

DEBT MANAGEMENT

Need Help Digging Out of Debt? What You Can Do

Beware of ‘debt relief’ services that sound too good to be true. There are other alternatives for helping you get a handle on your debt.



(Image credit: Getty Images)

We've all seen the TV commercials for companies that offer “debt relief” or “debt adjusting” services for people suffocating under the weight of crushing debt.

For consumers feeling like they are in over their heads, hearing the words “debt relief” can seem like the answer. But there is no such thing as a magic wand for making debt disappear. While debt settlement companies often advertise that they can negotiate with creditors to reduce the amount consumers owe, working with them carries potential long-term risks.

The Consumer Financial Protection Bureau (CFPB) has compiled a lengthy list of possible legal and financial risks associated with debt settlement companies, which include:

- Consumers being charged high fees — sometimes as much as 25% of their total debt balances — even though in many cases, the companies may not be able to settle all of their debts.
- Potential negative impacts on the consumer’s credit score and hindering the consumer’s ability to get credit in the future.
- Some creditors refusing to work with the debt settlement companies chosen by consumers.

- Consumers being encouraged to stop paying their credit card bills, even though doing so would cause them to incur penalty interest, late fees and other charges — likely causing creditors to ramp up their debt collection efforts, to the point of filing lawsuits.
- Consumers being instructed to transfer money into a bank account managed by a third party, for which they could incur fees.
- Consumers falling prey to scams because some debt settlement companies falsely claim to be government-affiliated or nonprofit organizations. Others may try to circumvent fee regulations by encouraging people to sign up in person or online.

When consumers stop paying their debt, they may incur late fees on their credit card accounts and loans, and their annual percentage rates (APRs) may go up. And every time consumers miss a payment, their credit score may drop and their credit reports may display the missed payments for seven years.

Furthermore, any amount forgiven through debt resolution companies can be considered income — which could hit people in their wallets on Tax Day.

Financially healthier options for managing debt

As we see above, the CFPB has outlined many reasons why debt settlement companies can leave consumers in more debt, not less.

There are several different alternatives to working with companies offering outright debt relief. Although these options don't claim to make debt disappear, they can help consumers pay down their credit card and other debt, while managing — rather than diminishing — their credit scores and profiles.

1. Apply for personal loans.

Consumers can apply for funding to meet expenses and consolidate debt online via lending platforms such as Prosper, where I am the CEO. Personal loans between \$2,000 and \$50,000 like the ones offered through the Prosper platform are a fixed rate for a fixed period of time (either two, three, four or five years) and have no prepayment penalties, so they can be paid off as soon as possible.

They also give borrowers the flexibility to choose the option that works best for them, checking loan rates and eligibility doesn't affect consumers' credit scores — and once approved, the money goes straight into consumers' existing bank accounts.

While personal loan monthly payment amounts may be higher than those required by debt resolution companies, the loans themselves are designed to help consumers manage their situation and improve their overall financial health.

2. Work with nonprofit credit counselors.

A certified, not-for-profit credit counselor can work with a consumer to help craft a debt management plan. But that's not all — they can also provide services for improving credit scores and better managing personal finance, such as creating effective budgets or sitting down to review credit reports and offering tips for raising scores. Most nonprofit credit counseling services are available at no charge; lists of certified counselors can be found at www.NFCC.org or www.ConsumerCredit.com.

NYSUT NOTE: [Cambridge Credit Counseling](#), endorsed by the NYSUT Member Benefits Corporation, has nationally certified counselors who can help determine the best course of action based on your unique situation.

3. Negotiate with creditors on their own.

Credit card companies and other creditors would always rather consumers pay something instead of nothing. Reaching out to creditors on their own to negotiate a new payment schedule or rate can go a long way to helping consumers pay down as much debt as they can, while pacifying creditors' aggressive collection efforts.

4. Meet with a bankruptcy lawyer.

A bankruptcy attorney can help consumers understand whether or not bankruptcy would be a viable option for them under the law. Some bankruptcy lawyers will offer advice to potential clients in initial meetings for free.

Credit can be a helpful tool if it is used the right way. With the power of education, consumers can find the best way to strategically reduce their debt without seriously damaging their credit over the long term.

NYSUT NOTE: NYSUT members can receive a free, no-obligation debt consultation with a certified counselor from [Cambridge Credit Counseling](#), endorsed by NYSUT Member Benefits Corporation. A counselor can review your income and expenses, create a budget to fit your situation and goals, and offer recommendations for staying on budget.

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