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Credit Card Debt

Debt Resolution Tools

Resources

DEBT RELIEF OPTIONS: DEBT SETTLEMENT IS BETTER THAN BANKRUPTCY AND CONSUMER CREDIT COUNSELING

Debt Settlement vs. Bankruptcy

Bankruptcy laws in the United States changed drastically in 2005 and as such, bankruptcy should always be viewed as your last resort. In a Chapter 7 bankruptcy, you petition the court to erase all your debts completely. In return, you must turn over all your non-exempt property to the court-appointed trustee, who in turn sells your property to pay back your unsecured creditors. In a Chapter 13 bankruptcy, you set up a court approved plan to repay your debts. Under this plan, the court will determine your monthly disposable income. You must then pay that amount to a court appointed trustee who distributes it to your creditors for up to 5 years. Both of these options will negatively impact your credit scores not just while you're in the program but for many years to come making it extremely difficult to obtain any new credit even after your debts are satisfied. Having a bankruptcy on your records can even prevent you from getting a job. For all of these reasons, it is in your best interest to avoid bankruptcy if at all possible.

Debt Settlement only impacts your credit scores while you are in the program which is typically a lot less time than it takes to satisfy a bankruptcy judgment. When you are in a Debt Settlement or Debt Relief program, you can control the monthly payments and you decide how quickly you want to get out

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of debt. The only disadvantage is that Debt Settlement cannot reduce or eliminate debt you owe on secured assets like your house or car. But Debt Settlement is the best way to satisfy your debts and avoid bankruptcy.

Debt Settlement vs Consumer Credit Counseling

Consumer Credit Counseling is a service offered by many different companies to also help consumers with debt relief. During the process, a client can have their interest rates reduced and be debt free in 5-7 years. In most cases, the client will send their monthly payment directly to the credit counseling firm who then distributes that payment to your creditors. The program takes much longer than Debt Settlement and in many cases, the payments are not any lower than what you are paying now. A large percentage of clients drop out of credit counseling programs because they are difficult to manage and stick with over time. Consumers must also be aware that many credit counseling firms are funded by creditors, which gives them the incentive to make you pay as much as possible.

Debt Settlement gives you more control over your money than credit counseling. You will be in the program less time and you will save thousands of dollars in payments and interest. The negative affects to your credit report are similar in both programs. Credit counseling enrollment can show up on your credit report which can negatively impact any ability to apply for loans or credit. Debt Settlement does not show up on your credit report, it only affects your rating depending on how far behind you are in payments.

Debt Settlement vs Debt Consolidation

Debt Consolidation can come in two forms: secured and unsecured. An example of a secured debt consolidation loan would be a home equity loan or line of credit (second mortgage) against the equity in their home. This was a popular solution during the housing boom but with housing prices declining and loan guidelines tightening; these loans are much harder to come by. The advantage can be amortizing the payments over a long period of time but this does not decrease the amount you owe and it increases the amount you will pay over time. An unsecured loan will allow the consumer to bundle their debts into one easy payment but the interest rate is typically very high and it can take a long time to pay it off not providing any real debt relief.

Debt Settlement reduces the amount you owe and the amount you would pay if you amortized the debt over 25-30 years. This is a tremendous savings over time and actually decreases the amount of debt you owe rather than adding another long-term loan that you have to pay off. Debt Settlement is the most effective type of debt relief if you want to save money and get out of debt fast.

What the FTC says about Bankruptcy

Personal bankruptcy is generally considered the debt management option of last resort because the results are long-lasting and far-reaching. A bankruptcy stays on your credit report for 10 years,

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and can make it difficult to obtain credit, buy a home, get life insurance, or sometimes get a job. Still, it is a legal procedure that offers a fresh start for people who can't satisfy their debts. People who follow the bankruptcy rules receive a discharge – a court order that says they don't have to repay certain debts.

There are two primary types of personal bankruptcy: Chapter 13 and Chapter 7. Each must be filed in federal bankruptcy court. The filing fees run about \$185 for Chapter 13 and \$200 for Chapter 7. Attorney fees are additional and can vary. Chapter 13 allows people with a steady income to keep property, like a mortgaged house or a car that they otherwise might lose. In Chapter 13, the court approves a repayment plan that allows you to use your future income to pay off a default during a three-to-five-year period, rather than surrender any property. After you have made all the payments under the plan, you receive a discharge of your debts.

Known as **straight bankruptcy**, Chapter 7 involves liquidation of all assets that are not exempt. Exempt property may include automobiles, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official – a trustee – or turned over to your creditors. You can receive a discharge of your debts through Chapter 7 only once every six years.

Both types of bankruptcy may get rid of unsecured debts and stop foreclosures, repossessions, garnishments, utility shut-offs, and debt collection activities. Both also provide exemptions that allow people to keep certain assets, although exemption amounts vary. Note that personal bankruptcy usually does not erase child support, alimony, fines, taxes, and some student loan obligations. And unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually does not allow you to keep property when your creditor has an unpaid mortgage or lien on it.

Source: <http://www.ftc.gov/bcp/conline/pubs/credit/kneedeep.htm>

What the Federal Trade Commission (FTC) says about Credit Counseling

Credit Counseling is another option. If you're not disciplined enough to create a workable budget and stick to it, you can't work out a repayment plan with your creditors, or can't keep track of mounting bills, you can consider contacting a credit card debt settlement counseling organization. Many credit counseling organizations are nonprofit and work with you to solve your financial problems. But be aware that just because an organization says its "nonprofit," there's no guarantee that its services are free, affordable, or even legitimate. In fact, some credit counseling organizations charge high fees, which may be hidden, or urge consumers to make "voluntary" contributions that can cause more debt.

Most credit counselors offer services through local offices, the Internet, or on the telephone. If possible, find an organization that offers in-person credit card debt counseling. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate

nonprofit credit counseling programs. Your financial institution, local consumer protection agency, friends and family may also be a good source of information and referrals. Reputable credit counseling organizations can advise you on managing your money and debts, help you develop a budget, and offer free educational materials and workshops. Their counselors are certified in credit card debt settlement consolidation and trained in the areas of consumer credit, money and debt management, and budgeting. Counselors discuss your entire financial situation with you, and help you develop a personalized plan to solve your money problems. An initial counseling session typically lasts an hour, with an offer of follow-up sessions. Protect yourself and be wary of credit counseling organizations that:

- Charge high up-front or monthly fees for enrolling in credit counseling or a DMP (Debt Management Program).
- Pressure you to make “voluntary contributions,” another name for fees.
- Won’t send you free information about the services they provide without requiring you to provide personal financial information, such as credit card account numbers and balances.
- Try to enroll you in a DMP without spending time reviewing your financial situation.
- Offer to enroll you in a DMP without teaching you budgeting and money management skills.
- Demand that you make payments into a DMP before your creditors have accepted you into the program.

Source: <http://www.ftc.gov/bcp/online/pubs/credit/kneedeep.htm>

What the FTC says about Debt Consolidation

The FTC defines **Debt Consolidation** as: 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. Remember that 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, the costs of debt consolidation loans can add up. In addition to interest on the loans, 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 and credit cards. You must have equity in your home and be able to qualify in order to obtain a home equity loan for debt consolidation.

Source: <http://www.ftc.gov/bcp/online/pubs/credit/kneedeep.htm>

The Best Debt Relief – Debt Settlement

If the path you have been on has not successfully led you to the goals you wish to achieve, then it’s time to choose a different path. You can **lower your payments** and become debt free.

If continuing to make the minimum monthly payments over and over each month has failed to help you get out of debt, then it’s time for a change! Simply put, continuing to make minimum monthly payments

can take years to pay back, and cost thousands of dollars in interest alone. It may actually put your farther into debt and you may not be able to avoid bankruptcy if that happens.

If you are only making minimum payments on \$20,000 in credit card debt, at a 19.0% interest rate, it will take you over 50 years to pay it off and you will pay over \$50,000 in interest during that time!

The number of years to pay off a credit card balance is based on 19% interest and a minimum monthly payment of 2.1% of the outstanding balance.

Most cards require a minimum monthly payment between 2.0% and 2.4% of the outstanding balance.

Source: CNN Money