



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 yourself 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.

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.



Surviving a Job Loss

If you've recently lost your job or have had your hours reduced, it's a perfect time to get your finances in order. Here are a few tips to help you address your financial obligations while you work to get back on your feet.

- **Allow yourself to be upset or even afraid.**

These are natural reactions. However, should they become intense, be willing to seek professional help. Talking things through and hearing another person's perspective can bring relief and restore your positive outlook.

- **Don't burn bridges.** It's tempting to take out your frustration on your boss, but he or she is likely to be a reference for your next job – or may even have a budget to hire you for part-time contract work. Stay professional throughout the process – even if others don't do the same.

- **Take advantage of benefits offered by your former employer.** Many companies provide placement assistance, job retraining, severance packages and health insurance (COBRA). Make sure you are aware of all benefits offered.

- **File for unemployment benefits promptly.** If you lose your job, file for unemployment right away since it usually takes a few weeks for the check to arrive.

- **Get a handle on your finances.** Consider all assets, income and expenses. Create a survival budget to get a sense of how long your savings can keep you afloat until you can find another job. If necessary, you may need to liquidate assets such as selling the second car, or any recreational vehicles, real estate holdings, rental properties or jewelry.

- **Cut back.** Look for hidden expenses you may be able to eliminate. Consider dropping or reducing your cable, movie subscriptions and cell phone minutes.

- **Get buy-in from your family.** People think they can protect their children by not discussing finances around them, but a joint effort can yield great results. Assure your family that these cutbacks are only temporary. Resolve to stop all non-essential spending immediately.

- **Prioritize your bills.** It's never wise to let bills go unpaid, but if you're in a money crunch, make sure you know which ones to pay first. Your five major priorities should be your rent or mortgage, utility bills, food, insurance and medicine.

- **Resist the urge to solve your problems by spending recklessly.** It may feel good for the moment, but the high of spending won't equal the low of dealing with additional debt when there is no income.

- **Don't be tempted to live off of your credit cards.** Try to avoid using credit cards for household expenses. The interest that will accrue may take many years to pay off.

- **Know what resources are available.** Take advantage of the resources available to you through your extended family, the community, your religious affiliation, among others.

- **Contact your creditors.** A creditor may offer a hardship program. Explain your situation and what you're doing to resolve it. The creditor may be able to temporarily lower your monthly payment and reduce interest.

- **Call your mortgage lender or servicer.** Be prepared to provide them with documentation of the setback, and have a resolution plan in mind. Since the average consumer doesn't know all of the loan modifications available, it is smart to first sit down with a certified housing counselor and map out a plan. This way, you'll know that you've selected the option that is best suited to your situation.

As a member of OUR Credit Union, you can take advantage of the *Accel* program, a **free** financial education and counseling program. To use this service, simply call 1-877-33ACCEL (332-2235) or visit them on the web at www.accelservices.org.