



Increasing Financial Stability of Individuals and Families

Debt Relief

You may be overwhelmed by being in a continuous cycle of debt, where bills and expenses seem to keep piling up and with no relief in sight. If you are willing to set financial goals and establish a debt reduction plan, help is available. Very motivated and disciplined people may be able to get relief by adopting the following tips for reducing debt:

- Create a budget
- Reduce expenses and devote more money to repaying debt
- Contact creditors and work with them to develop a repayment plan

Credit Counseling and Debt Management Plans

Many individuals have difficulty handling everything on their own and some just need a little help in planning how to reduce their debt. Credit counseling agencies are available to help, though you should make sure the agency is reputable, nonprofit, low-cost, and registered under the National Foundation for Credit Counseling (NFCC). A credit counselor may recommend a Debt Management Plan (DMP), which is a three to five year process to reduce debts while you make timely, regular payments to a credit counseling agency that uses these funds to pay creditors. DMPs are designed for people who cannot repay their unsecured debt under normal conditions. Although there may be no fee for the initial credit counseling, these organizations often charge a small monthly fee for helping to manage a DMP. In return, you are supposed to get a financial break – usually through creditor agreements that waive fees and lower interest rates.

Debt Consolidation

Another debt relief option is debt consolidation, which reduces debts into a single monthly payment. Debt consolidation can result in high interest charges, fees and collateral may be expected. These costs often just make matters worse in the long term. When in doubt, do not refinance or consolidate debts.

Debt Settlement

If you hear something that sounds too good to be true, it probably is. We have all seen ads for debt settlement companies that promise to reduce debts by 50-80 percent. These programs are risky and there is no guarantee they are legitimate.

Negotiation and settlement services differ from debt management services in that they do not ask creditors to send in monthly payments and then apply payments to their debt. Instead, they will ask you to deposit money into an account the company holds onto while the company works on negotiating a settlement for less than the full amount owed. Sometimes, these companies find ways to subtract monthly fees without providing any actual services. Take our advice: research these companies and programs thoroughly before choosing the right debt settlement alternative for you.

Resources:

Guide to Surviving Debt, 2010 Edition, National Consumer Law Center, Principal Author Deanne Loonin
Maryland Cash Campaign, mdcash.org