MANAGING DEBT

What is debt?

When you owe money to someone, you are in debt. Owing money is not always bad. You might have a loan. You might use a credit card. If you do, you might be in debt. But if you pay your bills when they are due, it might help your credit history.

When is debt bad?

Debt is bad when you owe money you cannot pay back. Debt collectors might call you. You might have legal problems if you cannot pay back the money.

Does debt hurt my credit history?

Sometimes, debt can hurt your credit history. For example:

- owing a lot of money on credit cards
- paying bills late
- not paying the minimum amount due
- skipping payments

Who can help me with debt?

You can do some things yourself. A credit counselor can help you. Credit counselors can help you make a budget. Credit counselors also can help you make a plan to repay your debts. Debt relief services companies might offer to help. These companies are different from credit counselors. They might charge you high prices. And they might not really help.

What can I do to get out of debt?

Use the budgeting guide to make a budget and look for ways to spend less money. You might not find ways to save. But it helps to write down what you spend.

How else can I try to get out of debt?

Call the companies you owe money to. Explain why you have trouble paying your bill. Ask for a "payment plan." Some companies might let you pay less every month until you have repaid all the money. Call the company before it sends your debt to a debt collector. Many debt collectors will not accept a payment plan.

How can I get help?

Credit counselors can help you make a budget. Credit counselors also can help you plan to repay your debt. A good credit counselor will spend time with you. The counselor will ask you all about your finances. A good counselor will:

- talk with you
- help make a plan that works for you

A good counselor will **not**:

- promise to fix all your problems
- charge you a lot of money before doing anything

How do I find a credit counselor?

Look for a credit counselor you can meet in person. Look here first:

- credit unions
- universities
- military bases
- U.S. Cooperative Extension Service

These groups sometimes have credit counselors who charge low fees to help you. RCAA also offers financial literacy coaching. Contact them at 707-269-2052.

How do I choose a credit counselor?

When you find a credit counselor, ask questions. Choose a counselor who can help you make a budget. Choose a counselor who also can help you plan to stay out of debt.

These questions will help you select a counselor:

- What can you do to help me?
- How much will I have to pay?
- Do you have free education and information?
- Are you licensed to work in my state?

Look for a credit counselor who can do the most for you. You might have to pay some money for help. But a good credit counselor will not ask you to pay in advance.

What is a debt management plan?

A "debt management plan" is one way to repay money you owe. Debt management plans are for "unsecured" debts like credit card or medical debts. They aren't for "secured" debts like houses or cars. Here is how it works:

- A credit counselor works with you and the companies you owe money to.
- You all agree to a plan for how you will repay the money you owe.
- Sometimes the companies agree to a lower interest rate. Sometimes they do not.
- Every month, you deposit money into an account with the credit counselor.
- The credit counselor pays your credit card, medical, or student loan bills.
- This continues until your debt is repaid.

Whether a debt management plan is a good idea depends on your situation. They don't help everyone. A good credit counselor will spend time reviewing your specific financial situation and then offer customized advice to help you manage your money. If a credit counselor says a debt management plan is your only option without doing these things first, find a different counselor. If you and your counselor decide a debt management plan is best for your situation, it's a good idea to check with all your creditors to be sure they offer what the credit counselor describes to you. A successful debt management plan requires you to make regular, timely payments, and can take 48 months or more to complete. You might have to agree not to apply for — or use — any more credit until the plan is finished.

What is a debt settlement plan?

Debt settlement programs are different from debt management plans. Debt settlement programs are typically offered by for profit companies to people with significant credit card debt. The companies negotiate with your creditors to let you to pay a "settlement," or lump sum of money that's less than what you owe to settle your debt. Meanwhile, you have to set aside a specific amount of money every month in a designated account until you have enough savings to pay off any settlement that is reached. The process can take years to complete.

What does a debt settlement company have to tell me upfront? Before you sign up for its services, the company must tell you:

- the fees and any conditions and terms of service
- how long it will take to get results
- the possible negative consequences of stopping payments to your creditors
- how much you must save in a dedicated account before the company will make an offer to each creditor on your behalf
- that the money you save in the account, plus interest, is yours, and you can withdraw it any time without penalty

Debt settlement can be risky. If a company can't get your creditors to agree to settle your debts, you could owe even more money in the end in late fees and interest. Even if a debt settlement company does get your creditors to agree, you still have to be able to make payments long enough to get them settled. You also have to watch out for dishonest debt settlement companies that make promises they can't keep, charge you a lot of money, and then do little or nothing to help you. Debt settlement programs also might encourage you to stop sending payments directly to your creditors. They are required to tell you that it can have a negative impact on your credit report and other serious consequences like late fees and penalties that put you further in the hole. You also could get calls from your creditors or debt collectors, or be sued for repayment. Depending on your state's laws, if your creditors or their debt collectors win a lawsuit against you, they might be able to garnish your wages or bank account, or even put a lien on your home. Depending on your financial condition, any savings you get from a debt settlement program could be considered taxable income.

What does a debt collector do?

A debt collector is someone who tries to collect money owed to someone else. The company you owe money to hires a debt collector. The debt collector only makes money if he gets money from you. The debt collector starts calling you to get that money. If the debt collector does not get the money, he might take you to court.

What rules must debt collectors follow?

A law gives rules for debt collectors. The law says that debt collectors:

- can call only from 8 a.m. to 9 p.m.
- cannot tell anyone else about your debt

- can talk to someone else only to find out your address, home phone number, or where you work
- cannot harass you – for example, they cannot curse at you or threaten to hurt you
- cannot lie to you
- The law also says debt collectors must send you a written notice about your debt. This is called a "validation notice." The notice must say:
  - how much you owe
  - who you owe the money to
  - What to do if you do not owe the money

Are there problems with debt collectors?

The government gets complaints from thousands of people about debt collectors. Some of the complaints say debt collectors:

- break the rules
- threaten people
- call the wrong person
- lie while they try to collect a debt that is not yours

What do I do about calls from debt collectors?

When you talk to a debt collector:

- Keep a notebook by your phone or with you.
- Ask: What is your name, company, address, and phone number? Write the answers. Write the date and time you talked. Then you have a record if you need to complain, or if you need to go to court to defend yourself.
- Say: I will only talk when I get the written validation notice.
- If the collector threatens you or uses bad language, hang up. He is breaking the law.
- You can file a complaint about a debt collector by calling the Federal Trade Commission at 1-877-382-4357.

When you get the validation notice:

- See if you recognize the debt. The notice should list the "creditor." The creditor is the person you owe money to. You can call the creditor to get more information.
- If you do not think the debt is yours, follow the instructions in the notice. It should tell you what to do next to question the debt.
- If the debt is yours, make a plan for how to pay it. Talk to a credit counselor.

If the debt is old, check your state law to find out if it is "time-barred." When a debt is time-barred, a collector can no longer sue you and win to collect it. Under the law of some states, if you make a payment or provide written acknowledgement of your debt, the clock may start ticking again, so it's important to check before you pay anything.

How can I stop calls from a debt collector?

- You can ask a debt collector to stop calling you. Legally, they must stop.

- You must send a letter telling the debt collector to stop calling. Tell him to stop calling you immediately. Send the letter by Certified Mail and ask for a "return receipt." The law says he must stop calling you when he gets your request in writing.
- If that debt collector still calls, file a complaint. Call the Federal Trade Commission at 1-877-382-4357.

What happens if I get sued?

Stopping calls does not mean the debt goes away. The debt collector might still sue you to collect money. If you are being sued, you should get a notice in the mail. Sometimes, this is called a "summons." In a lawsuit, the debt collector usually asks the court to:

- say how much you owe
- make you repay that amount

The court might even tell your employer to take money out of your paycheck until you repay what you owe. This is called "garnishing" your wages. Do not ignore notices about a lawsuit. If you do not go to court, you automatically lose. If you owe money you cannot repay, you need a plan. It sometimes feels easier to ignore the problem but it's important to recognize that there are people who can help you manage your debt.

What are some signs I'm dealing with a debt relief scam?

Avoid any debt relief organization - whether it's offering credit counseling, debt settlement, or any other service - that:

- guarantees to settle all your debts or provide fast loan forgiveness
- tries to collect fees from you before it settles any of your debts or enters you into a debt management plan
- tries to enroll you in its program without first reviewing your financial situation
- advertises a "new government program"
- tells you to stop communicating with your creditors, but doesn't explain the serious consequences
- tells you it can stop all debt collection calls and lawsuits

Enter the name of the company with the word "complaints" into a search engine. Read what others have said about the companies you're considering. Also check out any company you're considering with your state Attorney General (naag.org) and local consumer protection agency.

Debt Consolidation Loans

What's a debt consolidation loan?

Another way some people lower their monthly payments on their debt is to consolidate it through a second mortgage or a home equity line of credit, or by taking out a personal debt consolidation loan from a bank or finance company.

Are debt consolidation loans a good idea?

Some of these loans require you to put up your home as collateral. If you can't make the payments — or if your payments are late — you could lose your home. Most consolidation loans have costs. In addition to interest, you may have to pay "points," with one point equal to one percent of the amount you borrow.

Bankruptcy

What does filing for personal bankruptcy do?

People who file for personal bankruptcy receive a discharge — a court order that says they don't have to repay certain debts. Bankruptcy is generally considered your last option because of its long-term negative impact on your credit. Bankruptcy information (both the date of your filing and the later date of discharge) stays on your credit report for 10 years, and can make it difficult to get credit, buy a home, get life insurance, or get a job. Still, bankruptcy can offer a fresh start for someone who's gotten into financial trouble.

What are the main types of personal bankruptcy?

The two main types of personal bankruptcy are Chapter 13 and Chapter 7. You file for them in federal bankruptcy court. Filing fees are several hundred dollars, and attorney fees are extra. For more information, visit the United States Courts (uscourts.gov). Both types of bankruptcy may get rid of unsecured debts like credit card or medical debt and stop foreclosures, repossessions, garnishments and utility shut-offs, as well as debt collection activities. Both also provide exemptions that let you keep certain assets, though how much is exempt depends on your state.

What's the difference between Chapter 13 and Chapter 7 bankruptcy?

Chapter 13 lets people with a steady income keep property, like a mortgaged house or a car, that they might otherwise lose through the bankruptcy process. In Chapter 13, the court approves a repayment plan that allows you to pay off your debts in three to five years, rather than give up any property. After you make all the payments under the plan, you receive a discharge of your debts.

Chapter 7 is known as straight bankruptcy. It involves liquidating all your assets that are not exempt. Exempt assets might include cars, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official, called a trustee, or turned over to your creditors.

What debt won't be erased by filing for personal bankruptcy?

Filing for personal bankruptcy usually won't erase child support, alimony, fines, taxes, and most student loan obligations, unless you can prove undue hardship. And, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually doesn't allow you to keep property when your creditor has an unpaid mortgage or security lien on it.

What do I need to do before I file for bankruptcy?

You have to get credit counseling from a government-approved organization up to six months before you file for any bankruptcy relief. You can find a state-by-state list of government-approved agencies at the U.S. Trustee Program (justice.gov/ust), the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees. Also, before you file a Chapter 7 bankruptcy case, you must satisfy a "means test" where you confirm that your income does not exceed a certain amount. The amount varies by state and is publicized by the U.S. Trustee Program

How should I start managing my debt?

1. Make a budget
2. Write down what you make and spend in a month
3. Look at where your money goes
4. Look for ways to save money
5. Call the companies where you owe money
6. Explain why you have trouble paying the bill
7. Ask for a plan to let you pay less each month
8. Get help from a credit counselor

What if I'm having trouble paying my mortgage?

If you're behind on your mortgage, contact your lender immediately. Don't wait, or a lender could foreclose on your house. Most lenders will work with you if they believe you're acting in good faith and your situation is temporary. Your lender might be willing to:

- lower or suspend your payments for a short time
- extend your repayment period to lower your monthly payments

Before you agree to a plan, find out about any extra fees or other consequences. If you can't work out a plan with your lender, contact a non-profit housing counseling agency. You can reach a free, HUD-certified counselor at 888-995-HOPE (4673). You also can contact your local Department of Housing and Urban Development office (hud.gov) or the housing authority in your state, city, or county. You don't need to pay a private company for these services. And be sure to learn the signs of a mortgage assistance relief scam and how to avoid them at ftc.gov/mortgage.

What if I'm having trouble paying my car debt?

Most car financing agreements say a lender can repossess your car any time you're in default and not making your car payments. They don't have to give you any notice. If your car is repossessed, you may have to pay the balance due on the loan, plus towing and storage costs, to get it back. If you can't, the lender might sell the car. If you know you're going to default, you might be better off selling the car yourself and paying off the debt. You'll avoid the costs of repossession and a negative entry on your credit report.

What if I’m having trouble paying my student loan debt?

If you have federal loans (government loans), the Department of Education has different programs that could help. Applying for these programs is free. You can find out more about your options at the U.S. Department of Education’s StudentAid.gov or by contacting your federal student loan servicer. You also can find out more about how to get out of default. With private student loans, you typically have fewer options, especially when it comes to loan forgiveness or cancellation. To explore your options, contact your loan servicer directly. If you don’t know who your private student loan servicer is, look at a recent billing statement. You don’t have to pay for help with your student loans. A company can’t do anything you can’t do for yourself. Student loan debt relief companies that say they will reduce your monthly payment or get your loans forgiven can leave you worse off.