

1. The Process is Quick, Easy, and Free

- This is incorrect. The process can easily take 3 years. Private debt settlement companies are for-profit entities that charge a fee of 15%-25%.
- You make payments to the company, which go into an account.
- Only when the account has reached enough funds (including the fee to pay the debt settlement company), will the company negotiate with your creditor.
- While you are making payments into the account, your creditors are charging late fees and accumulating interest on the unpaid debt.
- Many consumers drop out of debt settlement agreements without settling their debts because it becomes unaffordable.

2. All of Your Debts Will be Resolved

- A second misconception is that a debt settlement company will be able to resolve all of your debts. This cannot be guaranteed. Many creditors choose not to work with debt settlement companies.
- If your creditor has the policy to not work with a debt settlement company, then there can be no negotiations. Additionally, your creditor does not have to agree to the debt settlement company's lower lump sum payment.

3. You Cannot Be Sued

- Debt settlement companies tell you to pay them instead of your creditors, but they do not reach out to your creditors until the escrow account has the agreed balance. Your creditors don't have to wait for payment. They can sue you when they decide.

4. The Debt Settlement Company Will Provide Someone to Assist You in the Lawsuit

- When you are sued by a creditor and have engaged the services of a debt settlement company, there is a belief that the debt settlement company will help you with the lawsuit. This is a misconception. People working for the debt settlement company are generally not attorneys. Some companies have attorneys on staff, but those attorneys do not go to court with you.
- You won't have anyone from the company to assist you in the lawsuit. Any advice that they give you may make the situation worse.

5. No Negative Credit Impact

- Debt with missed payments or where the creditor accepted a settlement have a negative impact on credit ratings. This could affect your future loan terms, credit availability, employment opportunities, and more.

6. Debt Settlement Will Not Impact Your Taxes

- If a creditor agrees to settle your debt in exchange for less than the full amount, you may owe taxes on the savings. For example, if you owe a creditor \$10,000 and they settle for a one-time payment of \$7,500, the balance of \$2,500 is considered taxable income.
- If the settlement results in a debt reduction of \$600 or more, the creditor is required to notify the IRS.

This is not legal advice. To get free legal help with Bankruptcy:

WWW.MVLSLAW.ORG/APPLY

Or call intake between 9 a.m. and 12 p.m. on Monday through Thursday at 1(800) 510-0050 or (410) 547-6537

When Is It Alright To Work With A Debt Settlement Company

It can be difficult to get out from under overwhelming debt on your own. If you have money to help resolve your debts, but not the total amount owed, a debt settlement company can work with your creditors to accept a smaller amount than what you owed. However, due to the downsides, there are better places to start.

Negotiating Your Debt, Yourself

You can negotiate directly with credit card companies and other lenders. There is no guarantee the companies will accept your offer, but if they do, that is a considerable savings for you.

- If you have medical debt, nonprofit hospitals must have financial assistance plans. If you have medical debts, ask if they have financial assistance and if you qualify.
- Explain why you're having trouble paying and ask if they will accept less, waive old fees, lower your interest rate, or give you an affordable payment plan.
- State and federal laws protect some types of income from most debt collectors. If your only income is social security and you don't own property or lavish goods, you may not have to pay at all. Get legal advice to find out if this applies to you.
- If job loss, illness, injury, death of a family member, divorce, or other hardship prevented you from paying your debts, creditors may delay collection, accept a lower amount, or offer more affordable payment options.

If you want to negotiate your debt yourself, but need some financial advice, start with nonprofit credit counseling. Nonprofit organizations will help you work out your budget and look at options. Starting with a nonprofit credit counselor for free (or low cost) financial advice can be a great way to start working on your debt.

Bankruptcy

Bankruptcy is a way to eliminate or manage your debts through the courts.

There are two kinds:

1. Chapter 7 forgives most debts and stops collection actions instantly. Most consumers get to keep the things they own.
2. Chapter 13 includes a plan to repay creditors a portion of what is owed. It takes 3 to 5 years to complete, though consumers are protected from collection during that time

Bankruptcy is a good choice for many people with overwhelming debt. Most bankruptcy attorneys will meet with you for free for the first time.

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