

Can you offer your own settlement on a debt?

The answer is yes you can. Settlement companies do not want you to know this. Before you consider a settlement, you should weigh all the facts.

The ads are everywhere on the radio, television, and internet with companies telling you that you can settle your debts for pennies on the dollar. They offer no upfront fees, and make it seem that you can be debt free very quickly. They make it sound painless and easy. **It is neither.** To lure you in, they will tell you they can get you a loan to make these settlements on your behalf. When you do not qualify for the loan, they lock you into a contract that costs you more than your just money; your credit is negatively impacted and because they do not contact all creditors, you risk being sued and your wages being garnished.

Settlement companies are constantly changing how they operate. They state they have the best option so you do not have to pay all your debts, then they state they will provide you a loan. If you call them back they will state that few people qualify for a loan. While they have you sign paperwork with them, they assign your account to another company. They do this all to confuse you. Transparent – No.

So, what is in the fine print – and there is always fine print.

Consequences – There are Many.



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“Negatively impacts your credit score.”

First, a settlement is reported as a settlement on your credit report, negatively impacting your credit score. According to Experian, one of the three large credit reporting agencies, “Settling an account instead of paying it in full is considered negative because the creditor agreed to take a loss in accepting less than what it was owed.” Because your accounts are delinquent the entirety of being enrolled in a settlement contract, your credit cannot start to recover until completion. If you care about your credit this is not good.

“You’ll have more taxable income.”

Second, you incur taxes on a settlement because a settlement is considered forgiven debt. The IRS requires the creditor to report the amount settled in a 1099 form. You must report this settlement as income on your taxes.

Paying taxes on the settled amount is one consequence you will face whether you offer a settlement on your own or use a company.



“Sign over power of attorney”

If you use a company, there is a **third** consequence. Most debt settlement companies ask you to sign power of attorney over to them. What is a power of attorney? A power of attorney (POA) is a written authorization to a company or individuals to represent or act on your behalf in private affairs, financial, or some other legal matter. The one authorized to act is the agent, attorney, or in some common law jurisdictions, the attorney-in-fact. Be very careful when signing a power of attorney to anyone.



“Inflated Fees”

A **fourth** consequence is if you use a debt settlement company they will base their fees on inflated savings. This one is a little more difficult to explain. The way it works is, you send a monthly payment to the settlement company. They put that in an account and sit on it because there is not enough money to offer a settlement yet. Month after month goes by and your accounts go further and further delinquent, continuing to negatively impact your credit report further. When you finally have enough money in your account, they will offer one of your creditors a settlement. Because your creditors are not receiving a monthly payment, your account incurs more late fees and interest. **Your balances grow rather than decrease.** The settlement company will say they saved you more money on the settlement and they will charge you more fees, when in fact their program is the reason your balances increased.

“Legal action taken against you.”

The **fifth and most damaging consequence-** the more creditors that have to wait for a settlement offer, the more likely one or more may take legal action against you. If your creditors are awarded a judgment against you in court, they are unlikely to work with you moving forward as they now have the ability to directly garnish your wages or levy your bank account.



“Hidden Fees and Charges”

Don't expect the debt settlement company to send you a monthly statement showing you what is happening with your money, how much they are charging you in fees or how your balances have grown with your creditors. They do their best to hide the fees they charge you. There is nothing transparent with the way they do business.

If you **finally** get fed up and cancel their services, they will send you a statement that is not detailed. You will not know what fees they charged you or who you still owe.

“Warning”

If that is not enough to make you think twice, the Consumer Financial Protection Bureau or CFPB says this on their website: Warning: Debt settlement may well leave you deeper in debt than you were when you started. Here's the link: <https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-relief-program-and-how-do-i-know-if-i-should-use-one-en-1457/>



“The Scam”

Still wondering if settlement is an option you want to investigate? Here is an actual voice mail message from a debt settlement company trying to get a man with an 800 credit score and no debt to call them back.

“Hi there this is Emma from debt free and it's Tuesday and I'm just following up with you. It looks like we help you with some credit card debts and personal loan that was able to get you an approval for 48,000 but I think your'e going to like just know that the program does have a limited opening and if you have about five minutes today go ahead and give me a call back so we can go over the details my number is 844-xxx-xxxx and anyone here can help you out in case I am busy again that is 844-xxx-xxxx and I will be here until seven today if you don't want us to call you again please call us and speak to a rep to be removed from my list...”

What is wrong with the message above? Is debt free the actual name of the company or just a phrase? Does Emma have a last name? The man never contacted this company so they using manipulative words saying they are following up. How on earth can anyone get approval of a loan without any information?

This message has all the signs for a scam. Do not fall for it.



**SCAM
ALERT**

“Let’s Review”

Now you know the consequences. You have to determine if you are willing to suffer to the consequences in settling a debt.

If you want to offer a settlement on a debt, you can do this yourself without paying a company to do this.

The process is:

- First, determine how much money you have for a settlement. You will need a lump sum to make an offer.
- Second, call your creditors and see if they will take a settlement from you. Ask for the information in writing. Keep this documentation for your records.
- Send the payment to the creditor.
- Keep a copy of your statement showing the debt was settled.
- You will receive a 1099 at the end of the year and you will report this information as income on your taxes.
- You will need to work to improve your credit as the settlement has a negative impact on your credit.

“Are there better options?”

Non-Profit Credit Counseling Agency

Working for an agency dedicated to helping individuals and families make their lives better, I have never referred a friend or family member to a debt settlement company. To me they have too many negative consequences. I have referred friends and family to use a debt management program as you can find on our website.

Counseling agencies work with you to create a budget and plan to reduce debt and improve financial health. In a debt management program, interest and fees are reduced, and payments are sent to your creditors on a monthly basis. Because of the continuous monthly payments, your balances are reduced, and your credit is positively impacted, unlike in settlement. You now have a plan to repay all your creditors every month while also paying all your living expenses. You work your way out of debt with a plan. Stress is relieved. You set a positive example with your kids, demonstrating how you take responsibility for your finances. You have a major accomplishment when you complete the program. And a non-profit credit counseling agency will provide you with a monthly statement or online access to see where your money is going every single month.

Debt settlement companies will not provide you with a budget or any education. Settlement companies often make individuals feel pressured to use their programs.

We do not refer friends and family to debt settlement. It is not a short process and the settlement program will make their personal financial situation worse, while charging them high fees.

Click on our debt management tab for more information.



Consumer Credit
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OF THE BLACK HILLS

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