

# Need Help with Debts?

## Don't get burned by scammers - know the facts about debt relief!

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Debt relief is the generic name for different ways you can manage your bills. This fact sheet covers different types of debt relief and what you should watch out for. Debt relief scammers often target people in financial distress, such as those affected by a natural disaster. So people looking for assistance after a hurricane, flood, or fire should be especially cautious about scams.

### DEBT SETTLEMENT

Companies offering debt settlement tell you to pay them instead of your creditors. They promise that if you make payments to them instead. They will settle your debts for a smaller lump sum payment once you have saved enough money in a special account.

What you should know:

- Companies charge monthly fees for debt settlement plans, often for years.
- Debt collectors will keep calling you and may even sue you if you stop paying them.
- Your bills will keep growing with interest and late fees until there is a settlement (if there ever is one).
- If a debt settlement plan works, it can take years to complete, but many people drop out because they can't afford it.
- There are no guarantees. Your creditors don't have to agree to accept a smaller lump sum payment. and some will not even talk to debt settlement firms.

Debt settlement is unlikely to help you resolve your debts, and you may even end up owing more than when you started.

### DEBT CONSOLIDATION

Some companies offer to help you combine all your old bills into one new, bigger loan. They say it's easier to make one simple payment—to them.

What you should know:

- Debt consolidation doesn't make your debt go away. It just changes who you pay.
- The new loan may include expensive fees.
- If they don't give you a lower interest rate on the new loan, you could end up deeper in debt.

Before you sign up for debt consolidation, know your budget. Ask what the company will charge and what services it will provide. Ask for a copy of the loan agreement and take it to someone you trust before you sign.

### DEBT MANAGEMENT PLANS

Debt management plans are offered by nonprofit organizations that will talk with your creditors and try to lower your interest rate, waive late fees, and arrange a single monthly payment that you make to the nonprofit. The nonprofit then distributes your money among your creditors.

#### What you should know:

- The nonprofit charges monthly fees, often for years. Some nonprofits make a lot of money from these fees.
- A debt management plan takes years to complete successfully.
- Many people drop out because they can't afford the payments.
- Ultimately you will still pay off the full amount of your bills, just with less interest and fewer penalties.

Debt management plans are not right for everyone but, if you can afford them, they're safer than debt settlement. Ask about the fees. Ask what happens to your bills if you drop out. Make sure that the group offering the debt management plan is a nonprofit —ask if they are a "501(c)(3)." Then ask around to see if the nonprofit is trustworthy, and read any reviews with the Better Business Bureau. Consider whether you can afford the fees and monthly payments.

## NONPROFIT CREDIT COUNSELING

Some nonprofit organizations will help you work out your budget and give you financial advice.

#### What you should know:

- Nonprofits may charge a small fee for credit counseling services.
- Some nonprofits recommend debt management plans (discussed previously).
- 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:

- Chapter 7 forgives most debts and stops collection actions instantly. Most consumers get to keep the things they own, though occasionally they have to give up some things to repay creditors.
- 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.

#### What you should know:

- The court charges a filing fee and you usually need a lawyer, which can be expensive.
- If you do not complete a Chapter 13 bankruptcy, you will still owe what has not been paid during the case.
- Student loan debts are usually not forgiven in bankruptcy.
- Bankruptcy won't make your home mortgage or auto loan go away if you want to keep the property, but you can use Chapter 13 to get out of default.

Bankruptcy is a good option for some people. You may want to talk to a nonprofit credit counselor first. Most bankruptcy attorneys will meet with you free the first time. Bankruptcy petition preparers (nonlawyer typing services) cannot legally represent you in a bankruptcy or give you legal advice. To find a bankruptcy lawyer, visit the National Association of Consumer Bankruptcy Attorneys website

and click on “Find an Attorney” (see top toolbar) at: <https://www.nacba.org>.

## **SELF HELP**

You may be able to get the help you need by talking to your creditors directly instead of hiring someone else to do this for you.

### **What you should know:**

- If you have medical debt, nonprofit hospitals are required to have financial assistance plans. Ask if your doctor has 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 debt collectors. Tell your creditor if your only source of income is government benefits, such as Social Security. The creditor may voluntarily stop collections.
- 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.

Talking to creditors can be scary, but it is worth trying before considering other, more expensive options.

## **DEBT RELIEF ON THE INTERNET AND FROM TELEMARKETERS**

Lots of places advertise that they can help you with your debts. But some of their offers are too good to be true. Instead, they might be out to take your money and leave you in deeper trouble.

### **What you should know:**

- Some ads on the internet are outright scams.
- Some websites offering help may not be who they say they are. Instead, some of them are a type of business called a “lead generator.”
- Lead generators collect your information and sell it to other companies—so you don’t know who will end up with it, whether they’re trustworthy, or what they’re really offering.
- They make money off you but don’t give you anything in return.

It’s OK to search for help on the Internet, but be careful. If you find an organization you like, check them out before you sign up. Search for complaints. Ask to see their contract and promises on paper before you sign anything. And never give anyone your bank account number, credit card number, or social security number unless you’re 100% sure it’s safe.

Follow the same precautions with telemarketers who offer debt relief. Many debt relief scams rely primarily on telemarketing to draw people in.

## **STUDENT LOAN DEBT RELIEF**

Some companies promise to lower your student loan payments or enroll you in a forgiveness program. These companies promise that if you sign up with them, they can help you solve your student loan problems. These companies use a one-size fits all approach and often charge exorbitant amounts of money for programs that federal student loan borrowers can already access for free.

### **What you should know:**

- Many of the programs promised are already available to federal borrowers for free from the U.S. Department of Education. Learn more at: <https://studentaid.ed.gov>.
- Federal student loan borrowers can find out who to contact about their student loans through the U.S. Department of Education at: [https://nsldsfa.ed.gov/nslds\\_FAP/](https://nsldsfa.ed.gov/nslds_FAP/).
- Many debt relief companies have you send your monthly loan payments to them. They then keep a portion of the payment for themselves.
- Some scammers use a government seal, your school, or your loan balance to make you think they are legitimate. The U.S. Department of Education's Office of Federal Student Aid offers tips to avoid scams at: <https://studentaid.ed.gov/sa/repay-loans/avoiding-loan-scams>

Sometimes people need help dealing with their student loans. Borrowers looking to lower their monthly payments should contact their servicers. Borrowers in default may benefit from legal assistance to find out how to get back on track. Borrowers can find referrals for legal assistance at:

<http://www.studentloanborrowerassistance.org/resources/referral-resource/legal-resources>

### **ADDITIONAL RESOURCE**

- NCLC's Guide to Surviving Debt  
Precise, practical, and hard-hitting advice from the nation's consumer law experts on how to manage financial difficulty.

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