

- 1 • **Managing Debt**  
Paying off debt and managing creditors
- 2 • **The Truth about Debt Reduction**
  - Beware of quick fixes
    - Avoid debt consolidation and debt management
  - Be willing to work and sacrifice
    - It took a long-time to get into debt, it will take a long-time to get out of debt
      - Consider an additional job temporarily
      - Consider selling items
      - Can you take on a renter
- 3 • **The Truth about Debt Reduction**
  - No more plastic
    - Pay cash, “feel” the money leave your pocket
      - Use a debit card if you “must” use plastic
    - Setup a budget
  - Cut out habits that make you spend more
    - Personal finance is 80% behavior
    - Use common sense, you cannot beat a multi-million dollar company in a “game” that does not exist.
- 4 • **Tips for managing creditors**
  - Don't ignore or avoid them
  - Manage their ability to harass you
  - Explain to them your current situation
  - Proactively contact them
- 5 • **When should you contact creditors**
  - Ideally, before a delinquency starts.
    - More willing to work with you if they know the situation up front
    - If you are already late, your credibility may be damaged
- 6 • **Advantages of contacting creditors early**
  - Early discussions may get your creditor to:
    - Eliminate late charges
    - Not report your delinquency to the credit bureaus
    - Permit you to make interest-only payments for a period
    - Prevent your utilities from being cut off
    - Avoid collection agencies
    - Defer payments to the end of your contract
- 7 • **Guidelines for Contacting Creditors**
  - Know what you can and cannot afford
    - Try to have a solution that you can work with and that they [creditors] will accept
    - If you have not determined a reasonable amount yet, set a time frame of no longer than 30 days
- 8 • **Guidelines for Contacting Creditors**
  - Write down what you intend to say to help defuse the emotion
  - Be open, honest, and courteous with them up front
    - Never promise one creditor money that you already agreed to pay another creditor
  - Make sure they know you are working with a coach

- 9 • **Guidelines for Contacting Creditors**
  - If you have a time frame of when regular payments may resume, let them know.
  - Always keep a copy of your payment plan by the phone in case the creditors call
- 10 • **Guidelines for Contacting Creditors**
  - Only promise to pay what you can afford. Consider:
    - How much take-home income can I count on?
    - What are the current fixed payments? (mortgage/rent, auto loans, etc.)
    - What are the current flexible expenses (food, clothing, fun)
- 11 • **Guidelines for Contacting Creditors**
  - What to ask for
    - Lower interest rates to allow you to get back on track
    - Deferred payments
    - Settle the debt at a reduced amount
    - Remember, it doesn't hurt to ask
- 12 • **What debts are good candidates for settlement**
  - For the purposes of discussion, two basic categories of debt exist
    - Unsecured
      - medical bills
      - credit cards
      - department store cards
      - student loans
      - bounced checks
    - Secured
      - home
      - auto
- 13 • **What debts are good candidates for settlement**
  - Secured debts
    - Not good candidates because a piece of real property is promised if the debtor cannot pay or defaults on the loan
- 14 • **What debts are good candidates for settlement**
  - Unsecured
    - Ideal because nothing is “attached” or promised as repayment
    - Willing to settle because anything is better than nothing at all
      - Remember, the collectors want to collect their money
- 15 • **Debt settlement**
  - How much to offer
    - Background
      - Most bad debt companies pay or receive pennies on the dollar for debts they are trying to collect
      - The amount that companies pay for bad debt depends on the type of account and its age
        - Debts that have recently been charged off: 6 to 7 cents on the dollar.
        - Accounts that are slightly older and on which a collection agency or two has already taken a whack: 1.5 cents to 2 cents on the dollar.
        - Years-old, out-of-statute debts: A penny or less.
- 16 • **Debt settlement**
  - How much to offer
    - Start your offer at 25% or less
      - i.e., if your debt is \$1,000, let's say the collection agency has paid or will collect 7 cents on the dollar (\$70). If you offer 25% (\$250) they are still making a profit of \$180.
      - Remember, the credit card companies are out of the picture at this point. This money goes directly to the collection agencies.

## 17 • Debt settlement

- Things to remember during negotiation
  - Never talk to a collection agency on the phone, period
  - Get your terms in writing before you even open your checkbook
    - Never expect a creditor to hold to a verbal agreement
  - Keep good records
    - Don't expect a creditor to remember what you agreed to.

## 18 • Debt settlement

- Things to remember during negotiation
  - Send all correspondence via registered mail, receipt requested
  - Keep a copy of every letter you send
  - If you call (and remember you shouldn't) keep a log of who you spoke to as well as their supervisor's name
    - Turnover is high at collection agencies

## 19 • Debt settlement

- Things to remember during negotiation
  - Follow-up all phone conversations with a written letter (registered mail, etc).
  - Penalties and extra interest are typically fictitious amounts of money added on by the collection agency to pad their profits.
  - Time is on your side
    - As time passes, the collector may stop calling and the debt will be filed a way for future action
    - The longer the debt remains uncollected, the better your chances for a good settlement

## 20 • Debt settlement

- Things to remember during negotiation
  - Never look to eager to settle
    - Take plenty of time to reach an agreement
    - Don't accept the first, or even second, settlement offer.
      - Make sure that they are the ones calling you to push the deal forward
      - You cannot expect to reach an affordable settlement if the creditor thinks he has the upper hand.

## 21 • Debt settlement

- More than one collector for the same debt
  - This means that the original creditor has hired a secondary or even tertiary collection agency
  - The original creditor and first collection agency has given up on you
  - The second collection agency has paid even less for the debt than the first one.
  - If the agency hasn't been able to reach you by phone but knows that you are receiving its letters, it may be willing to take even less.

## 22 • Debt settlement

- Don't Forget
  - Negotiate your credit rating with the creditor
    - This is very important as a "paid" collection is as negative to your credit rating as an "unpaid collection."

## 23 • What creditors can and cannot do

- When dealing with creditors remember the following laws:
  - Fair Credit Reporting Act (1971)
  - Fair Credit Billing Act (1975)
  - Fair Debt Collection Practices Act (1978)
  - Equal Credit Opportunity Act (1975):
  - Truth in Lending Act (1969)
  - Fair Credit and Charge Card Disclosure Act (1989)

- 24 • **What creditors can and cannot do**
  - **Fair Credit Reporting Act (1971)**
    - Federal law Establishing the following:
      - When a credit reporting agency may provide a report
      - Obsolete information must be taken off (seven to 10 years)
      - Right to know what is in their credit report
      - An obligation to correct wrong information
      - Right to dispute inaccurate information and add a 100-word statement to their report to explain accurate negative information
      - Right to know what credit bureau provided the report when they are turned down for credit.
- 25 • **What creditors can and cannot do**
  - **Fair Credit Billing Act (1975)**
    - Federal law that applies to open-end credit accounts establishing the following:
      - Billing errors must be sent by consumers in writing within 60 days to creditor
      - Creditor must acknowledge within 30 days
      - Creditor must investigate
      - Creditor cannot damage credit rating while in dispute
- 26 • **What creditors can and cannot do**
  - **Fair Debt Collection Practices Act (1978)**
    - Federal law that establishes:
      - Prohibits debt collectors from unfair, deceptive, or abusive practices
      - Collectors must submit written notice
      - Collectors cannot contact consumer if disputed within 30 days
        - Unless collector has proof of the debt
      - Collectors can call from 8am – 9pm and must identify themselves
        - unless consumer agrees to another time
      - Collectors cannot call consumers at work if they are told not to.
- 27 • **What creditors can and cannot do**
  - **Equal Credit Opportunity Act (1975):**
    - Federal law that establishes:
      - Consumers are given an equal chance to receive credit
      - Prohibits discrimination
      - Lenders cannot ask plans for having children or refuse to consider consistently received alimony or child support
      - If denied credit you have the right to know why
- 28 • **What creditors can and cannot do**
  - **Truth in Lending Act (1969)**
    - Federal law that mandates:
      - disclosure of information regarding the cost of credit, (i.e. APR, finance charges, etc.)
      - Provides for criminal privileges for willful violators as well as civil remedies
      - Protects against the unauthorized use of a credit card
        - The max. amount owed if the card is lost or stolen is \$50.
- 29 • **What creditors can and cannot do**
  - **Fair Credit and Charge Card Disclosure Act (1989)**
    - A part of the Truth in Lending Act that mandates a box on credit card applications that describes key features and cost (i.e. APR, grace period for purchases, minimum finance charge, balance calculation method, annual fees, transaction fees for cash advances and penalty fees such as over the limit fees and late payment fees).
- 30 • **Resources and Tools**
  - <http://www.gracebudgetministry.org> -> Resources
- 31 • **What are your experiences**