

DEBT SETTLEMENT MAY BE TOO GOOD TO BE TRUE

Consumer Credit Counseling Service Offers Consumers Tips on Evaluating Debt Settlement Companies

When the bottom falls out financially, people need help and they need it fast. Being in such a vulnerable situation often makes you susceptible to offers that on the surface may seem good, but in the end leave you worse off than when you began.

The airwaves are filled with ads promising quick relief from debt, and guarantees of happy endings. But all too often, that relief comes at a cost not only to your pocketbook, but to your credit score.

"Debt settlement companies, sometimes known as debt negotiators or arbitrators, can make the path to financial freedom sound appealing," said Debbie Pickering, Executive Director at Consumer Credit Counseling Service of Coos-Curry, "but the reality may be very different from the rosy picture painted by the commercials." Ms. Pickering went on to say, "Some debt settlement companies are soliciting consumers over the phone, via internet and through mass mailings with claims of help that sound too good to be true. In most cases these claims are not realistic. Take the time to make sure you are making the right choice and do not give any of your personal information to anyone contacting you by phone, or agree to any kind of plan over the phone. Do not take a person's word for anything said over the phone, no matter how nice and helpful the person sound. You need to read the fine print."

Consumer Credit Counseling Service of Coos-Curry, a member of the National Foundation for Credit Counseling, encourages consumers to thoroughly investigate and understand any debt resolution option, including debt settlement, before selecting it as a way out of financial distress, and provides the following information to assist consumers specifically when evaluating debt settlement:

Debt settlement is a process through which your creditor agrees to accept less than the full amount owed, yet considers the balance as paid. Settlement companies often advertise that they can negotiate a reduction of 50 percent or more of the debt you owe. They then set up a repayment plan that typically takes between two and four years. However, this may take several months to accomplish and cost the consumer hundreds, or even thousands of dollars. And, there is no guarantee creditors will accept the offer.

Settlement companies charge significant fees. Different settlement companies have different fee structures, but there are two basic approaches. In one model, the settlement company's fee will be a percentage of your total debt. The fees in that model typically range from 13-20 percent. Another option the settlement company may offer is to base their fee on the amount of debt reduction they can negotiate. Fees under this model can be as high as 35 percent. In addition, many settlement companies also charge a monthly fee that can range from about \$19 - \$89 a month for the entire program. Either way, it is not uncommon for settlement fees to total thousands of dollars.

Some debt settlement companies front load their fees. In other words, they collect a large part of their fee before you receive any benefit. Much of the money you initially deposit goes to pay the settlement company to satisfy its fees. It can be months after you start the settlement program before your creditor receives any payment, and in most cases it is months before they receive contact from the debt settlement company.

A settlement company may suggest that you stop paying your creditors and instead begin making deposits into a special third-party account. The settle-

ment company will attempt to negotiate a settlement offer with your creditor once enough money relative to the debt is on deposit. This may take six months or more (after the initial fees are paid), although the exact length of time will vary with circumstances. During this time, the balance on your debt can continue to grow when interest and various penalty fees continue to be charged by your creditor. As a result, you may owe more than when you started and your credit may suffer because of your failure to make any payments on your debt. Even worse, legal actions such as a judgment or wage garnishment may be filed against you during this time.

Debts paid off through settlement will generally show "Paid by Settlement" on a consumer's credit report. If you later apply for new loans or credit, when reviewing your credit report the prospective lender(s) will see that a previous debt was paid by settlement, indicating that your repayment did not cover the total debt that you owed, but that your creditor accepted a lesser amount.

The credit score is based on information contained in the credit report, with the highest consideration given to how you repay your debts. If you're not repaying the creditor or have missed payments, it will show on your credit report and potentially lower your credit score significantly.

The consumer may be responsible for taxes on the forgiven debt. If the forgiven debt totals \$600 or more, you will generally owe income taxes on the amount forgiven, substantially reducing the total savings from debt settlement.

"The debt settlement industry is largely unregulated," Debbie Pickering, continued, "thus consumers should exercise extreme caution if they decide to work with a settlement company. However, the State of Oregon is reviewing legislation to bring them under new regulations to protect consumers in Oregon. Many of these companies are very new and inexperienced. During a time when every penny counts, and consumers are feeling vulnerable experience and credibility does indeed matter."



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Old Time Fiddlers To Perform
The Oregon Old Time Fiddlers, District 5 will be hosting an acoustic jam Saturday, May 16 from 1-4 at the Winchester Bay Community Center. There is a circle from 1-2pm and a performance from 2-4pm. The public is welcome and there is no admission.
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