# **How to Settle Your Debts**

the Detailed Encyclopedia

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# **Disclaimer**

What is here is true to the best of my understanding at the date of publication, but, alas, I am only human. I am not an attorney, a banker, a collection agency, or a credit card issuer. I seek to distribute useful information to the public in the most complete and accessible manner possible. But a word to the wise: Before you rely on any of the information here, check it out for yourself. Information varies around the country and changes over time.

This text relates to laws and customs in the United States and should not be taken as a guide to consumer credit in other nations. Also, it concerns itself primarily with federal law rather than state laws, which vary widely. But in every state you have at least the protections derived from federal laws that are noted here. I am always interested in state and local comparisons, but by design have omitted almost all state information from this book. Not that I would shamelessly plug my own web site in this book (I am above that, really), but for the latest and greatest information about credit matters refer to <a href="http://www.creditinfocenter.com/">http://www.creditinfocenter.com/</a>. It's free.

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# How to Settle Your Debts – the Detailed Encyclopedia

#### Introduction

The state of borrowing in the U.S. is at an all-time high. The amount that Americans owe on loans for houses, cars, credit cards, and other purchases adds up to nearly 100% of their annual income after taxes, according to a *BusinessWeek* report. That's up from 75% in 1992, after the last recession ended. In April 2006, consumer debt totaled 2.170 trillion dollars, an increase of 18% over 2001, according to the Federal Reserve.

#### http://www.federalreserve.gov/releases/g19/Current

Of course, if you're over your head in debt, you don't really care how you got there. But you should, as learning how to budget will not only get you out of debt now, but prevent you from finding yourself in a similar circumstance in the future. We will be covering this later in the booklet.

Now, take a deep breath. All new things seem overwhelming. You may have big doubts about doing this - you may have been told by debt settlement "professionals" that you will not be able to do this yourself, and that they are the only ones who know the secrets. Not true.

This booklet deals with all kinds of debt settlement situations, intended to target people who are trying to settle with both the original creditors and collection agencies.

# Types of debts

There are two basic categories of debt, for the purpose of this article, secured and unsecured.

#### **Unsecured debts include:**

Medical bills Credit cards Department store cards Personal loans Student loans Bounced checks

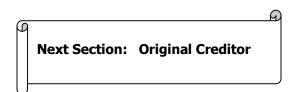
#### Secured debts include:

Home Auto

# How long does the card debt settlement process take?

If you are making a lump sum payment to settle your debts, the process can take as little as one month. That is, of course, if negotiations between you and the creditor don't drag out.

Obviously, if you are making payments to settle the debt, it could take as long as 4 years to settle your debts.



# **Chapter 1 – The Original Creditor**

The original creditor is the credit card company or lending institution that issued your loan or credit card. If your account is not in collections, then the company you want to deal with is the original creditor. If your account has been turned over to collections, then the original creditor will not even deal with you – they've taken their IRS tax deduction and have assigned or sold the debt to a collection agency.

### Before you attempt to settle

# You should do everything possible to prevent your debts from going to a collection agency

Simply put, it is usually easier to negotiate with the original creditor. Avoid having an account turned over to a collection agency at all cost.

It varies from creditor to creditor, but most credit card companies allow 120 days to 210 days before an account is charged off. *You are definitely in the danger zone after 120 days*. After a debt is charged off, typically, the account is turned over to collections. While the account is considered a "past due" account and may be approaching the charge-off stage, it is often possible to prevent the charge-off by at least making one payment, along with all late fees. This holds the account from going further past due. Once the normal payment is being paid regularly, even though the account may remain past due, regular monthly payments may prevent further delinquency and prevent charge-off. Even better, would be to pay the normal monthly payment plus a little more in order to begin to catch up the past due payments. If a larger than normal payment is made, it may eventually catch up the past due amount and eventually cause the account to become current.

Many creditors will allow you to keep your accounts open or even to reopen them if you bring your accounts current. They also have programs where you can make 3 payments which are larger than the minimum in order to catch up and bring your account current. You may want to consider these options.

# Debt Settlement Steps – Original Creditor

Take a deep breath. All new things seem overwhelming. You may have big doubts about doing this - you may have been told by debt settlement "professionals" that you will not be able to do this yourself, and that they are the only ones who know the secrets. Not true.

Let's just break this down into manageable steps. You need to determine:

- 1. Who to contact
- 2. How to contact a creditor
- 3. The kind of personal circumstances a creditor likes to see
- 4. How much to offer
- 5. How to pay
- 6. Negotiate your credit rating

# Who do you contact?

You would contact the original creditor's customer service department. With the original creditor, it is perfectly acceptable to initiate contact via the phone. If you still have your credit card, the

1-800 number to call the company should be listed on the back of the card. Otherwise, you can look up old statements and find it. You can also call the toll free information directory at 1 800 555 1212.

#### How do you make first contact?

One thing to remember, as you speak to a representative, they are taking notes and these notes go into your account information permanently. Keep your story simple and straightforward. Don't lose your temper or swear with a rep.

Once you call, ask for the customer service department. When the agent gets on the phone, ask for the status of the account. If the account is in collections, you may also find that you will be transferred to the collections department of the company. Don't panic, this is all normal. Once you get the right customer rep on the line, ask them if they would be interested in considering an offer to settle the account, or if you have to go through the collection agency currently handling the account.

If the answer to the question "will you consider an offer to settle" is yes, don't be surprised if you are made an offer on the spot. If you like the offer, tell them you will be following up with a letter and a fax, and where the paperwork should be sent. *Keep in mind, though that you can usually get a better deal than the one offered.* Ask for the representative's first and last name, and direct telephone number. Never give them the money at this time, though they will try to get you to pay by check by phone or a credit card. You absolutely need a written agreement between you and the creditor before you sent them a single penny. If you don't like the offer, tell them you will think about it and get back to them. Again, ask for an address and fax number

If they don't make you an offer, find out where to send the offer in any case. Be sure to get the first and last name of the person you spoke with, and their direct phone number if possible.

If they say that they won't consider an offer (this rarely happens), thank them and ask for mailing and fax information. The rep may not be aware of settlement programs or may just be plain wrong.

So what's the point of this initial conversation? Mainly: we said it three times; get the mailing address and fax number, customer service rep name and direct telephone number.

# The kind of personal circumstances a creditor likes to see

# What makes a creditor say 'yes' to a debt settlement?

In very rare circumstances (like never) creditors agree to help you out of your debt problems because they are nice people. Creditors agree to a plan because they may feel this is their only chance to get money from you. Their thinking is that some money is better than nothing. You can help this impression along by hinting that your only other option is declaring bankruptcy. However, no matter what you may hint or flat out state to them, creditors have their own ways of determining if you are teetering on the brink of bankruptcy.

# What would make you appear as a candidate for bankruptcy?

- If you haven't been making payments on any of a significant portion of your debts, especially credit cards.
- If you don't have anything to lose in a bankruptcy like a home or car.

People who are out of work, or show no probable future increases in pay.

You may think to yourself, "Ok, well, I'm going to tell them that I haven't been making payments on my other accounts, I'm out of work and I don't own anything." Be careful about this, as creditors have usually invested large sums of money on high technology information gathering systems about their clients. In talking to a representative for a major auto-loan company, a piece of software they run obtains the following information may be gathered by just entering in your phone number:

- ➤ Where you bank
- Your credit rating
- Your criminal records
- Your payment history on all of your accounts
- > Where you work
- > How much you make
- Whether or not you own a home, a car, boat, etc.

Where is this software getting this information? From your credit report, from the credit application you originally gave them, public records, motor vehicle division, Social Security Administration, you name it – if records are public, you can bet they are being accessed. Public records not only contain any court records, but also recording of deeds of trust and other property transactions. Are we getting the picture?

# The kind of personal circumstances a creditor does not like to see

# You are current on all of your payments to this creditor and every other one on your credit report

What if you are an honest person who wants to warn a creditor that you may not be able to make payments in the immediate future because of a job layoff or medical emergency? It's counter intuitive, but some creditors are only willing to deal with you when there is a significant problem. It's possible you will get them to work with you if you provide convincing documentation, however this is going to be a tough road. If they see you are in good standing on all of your accounts on your credit report, it's going to take some pretty fancy talking to convince them this kind of payment history isn't going to continue.

# You have recent activity (charges and payments) on your account

In one case that I know of, recent charge activity on the account made the creditor insist on 65% of the balance due over a lower 50% settlement amount.

# You offer a very low settlement and want to make payments over an extended period of time

You've got to give somewhere, and most creditors are not going to go for a 30% settlement offer payable over 5 years. They will be wondering what is going to prevent you from missing your payments, and this is just another accounting nightmare. Now, if you are going to make a full payment settlement offer, they might be willing to take a chance on an extended period.

### They think they can sue you and recover the money

If they think (know) that you are making big bucks and/or have a lot of assets and they can just take you to court and garnish your wages for less money than making a deal with you, most

likely you will be sued. Banks known for skipping collection agencies and going straight to court include Discover and Citibank.

#### How much should I offer?

This is the number one question asked when someone begins the debt negotiation process. How much should I offer to settle the debt?

#### Each creditor is different

Like any other industry, each company in the credit card industry has its own debt settlement policies. You may be able to settle with one company for 30 cents on the dollar with one and 75 cents on the dollar with another, even though the amounts of the debt and the terms of the repayment plan are identical. Don't get stuck on this point. If a creditor is immovable in their settlement policies, it's because of internal policies written in stone from the dawn of time. Accept the offer, move on and spend your time on a creditor who is more willing to work with you.

#### Lump sum offerings

Obviously, if you are going to give your creditors cash, they will be much more interested in working with you. You will always get a better deal when offering cash. As a matter of fact, you may not get ANY deal if you offer includes a payment plan. What if you don't have any cash? We'll cover that in a minute. However, if you have cash, you can usually get 30-50% reductions in the balances of the debt you owe, sometimes even lower. Again, as we stated above, we are in no way guaranteeing this kind of reduction.

#### What if the creditor contacts me first and makes an offer?

Sometimes the creditor may contact you via phone or letter and makes you an offer to settle the amount. When this happens, you can be sure that you can get a better deal than the one offered. If this contact is by phone, listen carefully; get the rep's name and direct telephone number and the company address to which you will be sending your settlement.

After you get off the phone, or review the letter, come up with your own offer and the use the sample letter "Counter Offer" in Appendix A.

If you have been getting a series of letters from the credit card company and the offer keeps getting better, you may be wondering at what point you should take it as a viable debt elimination solution. Keep the basic rules in mind – most creditors not go below 30%-50% of the original balance, so if the offer approaches these figures, you should consider accepting one of them. If you do decide to accept the offer, use the sample letters "Acceptance of Written Offer" and "Agreement to settle a debt" sample letters and forms found in Appendix A.

# Getting settlements on mortgages and auto loans

It will most likely be impossible to get a settlement deal on any kind of secured loan. A secured loan is a loan which, upon default, has a piece of property which is repossessed by the loan company in order to recoup the costs of making the loan and the money lent. Therefore, you will never find yourself looking at a charged off mortgage – your home will have been repossessed. The same goes for an auto loan.

If you have one of these types of loans, another alternative is to request that the creditor rewrite the loan for the balance owed including all past due amounts with extended terms to accommodate a lower payment. You should also request that the rewritten loan be at a reduced

interest rate—it doesn't hurt to ask. In any case, once re-written, the past due account will be paid-off and the new loan will begin a new reporting history.

If the creditor will not agree to lower payments, they may consider at least rewriting a new loan with payments equal to the old loan. The lender would then take the new loan proceeds and pay off the old loan balance. This may not help in lowering your payment, but it will provide you with a fresh start, with the account reflecting a current status. These options are not always available with all creditors but should be taken into consideration and presented to the creditor (they won't always offer) when trying to get your credit in order or you simply wish to return your account and creditor relationship to a "good" standing.

#### Secured Loans after a Repossession

The one exception to "no settlements on mortgage and auto loans rule" is if a piece of property is repossessed to satisfy a secured loan balance, and the sale of the property fails to cover the loan amount, you may find yourself with a collection account for the remainder of the unpaid loan balance. In this case, sometime you can negotiate a settlement with the original creditor, but typically this type of loan is turned over to a collection agency.

#### **Student Loans**

Student loans are a completely different kind of loan animal, and in rare cases, fees and penalties might be waived in order to help a student rehabilitate a loan, but that is usually the limit. This document does not cover these kinds of loans. An excellent source of information on student loans and settlement programs can be found at <a href="http://www.ed.gov/">http://www.ed.gov/</a>.

### How to Pay

If you want to negotiate a payment plan, (usually because you don't have another option), don't hold that information back while negotiating the settlement plan. It may completely torpedo the whole deal if you agree on a certain figure only for you to then state: "Can I make my payments over the next 5 years?"

# **Payment Plans**

If you don't have all of the cash that you need to pay off your agreed upon debt settlement, you have two options: a short-term payment plan or going on one of their "hardship programs."

**Short-term:** You will get the best terms, as stated before if you can make a lump sum payment. Some creditors will still agree to a sizeable debt reduction if you can pay off the whole amount in 3-6 months. If you need to stretch things out to 6 months, you will have less clout but still be in a strong negotiating position. For most companies, being able to pay off the debt in 3 months is the same as a lump sum payment.

**Hardship program:** Credit card companies are used to dealing with the many debt reduction companies out in the world, and to save time by coming up with a custom plan for each one, they usually have one type of program to place people on who want to pay their debts but need 1-4 years to pay it off. One note here, Discover, as of this writing, just changed its policies to allow people one year maximum time limit to be on their hardship program.

**Long-term payment plans:** If you're a great negotiator, you may be able to get a long term payment plan to pay off your debt. I wouldn't count on it, though. Most credit card companies will try and enroll you in their hardship program. Also, payment plans may come at an interest rate as high as 20%. Obviously, the longer you take to pay off your debt, the more money you

will pay. Keep in mind that your debt payment plan *doesn't have to include interest*. This is one more thing for you to put on the negotiation table.

#### Final note: it is to your benefit to negotiate a short repayment period

If your repayment period is 6 months or less, most likely you can avoid paying any additional interest on the balance. Even if your payment plan exceeds 6 months, try to push for no additional interest on the balance during the repayment process. You may find, however that the companies have a set program and negotiating for the interest rate is not possible. It never hurts to ask, though, does it?

For tips on writing an offer to a credit card company, see Chapter 3.

#### Paying via "Check by Phone"

"Check by Phone" is a procedure where you give your creditor your checking account number and they deduct an amount from your checking account. In some cases, credit card companies will only take a check by phone. This is fine. It's the collection agencies you have to worry about paying using this method.

### Don't forget to negotiate your credit rating

You should always push for a Perfect Pay Rating. Your final goal in negotiating your credit rating is to get the creditor to list your credit rating after the settlement as "Paid as Agreed" or "Account Closed - Paid as Agreed". Anything other than this listing will have a negative effect on your credit report. One note here: It is getting tougher and tougher to get credit card companies to change negative history to positive history. The only way most of them I talked to will agree to do this is if you pay off your entire balance in full, including all interest and penalties. Despite this, I will go over all the credit rating tips I have.

**Author's Note:** Don't let credit rating negotiations deprive you of a great settlement offer. In many cases, "Settled" is the best you are going to get. I had one client lose out on a 30% settlement offer because he insisted on a "Paid as Agreed" status on his credit report.

# The effect of having "settled" on your credit report

As your mother, father, or teacher has probably told you (no doubt numerous times in your life): "there's no such thing as a free lunch." Sometimes (but rarely) you can negotiate for an untarnished credit rating with a debt settlement, but this is getting increasingly tough to do. In most cases, when you settle with a creditor, your credit report will say "settled" next to the account for which the settlement took place. This has a negative affect on your credit score, meaning it will go down, and depending on your overall credit report (credit scoring is too broad a topic to cover here), it could put a major hurt on credit report.

You should weigh the fact that even if you have 90 or 120 days lates, these may have less effect on your credit than having a "settled" account notation. Don't believe what any of the collectors tell you about the effect something will have on your credit. They don't have the first clue. I helped a friend to settle her debts and I talked to a representative of a major credit card company and she had no idea how anything would be reported on a credit report. She told me that negative entries would fall off after 2 years, which is absolutely not true. I quoted Section 605 of the Fair Credit Reporting Act, and there was a long silence, and then an "Oh."

#### For the advanced and ultra-smooth negotiators

If you are the ultimate negotiator and you love a near impossible challenge, you can try to get a credit card company to give you a perfect rating. Here are some things to keep in mind.

Some creditors will tell you that it is illegal to change a listing on your credit report. Hogwash. A creditor can agree to change your listing based on a new contract (the one you will negotiate with them to settle your debts) and if you pay per this new contract, isn't this "paying as agreed"? Absolutely. I would remind them of this point, by the way.

Creditors make their profits by collecting from their customers, not by reporting negative credit information. Because creditors recognize this, they will often agree to delete any negative listing upon settlement of the debt. You have to realize that creditors won't try to ruin your credit rating as a personal vendetta. It's strictly business. If it pays them to collect from you and restore your rating to perfect, they will do this. Talk to them in terms of money, not principals or morals. Something along the line of "I know you would love to receive the \$3000 I owe you, but it will not help my credit report if you can't change my rating to 'Paid as Agreed'. All I have is \$3000 and I will pay it to other creditors who will agree to change my credit rating in writing."

# If you have to accept an imperfect credit listing as part of your settlement

You may find that some of your creditors are willing to hold out longer than you are before agreeing to delete the negative listing from your file. It may seem that they are unwilling to delete the negative listing under any circumstance. Once again, let it be said that sometimes creditors will eventually give you what you want if you speak to the right person, are patient and persistent, and make the right offer.

**List the account as "Unrated".** Many times, a creditor will agree to list the account as "unrated". What does this mean? It means just that, the account is not listed as good or bad. As far as we can tell at the time of this writing, an "unrated" notation for an account does not negative impact your score. However, if the listing is unrated, make sure that any lates on the account are removed, as these lates WILL have a negative affect, even if the account is unrated.

**List the account as "Paid" only.** You may counter-offer for the creditor to list the account as "Paid" rather than delete it altogether. This is a true indication of the status of the account and many creditors will concede and agree to this wording. A "Paid" status is still very negative for a collection account or an account that will show "Paid Charge-off" or "Paid Repossession." You should insist that the account show "Paid" only and that all other negative notations (such as "Charge-off," "Repossession," late notations, or "Collection") are deleted at the same time. A simple "Paid" notation on a regular trade line is neutral and should not hurt your credit.

**List the account as "Settled" or "Paid for less then owed" only.** You may counter-offer that the creditor simply lists the account as "Settled" rather than delete it altogether. "Settled" is an inherently negative listing but not as negative as "Paid Charge-off." Don't agree to a "Settled" listing until you have exhausted all other possibilities. "Settled" will still trigger a credit denial. You should only agree that the account show "Settled" if all other negative notations (such as "Charge-off", "Repossession", late notations, and "Collection") are deleted at the same time. If you agree to a "Settled" notation, you must continue to work hard to delete the notation through the credit bureau dispute process.

**List the account as "Paid Charge-off" or "Paid Collection" or "Paid was 30-, 60-, or 90-days late."** If you wound up with this listing on your credit report, you made no attempt to deal

with the credit card company. I've never heard of anyone not getting at least a "Settled" notation on their credit report.

Next Section: Collection Agencies

# **Chapter 2 – Collection Agencies**

How do you tell if your account has been turned over to collections? Your credit report is an excellent place to start. If you haven't already done so, getting a copy of your credit report is crucial. To obtain a copy of your credit report, you may contact the credit bureaus at their websites:

http://www.experian.com http://www.transunion.com http://www.equifax.com

If a collection account is not listed on your credit report, then I assume you are reading this document because an agency has either called or sent you a letter, demanding payment.

### Debt Settlement steps - Collection Agency

As with the debt settlement techniques we gave you when dealing with the original creditor, let's just break this down into manageable steps. You need to determine:

- 1. Identify debts
- 2. Check statute of limitations
- 3. Who to contact
- 4. How to contact the collection agency
- 5. How much to offer
- 6. Tips on paying once you arrive at a number
- 7. Negotiating your credit rating

# Before you attempt to settle a debt, check the statute of limitations

Collectors only have a certain amount of time to sue you for payments. The first thing you should do is to determine if the statute of limitations for collecting a debt in your state have past. If the debt is older than the statute of limitations, you tell the bill collectors they are wasting their time by harassing you for an uncollectible debt, as the original creditor or the assigned collection agency cannot take you to court to get a judgment. To see the time limitations on the different kinds of debt, look in Appendix B.

# Can the debt still be reported on your credit report?

After 7 seven years (in most cases), a debt will disappear from your credit report. If the reason you want to pay this debt off is to clean up your credit to purchase a home, and you can challenge the debt on your credit report, why pay this off? Your creditors have not bothered to sue you until now, it's likely that they won't in the future, either. Credit repair is beyond the scope of this book, but most types negative information come off after 7 years. You can challenge this listing on your credit report and it will come off.

Please note: the amount of time a late payment can appear on your credit report has nothing to do with the statute of limitations. Very important distinction. Even though a debt may no longer legally appear on your credit report after 7 years, you could still be sued for the debt because the statute of limitations for your debt in your state is not up.

# If the debt is gone from your credit report AND the statute of limitations is up on this debt, you're home free!

If enough time has past for both the legal debts collection statutes of limitations *and* the credit report limitations has passed, don't worry about the debt! If your debt meets both of these conditions, it is uncollectible and it cannot appear on your credit report! If you get to this point, stop here, you are done! You can stop reading!

# Identify your debts

Other than accounts for which you've directly received letters and/or phone calls, you can identify collection accounts from your credit report. Once you get your credit report, find the debts on the report that you are interested in settling. The report will say next to the account:

- Account turned over for collections, or
- Account sold, or
- Account charged off
- Will say nothing at all, but give late payment dates

Obviously, if it says the account has been turned over for collections, it has. If your account listing falls under numbers 2 or 3 above, or just says nothing, you may have to contact the original creditor to find out the status of the account.

If you feel your account is with a collection agency, before you try to settle, try debt validation (Appendix A) before offering a settlement. By using debt validation, you may be able to avoid having to pay this account at all.

# Who do you contact?

The best place to look for information on contacting a collection agency is your credit report. We gave the website addresses in the section above.

If you've been unable to get the address and/or fax number for the collection agency, here are some on-line resources:

The Better Business Bureau – <a href="http://www.bbb.org">http://www.millcbs.com/search.asp</a>
<a href="http://www.411collectionagencies.com/AGENCIES\_US/">http://www.411collectionagencies.com/AGENCIES\_US/</a>
<a href="http://www.residentagentinfo.com">http://www.residentagentinfo.com</a>

You could also try your secretary of state, who has a list of all businesses in the state and their contact info. Look up the secretary of state's number in the phone book or call information.

# How to contact a collection agency

**Never** contact a collection agency by phone. **Never!** Collection agents are not trained to settle with you, they are paid to collect money, and they will say anything to get you to pay. You are opening yourself up to possible abuse, which though it is illegal, is extremely common. If you say the wrong thing to a collector in the heat of the moment, it could ruin your chances for a good settlement in the future.

Letters are the best way to contact a collection agency. You want to send the letter certified, signature required so you have a paper trail to follow during the settlement procedures. Believe

me, you might need it. Some collection agencies are starting to refuse certified mail if they think the letters might be part of your gaining the legal upper hand, but there is a way around this. Mark the envelope "Payment enclosed". This is sure to get them to accept and open the mail.

If you know the fax number, I would also fax your settlement offer to the collection agency. There are many services available which offer a "certified" delivery of the fax receipt, which is almost as good as the certified letter receipt.

### What if the collection agency contacts me first and makes an offer?

Sometimes (though this happens VERY rarely with a collection agency) you may be contacted via phone or letter and with an offer to settle. When this happens, you can be sure that you can get a better deal than the one offered. If this contact is by phone, listen carefully; get the rep's name and direct telephone number and the company address to which you will be sending your settlement.

After you get off the phone, or review the letter, come up with your own offer and the use the sample letter "Counter Offer" in Appendix A.

#### How much to offer

First of all, make sure you can back up any offer you make with real cash. To figure out how to get blood out of a turnip, we offer some suggestions further down in this booklet.

To give you some background, most bad debt companies pay or receive literally pennies on the dollar for the debts on which they are trying to collect. The amount that companies pay for bad debt depends on the type of account and its age: \*

- Debts that have recently been charged off: 6 to 7 cents on the dollar.
- Accounts that are slightly older and on which a collection agency or two has already taken a whack: 1.5 cents to 2 cents on the dollar.
- Years-old, out-of-statute debts: A penny or less.

With this in mind, you should always start your offer at 25% or less. Let's understand the math here. If your debt is \$1000, let's say at the most, the collection agencies have paid or will collect 7 cents on the dollar, or \$70. If you offer them \$250 (25%), they are still making a profit of \$180. Remember, the credit card companies are out of the picture at this point. This money goes directly to the collection agencies.

# Other things to remember in collection agency negotiations:

- 1. **We've already said this, but it bears repeating. NEVER** talk to a collection agency on the phone. Period.
- 2. Penalties and extra interest are typically fictitious amounts of money added on by the collection agency to pad their profits. I've seen as much as to 50% of the debt or more claimed to be owed by a collection agency consisting of interest and fees. Example: Recently, I talked to a guy who had his \$5000 original debts balloon up to \$11,000 in less than 3 years. This is illegal; every state has usury laws (which dictate the maximum interests allowed to be charged.) If you consider the junk debt buyer paid 7

<sup>\*</sup> Source: Sean McVity, portfolio broker at Keefe, Bruyette & Woods.

- cents on the dollar or less, there is no way there is this much interest. Most companies would be thrilled to get you to pay the original debt even without the extra penalties they add on and will usually be more than agreeable in waiving these fees.
- 3. **Time is on your side.** Unlike your negotiations with the original creditor, where you are racing the clock to prevent the account going into collection, the older the debt, the better. As time passes, the creditors will likely stop calling and the debt will be filed away for future attention. The longer the debt remains uncollected, the better your chances will be of getting a good settlement. If this is the second or third collector to try and collect, they will accept a very small amount.
- 4. **Never look too eager to settle.** Take plenty of time to reach an agreement. Don't accept the first, or even second, settlement offer. Make sure that they are the ones calling you to push the deal forward. You cannot expect to reach an affordable settlement if the creditor thinks he has the upper hand. If, for example, you tell a creditor that you really need to get this debt settled to get into your dream home, you can forget any kind of settlement. The creditor will insist on the full balance.
- 5. **Remind the creditor that the statute of limitations is approaching** on the debt and they only have a limited time to deal with you. Know when the statue is up on each debt and be prepared to give the creditor the time line.
- 6. Use the threat of bankruptcy. It will be in your best interest if the creditor believes that you have very little money and you are teetering on the edge of bankruptcy. You should approach each creditor as though this is their last chance to compromise, and get something out of your debt, before you declare bankruptcy and they get nothing. Be careful when doing this, however. If you accumulate any more debt after stating this to a creditor, (and they record all of your correspondence and phone calls), you may not be able to discharge this debt within bankruptcy.
- 7. Remind the collection agency of the handsome profit they will make even if you only pay 25% of the amount. If your debt is \$1000, let's say at the most, the collection agencies have paid or will collect 7 cents on the dollar, or \$70. If you offer them \$250 (25%), they are still making a profit of \$180.
- 8. Offer to pay more money if the collection agency agrees to remove the listing completely. The collection agency has nothing to gain by reporting the account on your credit report, other than getting you to pay. They are not legally obligated to report this on your credit report as some claim.

# If you're contacted by more than one collection agency for the same debt

If you're contacted by more than one collection agency for the same debt, it means that the original creditor has hired a secondary or even tertiary collection agency. This indicates that the original creditor and even the first collection agency has given up on you. This means that the second collection agency has paid even less for the debt than the first one. If the agency hasn't been able to reach you by phone but knows that you are receiving its letters, it may be willing to take even less.

# Tips on Paying Once You Have Agreed On a Number

### Payment plans

Keep in mind that most collection agencies will insist on payment in full. They **will** negotiate a payment plan if that's the best they think can get, but it's not to your advantage. Usually you can pay on it forever and never make it disappear. This is because the collection agency will keep tacking on interest and fees. In addition, collection agencies are terrible at keeping track of

payments. On purpose maybe? I've talked to numerous clients who made over a year's worth of payments and their balances did not go down at all.

If you can't come up with a cash settlement, I would suggest sending the collection agency a debt validation letter or cease and desist letter to keep them off your back until you can scrape together the money. It's really not a good idea to make payments to a collection agency over an extended period of time.

The **debt validation** procedure is a whole eBook on its own and will not be covered here. Free information about debt validation is available here:

http://www.creditinfocenter.com/rebuild/debt\_validation.shtml

A **cease and desist letter** is included in Appendix A. Under the Fair Debt Collection Practices Act, if a consumer sends a written cease and desist notice to a collection agency, the collection agency is not allowed to call or write the consumer regarding a particular collection account.

# If you do negotiate a payment plan, it is to your benefit to negotiate a short repayment period

The shorter period of time you pay off the settlement, the less time they have to tack on fees and otherwise drag things out to their advantage.

#### What if I can't make the payments/cash offer I negotiated?

You're kidding, right? If you really have doubts that you will not be able to make the payments or lump sum payment on a settlement deal you have negotiated, it is best to agree to one you are confident fits into your family's budget.

The consequences of defaulting? Once you have a new written promise to pay (your settlement offer), you will have reset the statute of limitations (Appendix B). In addition, if you default on a payment or settlement offer, the collection agency may sue you.

# **Form of Payment**

#### Never disclose where you work or bank.

If you are asked, simply say "no comment". The reason for this: If your settlement falls through, and the creditor gets a judgment against you, knowing where you bank or work will make it easy to collect the judgment.

# Make sure you get the money order at the post office, or else get it or a cashier's check from a bank other than your own

How you make payments is very important, as it protects you from other creditors learning about your financial status and bank account numbers. For this reason, never send a personal check. Get a cashier's check or money order. Make sure you get the money order or cashier's check from a different bank than your own bank or the post office.

#### Never pay your settlement with "Check By Phone" with a collection agency

"Check By Phone" is a procedure where you give your creditor your checking account number and they deduct an amount from your checking account.

Paying via check by phone is the very worst thing you can do when paying a collection agency. It gives your creditors full access to your checking account – I've heard more than one story where more than the agreed amount was removed from a checking account.

Make sure you keep a copy of your money order or cashier's check and put it in a safe place! Collection agencies keep notoriously bad records and it's your word against theirs if you say you paid and they said you didn't...unless you have the copy of the money order or cashier's check.

### Negotiating your credit rating on a collection

If you are dealing with a collection account, you want a complete removal (a deletion) from your credit report, however, NOT a "Paid As Agreed". Any notation on your credit report from a collection agency is considered negative, so even if the listing read, "this person has the best paying record we've ever seen", it would hurt your score.

If you are dealing with an account which has been placed in collections, you now have two negative listings (in most cases) appearing on your credit report – the collection and the original creditor. If the original creditor refuses to deal with you and sends you to the collection agency, it's very difficult to get the original creditor to remove the negative mark. But impossible? No. You need to get the collection agency to agree to remove their listing entirely from your report and have the original creditor change the rating to "Paid As Agreed". At the very minimum, you are within your legal rights to demand the removal of the collection account from your report.

If you did manage to settle with a collection agency – congrats! – you can tell the original creditor you settled the debt and you want this reflected on your account rating. The original creditor is obliged to report accurate information, and hey, "settled" is the true rating. A rating of "Settled" on your credit card listing is much easier on the credit score than "Charged off".

Remember, though, not all collections result from credit cards. Doctor's bills cannot appear on your report, but collections resulting from these accounts can.

Next Section: Writing the Offer

# Chapter 3 - Writing an Offer

In many cases, once you've agreed to a verbal offer with the credit card company or collection agency, they will send you the paperwork to clinch the deal. However, it always pays to be proactive, as you don't know exactly when you will be hearing from them.

## Confirmation of acceptance of verbal offer

OK, if you've gotten a verbal offer on the phone and wish to accept it, follow up with both a fax and a certified letter the "Acceptance of Verbal Offer" and "Agreement to settle a debt" sample letters and forms found in Appendix A.

#### Counteroffer to an offer

If you have received an offer, either via the phone or a letter, you don't have to take it. You can also offer them less money and see what they say. In the next section, we cover the amounts of the "typical" debt settlements amounts many lenders seem to willing to accept. Send this letter via fax and certified mail.

Use the sample letters in Appendix A "Counter Offer" and "Agreement to settle a debt."

#### Unsolicited offers

An unsolicited offer is one you make to a creditor without discussing the specific offer on the phone. Sometimes this is the only way to get an offer before a creditor. Obviously, in order for these offers to even be read, it is very important that you have the correct address and fax number.

A good example of an unsolicited offer is in Appendix A, sample letter "Unsolicited Offer to Creditor" and "Agreement to settle a debt."

Next Section: General Negotiation tips

# Chapter 4 – General negotiation tips for any situation

#### Keep good records!

Keeping good records during your debt settlement process is crucial to success. This can be the difference between a good and bad settlement. Don't expect them to remember you or what you agreed upon. Other pointers:

- > Send all correspondence via registered mail (about \$2 a letter) or send a fax with a fax confirmation. Even if you send a fax, follow it up with a hard copy.
- > Keep a copy of every letter you send.
- > Include a self-addressed, stamped envelope with every letter. (Make it as easy as possible for them to contact you.)
- ➤ If you call, keep a log of when you spoke to the agencies, and who. Ask for the name of the supervisor of the person you spoke to, as the turnover rate at collections agencies is high.
- Follow up all phone correspondence with a letter (registered, of course) and/or fax confirmation.

#### Charm is definitely a virtue

Patience, charm and good cheer are all things to keep in your voice when talking to customer service reps. Think they haven't heard someone cuss at them, cry on the phone or threaten to sue them? They surely have and these antics will not help your case. If you are feeling angry or upset, *don't call*. Wait until you are calm. As a former account rep said, "Keep in mind that I got 200 calls a day with approx. 80% of them being IRRATE customers, I was starved for satisfied customers that didn't yell or get aggressive."

I talked to one client who was able to get a credit card company to take 40% of the balance as a settled debt, and his charming, informed and intelligent manner gave me all the clues I needed to figure out how he accomplished this feat. He was very witty and pleasant while discussing his situation with me, even though I knew it was very stressful for him. I've talked to many others who said this same company wouldn't budge below 60%.

# Hang Up and Try another Rep

Finally, though the company keeps documentation of all your calls, if refused by the first rep, HANG-UP and call-back. Odds are 99.9% certain that you'll get a different rep and maybe you can sweet talk/give a sob story and get the rep to work with you.

Next Section: Where to dig up cash For those settlements

# Chapter 5 – Where to dig up cash for those settlements

I'm sure you're saying, "I don't have any money to settle my debts or I would have paid them – what do I do?" Well, you may have to make some hard choices to get out of your problems. And you may have assets that you hadn't thought to tap into, here are some ideas:

### **Automatic Deposits into a Savings Account**

Basically, this means talking to your bank and setting up an automatic transfer from your checking account or other regular account you use and transferring money into a savings account. Oftentimes, to find the money to make these payments, you can simply stop paying your unsecured bills until you have enough to make a lump sum payment.

When enough money is saved, a debt reduction settlement is negotiated for one of the accounts. The strategy, of course, is to first settle the account which is most troublesome and which may provide the greatest savings. The process continues in this fashion until all debts have been settled in full. Remember, creditors are much more likely to settle for less money when you pay in a lump sum, and also when you are not current on the account.

### Tap into the ole' Savings Account, Money Market Account, CD's

What's 2% interest, when you can save 50%? In addition to saving this money, (and potentially your credit rating if you get them to report you as "Paid As Agreed") you'll stop high interest charges, and perhaps late fees and other related charges.

# Yes, it's time to tap into Stocks, Bonds, Mutual Funds or Other Investments

Again, even if you are making 10% on your money in these accounts, you are getting a better deal by saving potentially 50% or more by negotiating with a lump sum. Getting a 10% return on an investment is often considered great, especially these days. The piece of mind and peaceful-looking credit report you'll get by settling your debts is well worth some delay in building your retirement. As mentioned above, you may also stop collection calls, interest charges and late fees!

# Borrow from Family, Friends, or Relative

Don't be afraid to ask those who love you to help you out. You'll be surprised how often family members and friends are willing to step up to the plate and render assistance, especially if this is the first time you've gotten into trouble. The only way to find out is simply to ask.

#### Retirement Funds

Although the experts warn against borrowing against your 401k, it's still better than defaulting on your debts. And if you have an IRA, SEP account, annuity, trust fund, or other forms of retirement funds, the tax penalties may still be less than a ruined credit report or saving money on a debt settlement. It's not a step to take lightly, so you are smart to consider your options carefully.

# **Borrow from Whole Life Insurance Policy**

If you have cash value in a life insurance policy, you can typically borrow from these funds at a very low interest rate. Best of all, you need not repay the loan. As a consequence of this, however, your life insurance benefit will be reduced by the amount you borrow and any accrued interest. But, being debt free, the reduced stress may add years to your life!

#### Sell Assets

Here's the hard part of it all, selling those treasures of yours. You may have valuable assets that can be sold to get the money you need for debt settlements. Things which really are (come on, now, it's time to be practical) luxuries like that extra car, recreational vehicles, family heirlooms, gun collections or even your home. Remember, if you are unable to resolve your financial hardship through debt settlement, it's possible that the creditor will sue you for the cash.

# Home Equity Loan, Second Mortgage, Home Refinancing, Reverse Mortgage

Notice: This method should ONLY be used when it results in significant savings, and the effect of it resolves your financial hardship. You must be reasonably certain that you will never default on the obligation. Otherwise, it is not practical and financially sound to convert unsecured debt to secured debt and risk losing your home!

#### **Increase Your Income**

Ever consider getting a second job or having your spouse take on part time work? How about learning to budget more carefully? (We are going to cover budgeting in one of the coming sections). If you learn to spend less, this is essentially increasing your income, as you will have more money to save.

Next Section: Legal Aspects of Settlement

# Chapter 6 – Legal aspects of debt settlement

# Can debt settlement stop creditor lawsuits the way a bankruptcy filing can?

No. Sometimes, though, if you settle with a creditor, this is the way to get them to drop the lawsuit against you.

# I negotiated a settlement with a creditor for less than I owed. The creditor is now suing me for the balance. Is this legal?

Yes! You need to read the following information carefully.

Some collection agencies will agree to settle with you for far less than you owe and then turn around and hire another collection agency to collect the difference. However, in many states this is illegal. Once a creditor deposits or cashes a full payment check, even if she strikes out the words payment in full or writes "I don't agree" on the check, she can't come after you for the balance. The states in which this law is enforced:

Arkansas

Colorado

Connecticut

Georgia

Kansas

Louisiana

Maine

Michigan

Nebraska

New Jersev

North Carolina

Oregon

Pennsylvania

Texas

Utah

Vermont

Virginia

Washington

Wyoming

Some states have modified this rule. In the following states, if a creditor cashes a full payment check and explicitly retains his right to sue you by writing "under protest or without prejudice" with his endorsement, then he can come after you for the balance. But those exact words must be used. If he writes, "Without recourse", communicates with you separately, notifies you verbally or writes on the check that it is partial payment, it is not enough.

Alabama Delaware

Massachusetts

Minnesota

Missouri

New Hampshire

New York

Ohio Rhode Island South Carolina South Dakota West Virginia Wisconsin

# Californians get a special break on full payment laws due to a legal loophole.

California lets creditors cross out the full payment language and sue you for the balance. However, when they passed this law, they also passed a separate law allowing California debtors to get around it. (Don't ask me why). Getting around this law requires specific steps and language. To use it, this procedure must be followed exactly.

- 1. Send a letter to the creditor stating that you intend to send a full payment check. A sample letter may be found in Appendix A "California Resident Full Payment Letter".
- 2. Wait 15-90 days to give the creditor time to object
- 3. Send the check with a letter stating that the check constitutes payment in full. A sample letter may be found in Appendix A "California Resident Full Payment Letter with Check".
- 4. Important: Write on the bottom of the check on the front along the top or bottom the exact language you used in the second letter "This check is tendered in accordance with my letter of \_\_\_\_\_ (date). If you cash this check you agree that my debt is paid in full."

# Tax Consequences of Debt Settlement

So you've been successful at settling your debts with a creditor, and you think the nightmare is over. Well, not quite. Most people don't know this, but the IRS regards debt forgiveness (paying less than you owe on a debt) as income.

If you are dealing with the original creditor, and you work out a settlement for less than you owe, the creditor may send you a 1099-C at the end of the tax year. You are required to report the amount listed on the 1099-C as income.

So how bad is this? Well, it depends on your tax bracket. Income tax is beyond the scope of this book, but briefly, your tax bracket depends on how much income you report, after deductions to the IRS.

Just as an example, and we are not using real numbers here, let's say:

- 1. If you are below the poverty line, you don't pay any taxes.
- 2. If you make over \$35,000 you pay 20% taxes
- 3. If you make over \$50,000, you pay 35% taxes
- 4. If you make over \$70,000 you pay 39% taxes

Let's also say that you get a \$5000 break in your debt settlement. The creditor sends you a 1099-C for \$5000 at the end of the year.

You would pay:

1. no extra taxes if your income is below the poverty line

- 2. \$1000 in additional taxes if you are in the 20% bracket (hey, you are still saving \$4000 overall by negotiating)
- 3. \$1750 in additional taxes if you are in the 35% bracket4. \$1950 in additional taxes if you are in the 39% bracket

This is something you should definitely consider when negotiating a debt.

**Next Section: Alternatives to Debt Settlement** 

# **Chapter 7 – Alternatives to debt settlement**

### **Non-Profit Debt Consolidation Companies**

We would like to caution you against using these companies. Many of them, though they say they are non-profit can still find ways to make money off of their customers. A couple of good examples:

There used to be a non-profit company called Genus who funneled \$74 million dollars or so of their \$134 million revenue through a for-profit company called Amerix by allowing Amerix to process customer payments. The founders of both companies happened to be the same person.

Ameridebt, a non-profit organization used to steer consumers to a debt consolidation loan company called Infinity Resources. The consumers were persuaded to get loans from this company at 14-15% interest. You guessed it, one of the board of directors of Ameridebt owned Infinity Resources. The attorney general's office in Washington, DC filed suit against Infinity. Ameridebt is no longer allowed to direct customers to Infinity. In addition, the Presidents of these companies reported salaries of \$350 million dollars for the 2000 calendar year.

Ameridebt was finally shut down in 2003 after being investigated.

None of these companies address the typical causes of consumer debt: poor budgeting. None of these companies has an office where a consumer can receive one-on-one counseling, all contact and business is done via the internet, fax, phone and mail.

#### **Debt Settlement/Debt Negotiation Companies**

These companies will tell you that they are different than debt consolidation companies. Well they are right – and wrong. The main difference is that the debt consolidation companies tell you that you are making a donation to the company so they can "help" others out. The debt settlement/debt negotiation companies are honest about the fees they charge for their services and are not non-profits. I'd rather work with people who are up front about the way they operate, frankly.

But neither of these types of companies is a good deal. You can do this all yourself.

# **Consumer Credit Counseling Services (CCCS)**

If you really feel that you can't handle debt settlement on your own, try Consumer Credit Counseling Services. This non-profit organization is funded by the credit card companies who received between 6 and 12 cents for every dollar they recover on your debts. There is rarely an additional fee, and all of their counselors are certified.

To locate a CCCS office, look in your local phone book. There is an office in almost every city in America. They also have a national website:

#### http://www.nfcc.org

Next Section: How to make sure you don't have to do this again

# Chapter 8 – How to make sure you don't have to go through this again

Want to avoid being in debt again now that you have your debt behind you? Even if you can't totally get out of debt this time around, you can still use these methods to save some money.

One of the ways to you can improve your life in general is to learn better money management. Think this means reusing plastic bags and driving a 15-year old car? Not at all. There are some very simple things you can do in everyday life which can add up to huge savings over the course of a month or year.

# The "B" word – budget

Are you one of those people who needs to learn how to manage your money better? Here are some questions you can ask yourself:

- Do you feel really strapped all of the time for money, just barely covering your living expenses?
- > Do you see your credit cards as the only means to go on vacation, buy Christmas presents, or clothes for you or your family

#### Track your expenses

You don't have to go crazy here, but you would be amazed how many people are unaware of home much money goes in and out of their bank accounts on a regular basis. You don't need to know your cash flow to the penny, but it helps.

Tools you can use to track your expenses:

- Microsoft Money or Quicken.
- You could use a spreadsheet program like Excel or Lotus.
- > You can even track you spending on some notebook paper.

Whatever you choose, write down everything. If you buy a can of soda at the gas station when you pay for gasoline, write down how much you spent for "gas" and how much you spent on "meals eaten out". I know, a can of soda doesn't sound like a meal; if you don't like it, then make up your own categories. You can use the spread sheet in Appendix C.

You'll want to do this for three months, then average the amount spent for each category. Hopefully, your average monthly expenses will be less than your monthly income.

#### **Prioritize**

Once you have established your list of categories (and you can't really be done until you've tracked yourself for the three months) is to put them in some kind of priority.

Put the most important on top, but don't number them yet. For example: your mortgage, groceries, utilities, health insurance, etc. Now above, whatever you have put at the top of your list, put savings and investments. Already there? GOOD! You're learning. Hopefully, the things you have listed at the bottom of your list will be things like movie rentals, dining out, etc.

### Examine what you've spent each month on each category

You may be surprised at how much you've spent on items you believe are very frivolous. When I did this, my Starbucks expenditures were startling. For help with this, Appendix C has a budget sheet.

Write down what you would like to spend next to what you are actually spending. Remember, the total of what you'd like to spend can't exceed your monthly take-home pay.

#### Figure out what you'd like to spend next month on each category

Most people can't stick to a budget because the one they make for themselves is too complicated, is not fully supported by a spouse, does not plan for the unexpected, or is unrealistic, so they stop doing it. Here are some tips to help you come up with a winning formula:

- ➤ **GOALS** Don't make your budget goals something that you've got nothing to strive for. If you are spending \$150/month dining out and you budget \$125, you'll likely just become a poor tipper.
- ➤ **REALITY -** If you're spending \$80/month on gas, don't think you'll be able to drop that amount in half. Unless you are changing jobs so you're closer to home or thinking about biking to work, gasoline is a pretty static cost. The same goes with groceries and utility bills. These are fairly fixed costs. Don't short yourself here or you will find yourself scrambling to find enough each month to pay basic living expenses.
- ➤ **UNITY** Is there a particular goal you are working toward? Maybe the goal is for Mom to be able to stay home with the kids or the family paying off all credit cards and getting out of debt. Budgets work best when everyone in the family understands and agrees on the end goal.
- ➤ **CONSISTENCY** An exercise program won't work if you don't stick with it. Neither will a budget. You have to be consistent, not on-again-off-again. If you spend more than you should one month, it's not the end of the world. Just buckle down and commit to doing better next month.
- FLEXIBILITY It takes time and experimentation to find a system that works for you. Also, things happen all the time that are unplanned. Do you have a little rubber in your budget? Be flexible.

# Easy ways to find extra dollars in your current income

**Save energy.** Deregulation in some states has allowed electric and natural gas suppliers to compete for your business. Shop around for better deals. A more energy-efficient home can also help. There are some services both on line and in person which can give you an analysis of your home and make suggestions.

How about doing the simple things like turning up the thermostat in the summer and down in the winter to save on heating and cooling costs? Shutting down the computer when not in use? Turning off the lights when you leave the room?

**Mortgage.** Are mortgage rates so favorable right now that you could refinance and get a lower payment? How about getting rid of PMI (mortgage insurance)? Mortgage insurance is very expensive, but you can usually stop paying it once you have 20% equity in your home. If the value of your home has increased, contact your bank to learn how to stop paying this insurance.

**Lower your long-distance bill.** Examine your phone bills to see what you're paying for local, long-distance and wireless service. There are so many choices now to choose from, you are bound to find a better deal. Also, many people are choosing to use their cell phone free long distance minutes rather than the more expensive land-line calls.

**Coupons.** We all hate 'em, but they do help to save you money. Do a little homework: can cutting coupons make a difference in your grocery bills?

**Use your local library.** Do you really need things like cable TV? How about borrowing movies from the library rather than renting them. And while we're talking about the library, how about borrowing books rather than buying them? I've also heard many libraries have computer games for rent as well. Most libraries allow free use of the Internet as well, so you can think about canceling your internet access account.

**Cut down on the use of your car.** The expenses here are not just gas, but the wear and tear on your car. Can you use public transportation, walk or bike to work, carpool? Not only are these great ways to save money, but you'll have a better social life and be in better physical shape to boot?

#### **Pack Your Lunch**

Most people spend \$5 - \$9 each time they go out to lunch while at work. Most packed lunches of an apple, cookies or chips and a sandwich cost about \$2 to make. Many micro-wavable lunches cost \$1.50 - \$2.50. You do the math.

#### **Convenience foods are expensive**

Have you heard the one about the frozen peanut butter and jelly sandwiches or the frozen microwavable baked potatoes? It's not a rumor. A little extra effort in the kitchen can save you large dollars.

#### **Avoid buying coffee in coffee houses**

If you stop for coffee each morning on your way to work you're probably spending between \$1 and \$3. Bringing a thermos of coffee from home to work could save you \$5 to \$15 per week.

#### **Free Checking**

Another no-brainer way to pare expenses is by finding a checking account that's right for you. Don't let bank fees steal your money. Many programs offer reduced or no fees if you keep an account balance above a certain limit.

#### **Avoid recreational shopping**

For some people shopping at the mall is a way to unwind and relax. However, this can get very expensive if you're buying things you don't need. Find another outlet for yourself or cut down on trips to the mall.

#### Pay your bills on time to save on fees and penalties.

Credit card companies charge errant customers hefty fees for minor infractions. Pay your bill a day late and you could get slapped with a \$29 fee. If the fee pushes you over your credit limit, bang, another \$29 can hit your account. That's \$58, for nada.

For other tips on saving money, we like the http://www.stretcher.com website.

# Comparison to the average person's expenditures in 2000

It may help you to figure out if your spending habits are out of line by comparing them to the average person's expenditures. The average income for each person in this same study was \$45,000.

**Food:** According to the Bureau of Labor Statistics 2000 Consumer Expenditure Report the average consumer unit (that's 2.5 people) spent \$5,158 on food for in year 2000. That's \$2063.20 per person if you split it up among everyone in the average home.

**Transportation:** The average person spent \$2966.80 getting from one place to another in the year 2000.

**Clothing:** The average person spent about \$742.40 on apparel in the year 2000.

**Entertainment:** The average person only spent about \$745 on entertainment in the year 2000. That's only about 5% of the total average expenditure for that year.

**Housing:** By far the largest expenditure, according to the BLS report the average person spent \$4927.60 in order to have a place to live in 2000. With the average household being 2.5 persons that would be \$12,319.

**Dining Out:** Consumers spent \$854.80 eating out in 2000. That's about 41% of the money spent on food was spent outside of the home.

**Pensions and Social Security:** The average person spent \$1,186.4 on pensions and Social Security in 2000. That's about 3% of total expenditure that goes toward retirement.

# And the money leftover now that you've revised your budget???

Now that you've found some ways to save some money, apply at least half of your newly found surplus towards your debts, or better yet, your savings account!

# Appendix A – Sample Letters

# Acceptance of Verbal Offer

If you have worked out a settlement with a credit card company or collection agency, before you send them any money, you need to confirm in writing the offer and get a company representative's signature on it. This letter is best combined with the "Agreement to settle a debt" letter.

Dear Creditor, Re: Account Number
This letter is to confirm the settlement offer made between myself and your customer service representative made on, 20
I really appreciate the fact that your company is willing to work with me on this matter; I wanted to make an honest attempt to settle this debt.
The amount your customer service representative and I agreed to settle this debt in full is \$ In addition, any references to late payment or charge off regarding this account are to be removed from my credit file.
If these terms are acceptable to your company, please sign the attached letter of agreement and return a copy to me. Upon receipt of this <b>signed acknowledged</b> agreement, I will express you a money order in the amount stated above.
Yours truly,
Your name Enclosed attachments

# **Counter Offer**

If you want to counter an offer made to you by a creditor, verbal or otherwise, this is the way to go. You should pair this letter with the "Agreement to settle a debt" letter, also in this appendix.

Dear Creditor, Re: Account Number
This letter is to make a <b>counter offer</b> to the settlement offer made between myself and your customer service representative phone number made on, 20
I really appreciate the fact that your company is willing to work with me on this matter; I want to make an honest attempt to settle this debt.
The amount I would like to propose as the payment in full for this debt is \$ In addition, this settlement would require any references to late payment or charge off regarding this account to be removed from my credit file.
Unfortunately, I have several other companies with which to conduct negotiations over debt, and a limited amount of funds. I will most likely be able to make payments to those companies who are willing to meet my terms. I do not have enough money to pay everyone. Time is of the essence; I have already reached agreeable settlements with a couple of my creditors and I doubt if I will have any funds remaining after the end of this calendar month.
<pre><optional clause=""> My credit rating is the most important item in this settlement agreement to me, I may be willing to offer more money to regain a perfect credit rating as reported to the credit bureaus.</optional></pre>
If these terms are acceptable to your company, please sign the attached letter of agreement and return a copy to me. Upon receipt of this <b>signed acknowledged</b> agreement, I will express you a money order in the amount stated above.
Yours truly,
Your name Enclosed attachments

# **Unsolicited Offer**

If you want to go ahead and make a creditor a written offer without discussing it, here is the way to go. You should pair this letter with the "Agreement to settle a debt" letter, also in this appendix.

Dear Creditor, Re: Account Number
After a long period of difficult times with my personal finances, I am finally in a position where I would like to take care of the debt whose account number is above. I really appreciate in advance all efforts your company is willing to make to help us resolve this issue; I want to make an honest attempt to settle this debt.
The amount I would like to propose as the payment in full for this debt is \$ In addition, this settlement would require any references to late payment or charge off regarding this account to be removed from my credit file.
Unfortunately, I have several other companies with which to conduct negotiations over debt, and a limited amount of funds. I will most likely be able to make payments to those companies who are willing to meet my terms. I do not have enough money to pay everyone. Time is of the essence; I have already reached agreeable settlements with a couple of my creditors and I doubt if I will have any funds remaining after the end of this calendar month.
<pre><optional clause=""> My credit rating is the most important item in this settlement agreement to me, I may be willing to offer more money to regain a perfect credit rating as reported to the credit bureaus.</optional></pre>
If these terms are acceptable to your company, please sign the attached letter of agreement and return a copy to me. Upon receipt of this signed acknowledged agreement, I will express you a money order in the amount stated above.
Yours truly,
Your name
Enclosed attachments

# Agreement to settle a debt

name>, hereafter referred to as debtor and <insert card="" company's="" credit="" name="">, hereafter referred to as creditor on acct number</insert>
Upon receipt of a certified check from the debtor for \$, the creditor agrees that this balanced owed on acct number is zero and that no further payment or fees are due from the debt at any time in the future.
In addition, the creditor agrees to remove any references to late payment or charge off regarding this account from my credit file.
This contract supersedes all others between the debtor and creditor.
Date:
Debtor
I attest that I am authorized to make decisions regarding the making and acceptance of settlement offers for outstanding credit card for the <insert card="" company's="" credit="" name=""> company.</insert>
Read, Approved and Accepted by: Date: Creditor

# California Resident Full Payment Letter

March 13, 1998

Account Number: XXX-XX-9990

Dear Mr. Rip-Off Artist

This letter concerns the money I owe you. For the past three months I have received bills from you stating that I owe \$1000 for shoddy furniture which you refused to replace or repair. Because of the incredibly inferior condition of the merchandise I have received, I feel I owe you no more than \$200. It is obvious that there is a good faith dispute over this bill.

To settle this debt I will send you a check for \$200 with a restrictive endorsement and if you cash that check it will constitute an accord and satisfaction. In other words, You will receive from me a check that states "cashing of this check constitutes payment in full." If you cash this check, that check will take care of what I owe you.

Sincerely,

Ms. Outraged Customer

# California Resident Full Payment Letter With Check

May 1, 1999

Account Number: XXX-XX-9990

Dear Mr. Rip-Off Artist

Enclosed is a check for \$200 to cover the balance of Account Number XXX-XX-9990. This check is tendered in accordance with my letter of March 13, 1998. If you cash this check, you agree that my debt is satisfied in full.

Sincerely,

Ms. Outraged Customer

# Cease and Desist to a Collection Agency

Under the Fair Debt Collection Act, you have the right to ask the collection agencies to stop contacting you—and they must comply with this request. Here is a letter you might use as a guide. Keep a copy for your files and send the letter registered mail.

Your Name 123 Your Street Address Your City, ST 01234

Cheatem Collections 123 Fagetaboutit Ave Chicago, IL 00001

Date

RE: Account XXXX-XXXX-XXXX

Dear Sir or Madam:

I request that you CEASE and DESIST in your efforts to collect on the above referenced account (see letter attached). It is my personal policy not to deal with collection agencies and I will only deal with the original creditor of this account.

You are hereby instructed to cease collection efforts immediately or face legal sanctions under applicable federal and state law.

GIVE THIS LETTER THE IMMEDIATE ATTENTION IT DESERVES.

Cordially,

Your Signature Your Name

# Appendix B – Statute of Limitations

Below are the State Statutes of Limitations for various kinds of agreements. All figures are in years.

**Oral Contract:** You agree to pay money loaned to you by someone, but this contract or agreement is verbal (i.e., no written contract, "handshake agreement"). Remember a verbal contract is legal, if tougher to prove in court.

**Written Contract:** You agree to pay on a loan under the terms written in a document, which you and your debtor have signed.

**Promissory Note:** You agree to pay on a loan via a written contract, just like the written contract. The big difference between a promissory note and a regular written contract is that the scheduled payments and interest on the loan also is spelled out in the promissory note. A mortgage is an example of a promissory note.

**Open-ended Accounts:** These are revolving lines of credit with varying balances. The best example is a credit card account.

State	Oral	Written	Promissory	Open-ended Accounts
AL	6	6	6	3
AR	6	6	6	6
AK	6	6	3	3
AZ	3	5	5	3
CA	2	4	4	4
CO	6	6	6	6
CT	3	6	6	6
DE	3	6	6	6
DC	3	3	3	3
FL	4	5	5	4
GA	4	6	6	4
HI	6	6	6	6
IA	5	10	5	5
ID	10	10	5	5
IL	6	10	6	5
IN	6	10	10	6
KS	3	5	5	3
KY	5	15	15	5
LA	10	10	10	3
ME	6	6	6	6
MD	3	3	6	6
MA	6	6	6	6
MI	6	6	6	6
MN	6	6	6	6
MS	3	3	3	3
MO	5	10	10	5
MT	5	8	8	5
NC	3	3	5	4
ND	6	6	6	6

NE	4	5	6	4
NH	3	3	6	3
NJ	6	6	6	6
NM	4	6	6	4
NV	4	6	3	4
NY	6	6	6	6
OH	6	15	15	6
OK	3	5	5	3
OR	6	6	6	6
PA	4	6	4	6
RI	15	15	10	10
SC	10	10	3	3
SD	6	6	6	6
TN	6	6	6	6
TX	4	4	4	4
UT	4	6	6	4
VA	3	5	6	3
VT	6	6	5	6
WA	3	6	6	3
WI	6	6	10	6
WV	5	10	6	5
WY	8	10	10	8

# Appendix C – budget worksheet

#### SIMPLE BUDGETING

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
INCOME												
Pay												
Interest												
TOTAL INCOME	\$C	\$0	\$0 \$0	\$0	0 \$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
EXPENSES												
Food												
Rent/												
Mortgage												
Transport												
Clothes												
Bills												
Saving												
Entertain												
TOTAL EXPENSES	\$0	\$0	\$0	\$0	\$0	<b>\$</b> C	\$0	\$0	\$0	\$0	<b>\$</b> C	\$0
CASH OVER/SHORT	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	<b>\$</b> C	\$0