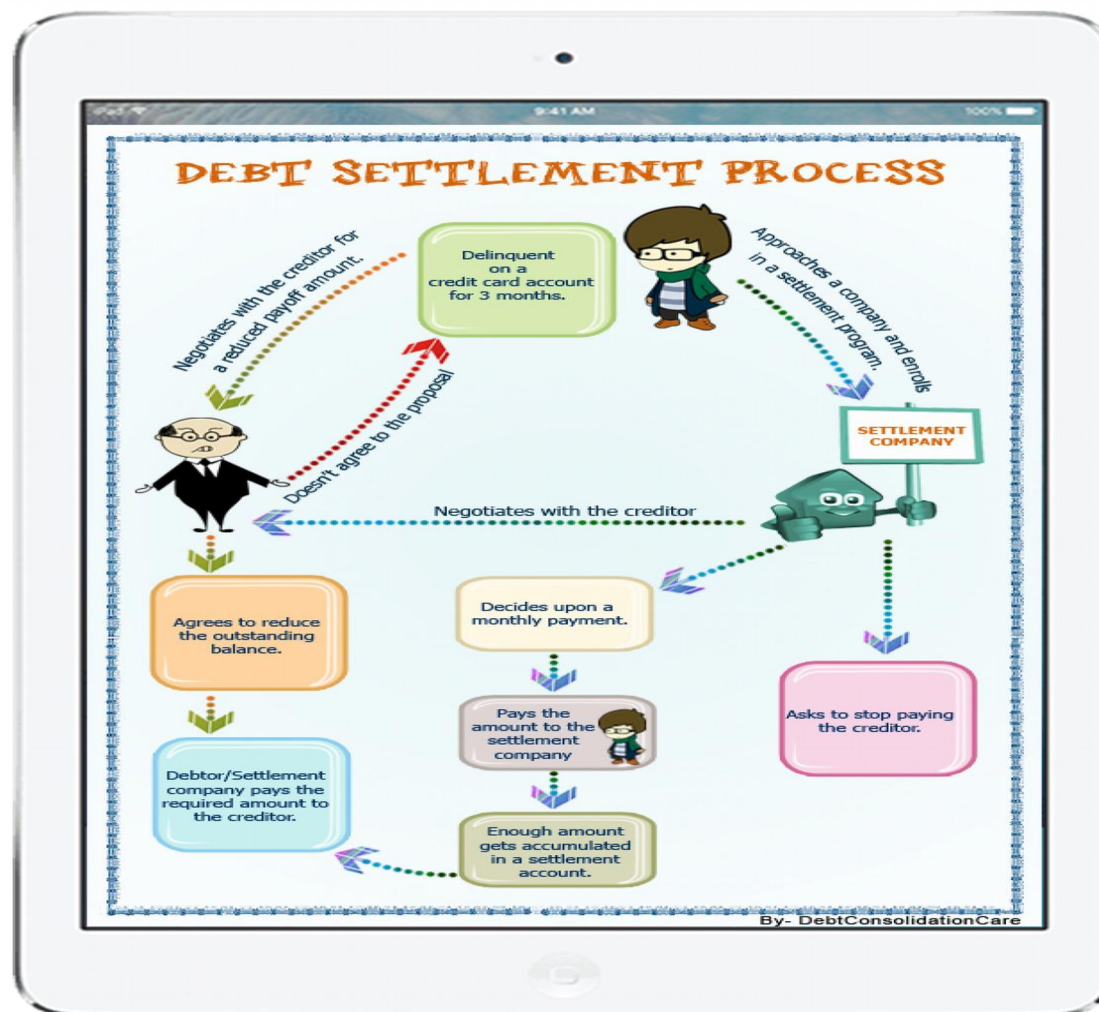
As per the law, the settlement companies can charge a fee only after they settle at least one account.

This rule applies to for profit companies as well as telephone sales



24. How do you know my account is paid off after settlement?

You can call your creditor and ask for a “Paid in Full” letter in writing. Usually, the creditors and/or collection agencies agree to send a “Paid as Agreed” or “Paid as Settled” letter. You can also check your credit report to know if your account status has been updated as per the agreement.



Tips to choose a good company

25. How do I choose the right debt settlement firm?

Check if the settlement firm is accredited by the BBB and has a decent rating. Verify if it is a member of the **Trade Association of Settlement Companies (TASC)**. Also, find out if the debt consultants are certified by the IAPDA.



26. How can you find a good debt settlement firm?

You can find a good or a reliable debt settlement firm in the following ways:

- (i) Ask for referrals from friends
- (ii) Check its affiliations and accreditations
- (iii) Read the online reviews
- (iv) Compare the fees with other firms
- (v) Have a look at the success rate

27. Can you ask a settlement company to show its license?

Debt settlement companies are not legally obliged to give its licensing information to dormant clients. However, you can check if it is accredited by The Association of Settlement Companies (TASC) and certified by the International Association of Professional Debt Arbitrators (IAPDA). Don't forget to check its BBB rating too.

28. How can you file a complaint against a debt settlement company?

You can register a complaint with the Federal Trade Commission, State Attorney General, TASC, and FBI.

Can you settle debts on your own?

29. Can I settle my debts on my own?

Debt settlement does not use a fixed procedure, so anyone having knowledge about finance and interest rates can try to settle the debt. Having control over finances is important. It is difficult for people who lack negotiation skills because it requires maintaining direct contacts with the creditors. You should be ready to handle harassment calls. It might lead to a lot of pressure. Hence, it's better to go to a professional debt settlement firm with a good reputation.

By settling debts on your own, you can save the money, which otherwise you'd have to pay to the settlement company. However, a settlement firm can work out a better deal for you.

**Settle Debt
on your own**



30. Can you be too optimistic when talking on the phone?

It is a good thing to be optimistic over the phone. If a creditor doesn't accept your settlement offer, then you've 2 options:

(i) Wait till the creditor accepts the settlement offer **(ii)** Make a fresh settlement offer after sometime

31. What can you do when settlement offer to collection agency gets rejected?

You have to try again. Usually, collection agencies don't negotiate settlement via mail since this is not cost-effective. You have to call and make a new offer. Once the creditor accepts it, he will mail you a letter. Don't start making the agreed upon payment based on the verbal agreement. Always have a written contract before you make any payments towards settling the debts.

32. What settlement percentage should I try for?

It depends on the creditor. Some creditors agree to settle debts at a lower percentage whereas others may not agree to reduce the amount drastically. It also depends on your negotiation skills how much reduced payoff amount you can make your creditors agree for.



Reaction of creditors and collection agencies

33. Will creditors and collection agencies continue to contact me during the settlement process?

Unfortunately, there're no rights that can save you from harassment calls from the creditors. But, a debt collector can't call you at inconvenient times &/or places.

As per FDCPA (Fair Debt Collection Practices Act), the debt collectors cannot call you before 8 am and after 9 pm if you haven't agreed to it. They also can't contact you at work if they've been informed that you can't take such calls at your workplace.

However, in 1-2 months after the debt settlement agency starts negotiating with your creditors, they might stop calling you.



34. Why do creditors agree to settle debts?

Creditors find that it's profitable to settle debts rather than selling them off to collection agencies at a comparatively lower price.

35. Do creditors verify your income when negotiating a settlement?

Sometimes, creditors ask about income details before reaching a settlement agreement. But it's best not to disclose income information or budget since that may hurt the settlement process.

36. How does a collector calculate for settlement?

Debt collectors first calculate the overall amount collected from debtors for a specific creditor. If the total amount collected is high, then they may offer a lower settlement to you. If several debtors agree to pay off the debt in full, then collectors can meet their clients (creditors) goal of x% collected on accounts.



Advantages and Disadvantages

37. What are the advantages of debt settlement?

There are lot of advantages of debt settlement:

a. Debt settlement requires relatively less time as compared to other debt relief options. You can regain your financial independence within 12-36 months. It might help you to think about a fresh start early.

b. It gives you flexibility in payments. If you do not have a fixed monthly income, then you have the liberty to modify your monthly payments.

c. You can avoid creditor harassment when you enroll in a settlement program. You may no longer have to deal with creditors directly.

d. You do not have to bother to pay multiple creditors simultaneously and about missing payments. Under the settlement program, you need to make one monthly payment to the trust account.



38. What are the disadvantages of debt settlement?

Debt settlement is an alternative to bankruptcy for those who need to get out of debt fast and cannot pay the outstanding balance in full. Hence, it's obvious that debt settlement has some setbacks. Your credit score can suffer. There's always a possibility of lawsuit whenever debts lay unpaid.



Implications on your life

39. Can my wages be garnished?

When you stop making any payment on your unsecured debts, the creditors can sue you in court and win a judgment against you to garnish a portion of your disposable income. In this circumstance, settling a debt may become difficult once a creditor is granted a wage garnishment.

However, the creditors usually prefer to receive a lump sum payment for a relatively smaller amount instead of getting full amount paid in periodic installments over a period.

So, to avoid wage garnishment, you can try to settle the debts with your creditors.



40. Will debt settlement affect my credit score?

Being in debt has already affected your credit score negatively. Settled accounts or zero debts can be considered positive as compared to unresolved debts. However, your credit score may get reduced a bit since you're paying less than what you owe to your creditors.

41. Is there a possibility of getting sued during the process?

No process can prevent you from getting sued while you are trying to settle your finances, although it's not a favorable option for the creditors. **Most likely it's not in the best interest of most creditors.** The creditors have an understanding that you can't afford to pay any judgments they obtain against you. Hence, they would rather settle your accounts than taking you to court.



42. What are the tax implications of debt settlement?

If you borrow \$20,000 on your credit cards and settle it for \$15,000, the remaining \$5,000 is taxable, as the **IRS considers it as your income**, since it is not repaid. However, it can be waived off if you can prove that you were completely insolvent during the time when debt settlement took place. Once you are out of all the debt problems, you can start fresh with your financial life.

43. Can I still use my credit cards during the debt settlement process?

If you wish to settle your debt, you can no longer use your credit cards. Any cards included in the debt settlement program will be canceled. It is also advisable to stop using the cards that are not included in the program.

Your primary concern is to get out of debt; so, it's advisable to stop applying for new cards.
You surely do not want to compound your problem by adding to it.



Consequences to be ready for

44. How debt settlement affects a loan modification?

Debt settlement helps to reduce your debt-to-income ratio, which in turn helps with loan modification process. It's true that debt settlement might lower your credit score. But, remember, you don't need a stellar credit to pay off your debts or modify the terms of your loan. Usually, you need good credit at the time of applying for a new loan.



45. Can you raise your credit after debt settlement?

Of course, you can. There are several steps you can take to improve your credit score after debt settlement. For instance, **you can start building positive payment history to repair your credit gradually.**

46. How long should I wait to apply for an auto loan after debt settlement?

There is no specific time limit. The sooner you'll be able to attain a good credit score, the better for you. **The best way to improve your credit score is to pay all your bills on time.** Dispute all the incorrect items on your credit reports. If required, personally contact the lender and ask what credit score is required to qualify for the loan.

47. How long does a settlement take to show on credit report?

It completely depends on the creditor. He may or may not report the settled account on credit reports. If a creditor doesn't report to the credit bureaus, then you should request him to report on your credit reports. Usually, a negative item (such as a delinquent account) stays on your credit report for about 7 years.



How does it differ from other possible options?



48. What is the difference between debt settlement and debt consolidation?

Under debt settlement, the company will negotiate with your creditors to lower the amount you owe. You can make monthly payments to the debt settlement company, and it will settle your debt offering one lump sum payment to the creditor. It is a relatively faster process as compared to debt consolidation.

Comparison Between Debt Consolidation and Settlement			
#	Questions	Debt Consolidation	Debt Settlement
1	Will your outstanding balances get reduced?	X	✓
2	Can the interest rates on your debts get reduced?	✓	X
3	Does it affect your credit report negatively?	X	✓
4	Do you need to make lump sum payment(s)?	X	✓
5	Can you get help if you're delinquent on loans?	?*	✓

* (Though it varies from one creditor to another, yet they usually don't agree to reduce interest rates when you're already delinquent on loans.)

49. What is the difference between credit counseling and debt settlement?

Credit counseling is a process wherein a certified credit counselor reviews your financial situation and advice on how to manage your finances in a better way. This process includes complete budget analysis, wherein all income and expenses are determined. Everything that has led you to a financial trouble is examined. The credit counselor will help you to determine the best repayment option. With the

tips and suggestions, you can repay your debts in full.

Comparison Between Credit Counseling and Debt Settlement

#	Questions	Debt Consolidation	Debt Settlement
1	Do you need to pay any fees?	X	✓*
2	Can you get a reduced payoff amount?	X	✓
3	Is there any role of trust account?	X	✓

* (If you opt for professional help)

50. Is debt settlement a better choice than bankruptcy?

Bankruptcy should be considered as the last resort undertaking many things in mind. Your bankruptcy will be shown in your credit report for up to 10 years. It is also a matter of public record. Any work or job that requires your background check might get affected. Whereas, if you opt for debt settlement, you can get rid of your debts fast without much legal hassle, and once you repay your debts, you can start managing your finances in a better way.

Comparison Between Debt Relief Options

#	Questions	Debt Consolidation	Debt Settlement
1	Does principal amount get reduced?	✓	X
2	Does interest rates get reduced?	X	X
3	Can you discharge secured debts?	X	✓
4	Can you do it yourself?	✓	X
5	Is it a legal solution?	X	✓





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www.debtconsolidationcare.com/debt-settlement.html

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