



## Know the Difference between Debt Settlement and Debt Management

There are major differences between a debt settlement company and a non-profit credit counseling company. Being a smart consumer when it comes to managing your debt can save you a lot of money and aggravation.

### What You Can Expect From a Debt Settlement Company

Debt settlement companies do a lot of advertising and make huge promises about how easy it is to free you from a mountain of debt. These are for-profit companies that have one goal: to make money for their investors and shareholders. Their employees are often paid a commission based on how many fees they collect from consumers.

A settlement company will attempt to negotiate a settlement offer with your creditor after you pay them enough money to make a reasonable settlement. They may suggest that you stop paying your creditors and instead begin making deposits into a special third-party account. However, your initial payments — totaling hundreds or even thousands of dollars over a period of months — may go toward paying fees to the debt settlement company before any of your money is set aside to begin accumulating for payment to your creditors. During this time, the balance on your debt can continue to grow if interest and penalty fees continue to be charged by your creditor. The result is you may owe more than when you started and your credit may suffer. Even worse, your creditors may take legal action against you. Any missed payments to your creditors will reflect negatively on your credit report. And, if any debt is actually settled, you will likely owe income taxes to the IRS on the forgiven amount.

### What You Can Expect From a Credit Counseling Agency

Reputable non-profit credit counseling companies do not make unrealistic claims in their advertising. Reputable agencies will be affiliated with the National Foundation for Credit Counseling (NFCC) or the Association of Independent Consumer Credit Counseling Agencies (AICCCA). Accredited, non-profit credit counseling companies do not pay employees a commission.

The credit counseling process begins with a free financial assessment. Your counselor will gain an understanding of your situation and goals, and will then work with you to create a detailed budget of income and expenses. The counselor will review the various options that are available to you to address your debt and provide you with an action plan to move forward.

A non-profit credit counseling company may offer to enroll you in a debt management program (DMP). A DMP can lower your interest rates, eliminate late and over limit fees, stop collection calls, and re-age your accounts from “delinquent” back into “current” status. With a DMP, you make payments to the counseling agency and the agency then pays your creditors on your behalf. A reputable, credit counseling company should never try to push you immediately into a DMP.

## **Consider All Your Options**

It's critical that you consider all the options available to you. Debt settlement is best for a very small segment of people — potentially those who have charged off debt and/or those who have received or are expecting to receive a lump sum of money. A DMP is an appropriate option for a greater percentage of consumers. Even more may be able to handle their debts on their own with some counseling and education. And, for some consumers, bankruptcy may be appropriate.

A company with only one product or service has a vested interest to sell you that product or service. Work with someone who will help you determine the best option for you.