

FACTS YOU NEED TO KNOW ABOUT DEBT REPAYMENT

The following ALERT has been published by a non-profit Christian Ministry that has an A+ rating with the Better Business Bureau and a track record of helping tens of thousands of families with credit problems across the country since 1987. If you have questions please feel free to make a no obligation contact with MAKE A WAY MINISTRIES: Call toll free 1-800-357-4223 or send an email to cfc@creditcounseling.net.

If you go out on the Internet looking for DEBT REPAYMENT information, you need to know that there are only two basic kinds of programs the various agencies are trying to sell you. There's a lot of confusion about how they work because many of the agencies purposely misrepresent the service they're offering, purposely omit telling consumers about certain important aspects/consequences of their programs and purposely perform *predatory* counseling. Both of the programs are often called DEBT CONSOLIDATION on the Internet creating a lot of confusion.

Make A Way Ministries offers both types of debt repayment programs and their CORRECT names are DEBT MANAGEMENT PROGRAMS and DEBT SETTLEMENT PROGRAMS:

1) A Debt Management Program (DMP) is a creditor-sponsored program that originated in the early 1970's. It is also called correctly DEBT CONSOLIDATION or Credit Counseling. DMP is designed for debtors who're having trouble making on-time payments to their unsecured creditors but BEFORE the accounts have gone into COLLECTION status which is usually after about 120+ days past due. Almost all of the agencies offering this service are non-profit organizations that are paid by the creditors. They probably also charge additional fees of varying amounts so you should shop around to find the most economical arrangements.

Under *Debt Management*, the Agency makes a repayment arrangement with each of your creditors and most creditors agree to reduce their interest rates for the duration of the program which on average is about 5 years if you're only able to make the minimum hardship payment. The concessions obtained from creditors by any particular agency are essentially the SAME as any other agency can obtain because creditors are not allowed to discriminate in their concession-granting among the various agencies.

In addition to shopping the fees charged by the agencies, you should also ask about how the agency handles your first month's payment. Will it be used to pay your creditors or will it be paid to the agency as an additional fee? The creditors don't like for consumers to skip that first month's payment by allowing an agency to take it as an abusive additional fee that's not necessary and is not charged by the vast majority of non-profit agencies.

Probably more than half of your creditors will report to the credit bureaus that you're involved in a counseling program which will appear on your credit reports. But this is better than having continuous and unresolved late payments on your credit reports. Also, if you remain on a current status in your Debt Consolidation Program your creditors will NOT bring a legal action against you.

2) A Debt Settlement Program is the second main approach for debt repayment and it's for consumers whose accounts have already reached COLLECTION OR CHARGE OFF status. The

attraction is that most Creditors are open to the settlement of such debts often for less than half the outstanding balances. But you need to know that creditors will NOT make meaningful *Debt Settlement* discounts before your account has deteriorated to a COLLECTION status which will ALREADY be reflected in your credit bureau reports.

Debt Settlement can be a good debt repayment approach for consumers whose accounts are already in COLLECTION. The first problem you'll encounter on the Internet though is that many of the agencies specializing in this service are erroneously and unethically calling it *Debt Consolidation*. Debt Settlement is NOT a Debt Consolidation Program in the traditional language of the credit counseling industry and the informed consumer needs to clarify this at the outset of their research. Many consumers have thought they were enrolling in a creditor-sponsored DMP only to find out later they were actually involved in a *Debt Settlement Program* and that as a result their credit ratings were destroyed.

If you're still sending on-time monthly payments to your creditors, the Debt Settlement agency will have to tell you to stop paying the creditors and to send those monthly payments to their agency. The objective is to drive your accounts into COLLECTION so you can qualify for the discounts. But those agencies often fail to clearly inform consumers that their credit ratings will be destroyed while they're not sending their payment to their creditors. And they also often fail to advise consumers that those creditors may bring law suits against them while they're waiting for those promised discounts. If your accounts are already in COLLECTION, then you have less to lose and a *Debt Settlement Program* might be a good strategy for you.

Another thing the *Debt Settlement* agencies may fail to fully inform you about is that the difference between your outstanding balance of record on one of your debts and the amount they settle it for will be construed by IRS as imputed income and is subject to taxation as ordinary income on your next tax return if the savings was greater than \$600.00. Most creditors will issue IRS Form 1099 for this purpose and you will be responsible to account for it on your tax return.

Another thing to pay close attention to is how much the agency is actually charging you for the Debt Settlement service. They may have a low "enrollment fee" but in addition they'll be applying most or all of your monthly payments during the first year to themselves as a RETAINER FOR EDUCATIONAL SERVICE. If you're not paying attention, you could wind up paying several thousand dollars for the program BEFORE the agency has ever done any work which technically is against the intent of federal legislation governing this sector of the credit counseling industry. For the time being these agencies have found a way around federal law by restructuring their Counseling Agreements so be on the lookout.

In sum, *Debt Settlements* can be a good repayment strategy for some folks but there's still a lot of abuse on the Internet. Many of the agencies that offer this service are large For-Profit Businesses that are NOT really all that interested in helping consumers but VERY interested in taking their money. You MUST be informed or you can easily be taken advantage of and we hope this article has helped you be more informed.