

Managing and Reducing Debt

In general, most people find themselves struggling with debt. Even if it is a little debt, it still must be properly managed. However, if you find yourself carrying too much debt, eliminating debt should be a top priority as it could jeopardize your financial future. There are many ways individuals can eliminate or reduce their debt. Although these options may not be ideal for some, the choices listed below could be considered.

Developing a Budget

The first step toward taking control of your financial situation is to do a realistic budget of how much money you take in and how much money you spend. See the following section: [Developing A Savings and Spending Plan](#) for information on developing a budget.

Contacting Your Creditors

If you're having trouble making ends meet, contact your creditors immediately. Tell them why it's difficult for you, and try to work out a modified payment plan that reduces your payments to a more manageable level. Don't wait until your accounts have been turned over to a debt collector.

Debt Relief Services

If you find yourself overwhelmed by your debt and are at the point where you are considering using a credit counselor, debt management or debt settlement company, you should know the following distinctions:

■ Credit Counseling

Credit counselors generally advise individuals on managing their money, offer solutions to current financial problems, and/or help develop a personalized plan to help prevent future financial difficulties. Credit counselors do not collect money from you or disburse funds on your behalf to your creditors. These counselors may not collect money upfront or before their service is rendered.

Most reputable credit counselors are non-profits and offer services through local offices, online, or over the phone. If possible, find an organization that offers in-person counseling. Many universities, military bases, financial institutions, housing authorities, and branches of the U.S. Cooperative Extension Service (Michigan State University Extension) operate non-profit credit counseling programs. Your financial institution, local consumer protection agency, and friends and family also may be good sources of information and referrals.

But be aware that "non-profit" status doesn't guarantee that services are free, affordable, or even legitimate. In fact, some credit counseling organizations charge high fees, which they may hide, or urge their clients to make "voluntary" contributions that can cause more debt.

■ Debt Management

These types of companies create debt management plans that are individually tailored based on what can be realistically afforded on a monthly basis. These services require the collection of money; you pay the debt management company and then the company pays the creditor on your behalf. Debt management plans help reduce outstanding, unsecured debts at a reduced level over a fixed period of time to help regain control of finances.

■ Debt Settlement

Debt settlement programs typically are offered by for-profit companies and negotiate with your creditors to allow you to pay a "settlement" to resolve your debt — a lump sum that is less than the full amount that you owe. To make that lump sum payment, the program asks that you set

aside a specific amount of money every month in savings. Debt settlement companies usually ask that you transfer this amount every month into an escrow-like account to accumulate enough savings to pay off any settlement that is eventually reached. Further, these programs often encourage or instruct their clients to stop making any monthly payments to their creditors.

Debt Settlement Has Risks

Although a debt settlement company may be able to settle one or more of your debts, there are risks associated with these programs to consider before enrolling:

1. These programs often require that you deposit money in a special savings account for 36 months or more before all your debts will be settled. Many people have trouble making these payments long enough to settle all (or even some) of their debts, and end up dropping out the programs as a result. Before you sign up for a debt settlement program, review your budget carefully to make sure you are financially capable of setting aside the required monthly amounts for the full length of the program.
2. Your creditors have no obligation to agree to negotiate a settlement of the amount you owe. So there is a possibility that your debt settlement company will not be able to settle some of your debts — even if you set aside the monthly amounts required by the program. Also, debt settlement companies often try to negotiate smaller debts first, leaving interest and fees on large debts to continue to mount.
3. Because debt settlement programs often ask or encourage you to stop sending payments directly to your creditors, they may have a negative impact on your credit report and other serious consequences. For example, your debts may continue to accrue late fees and penalties that can put you further in the hole. You also may get calls from your creditors or debt collectors requesting repayment. You could even be sued for repayment. In some instances, when creditors win a lawsuit, they have the right to garnish your wages or put a lien on your home.

Whether you are looking for a credit counseling, debt management, or debt settlement company, understand there are differences between them. A credit counselor is NOT required to be licensed and they CANNOT collect money to pay a consumer's debt. Debt management companies are required to be **licensed** and both the company and the consumer can make payments to the creditors. To find a licensed debt management company in your area, visit the Department of Insurance and Financial Services (DIFS) website (www.michigan.gov/difs) to search the company database. Debt settlement companies are required to be licensed to work **in your state**. Consumers are required to make deposits in a special savings account whereby the company will then make payments to the creditors. Before doing business with any debt settlement companies, contact the Michigan Attorney General's Office, and they can tell you if any consumer complaints are on file about the firm you're considering doing business with. Ask the Attorney General's Office if the company is required to be licensed to work in your state and, if so, whether it is.

Complaints

If you have a complaint about a credit counseling agency or a debt settlement company, contact the Michigan Attorney General's Consumer Protection Division at 877-765-8388 or complete an online complaint form at www.michigan.gov/ag. If you have a complaint about a debt management company, contact the Department of Insurance and Financial Services (DIFS) at 877-999-6442 or obtain an online complaint form at www.michigan.gov/difs.

Use Caution When Shopping for Debt Relief Services

Avoid any debt relief organization that:

- Charges any fees before it settles your debts or enters you into a debt management plan
- Pressures you to make “voluntary contributions,” which is really another name for fees
- Touts a “new government program” to bail out personal credit card debt
- Guarantees it can make your unsecured debt go away
- Tells you to stop communicating with your creditors, but doesn’t explain the serious consequences
- Tells you it can stop all debt collection calls and lawsuits
- Guarantees that your unsecured debts can be paid off for pennies on the dollar
- Won’t send you free information about the services it provides without requiring you to provide personal financial information, like your credit card account numbers, and balances
- Tries to enroll you in a debt relief program without reviewing your financial situation with you
- Offers to enroll you in a debt management plan without teaching you budgeting and money management skills
- Demands that you make payments into a debt management plan before your creditors have accepted you into the program

Debt Consolidation

You may be able to lower your cost of credit by consolidating your debt through a second mortgage or a home equity line of credit. But these loans require you to put up your home as collateral. If you can’t make the payments — or if your payments are late — you could lose your home. What’s more, consolidation loans have costs. In addition to interest, you may have to pay “points,” with one point equal to one percent of the amount you borrow. Still, these loans may provide certain tax advantages that are not available with other kinds of credit.

Bankruptcy

Personal bankruptcy also may be an option, although its consequences are long-lasting and far-reaching. People who follow the bankruptcy rules receive a discharge — a court order that says they don’t have to repay certain debts. However, bankruptcy information (both the date of the filing and the later date of discharge) stay on a credit report for 10 years and can make it difficult to get credit, buy a home, get life insurance, or sometimes get a job. Still, bankruptcy is a legal procedure that offers a fresh start for people who have gotten into financial difficulty and can’t satisfy their debts. For more information, see “Bankruptcy” in *Financial Crisis Management* in the toolkit.

Credit Repair

Be suspicious of claims from so-called credit repair companies. Many companies appeal to people with poor credit histories, promising to clean up their credit reports for a fee. But anything these companies can do for you for a fee, you can do yourself — for free! You have the right to correct inaccurate information in your file, but no one — regardless of their claims — can remove accurate negative information from your credit report. Only time and a conscientious effort to repay your debts will improve your credit report. Federal — and some state — laws ban these companies from charging you a fee until the services are fully performed.

The Credit Repair Organization Act (a Federal Law) regulates the credit repair companies nationwide. By law, credit repair companies cannot:

- Make false claims about their services
- Charge you until they have completed the promised services
- Perform any services until they have your signature on a written contract and have completed a three day waiting period. During this time, you can cancel the contract without paying any fees.

Note: Accurate, negative information will remain on your credit report for seven (7) years; and bankruptcy information remains for ten (10) years.

Complaints

If you have a consumer complaint about a credit repair company, contact the Federal Trade Commission (FTC) at 877-382-4357 and the Consumer Financial Protection Bureau (CFPB) at 855-411-2372.

Dealing with Debt Collectors

The Fair Debt Collection Practices Act (a Federal Law) dictates how and when a debt collector may contact you:

- Debt collectors may call you between the hours of 8 a.m. and 9 p.m.
- They may not call you while you are at work
- They may not harass you, lie to you, or use unfair practices when they are trying to collect a debt from you
- They must honor a written request from you to stop further contact (this should be sent certified mail)

If you want more information or have a consumer complaint, contact the Federal Trade Commission (FTC) at 877-382-4357, the Consumer Financial Protection Bureau (CFPB) at 855-411-2372, or the Michigan Department of Licensing and Regulatory Affairs (LARA) at 517-241-9288.