



**Debt-Tips.com**

Simple tips for getting out of debt faster!

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## The Consumer Guide to Debt Reduction Programs

Learn how to get out of debt faster  
without getting ripped off!

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## Introduction

If you're losing sleep worrying about credit card, debt, or if you're having trouble paying your bills every month, then you're not alone. Many Americans have found that getting into debt, borrowing money – and then struggling to pay it back – is very stressful.

This guide will lay out all your options, tell you the “pluses” and “minuses” of each option, and point you in the right direction for your financial situation. I started Debt-Tips.com to share the debt reduction and money saving tips and strategies I learned (mostly the hard way) with other consumers like you. Yes, I've lost sleep worrying about credit card debt. And fortunately, I have found a way out of debt.

But choosing the right debt solution is unique for each individual or family. Since I am not a financial planner nor an attorney, this is not professional advice, just a summary of the options available to you. If you have any questions or concerns about your specific needs, you should consult with a financial professional before proceeding.

So, here are your options for paying off your credit bills and getting your life back to normal:

- Do-It-Yourself Debt Reduction
- Credit Counseling
- Debt Consolidation Loan
- Personal Loan
- Debt Settlement
- Bankruptcy

## Do-It-Yourself Debt Reduction

### How does it work?

So, you want to get out of debt all by yourself? Good for you! There are 2 basic ways to act as your own debt reduction service. First, contact your creditors and ask them to lower your interest rates. Second, “surf” credit card rates by regularly switching to short-term, low-interest special offers. It's not easy, but it certainly can be done!

### The good

- No cost
- Both ways can work if you stick with it
- You are in control of the process

### The bad

- Time consuming (both ways)
- Opening more credit cards can lead to more debt (second way)
- Must keep doing before rates rise (second way)
- Does not always work (both ways)

### So, should I do my own debt reduction?

If you have the time, and you are persistent, it is definitely worth the effort to act as your own debt reduction service. However, if you've had any recent issues (such as late payments) these methods may not work as well. And the temptation of having more credit to use (second way) can get you further into debt. So be careful, or close some or all of your old credit card accounts.

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As a “quick fix”, this is a good option. As a long term debt reduction plan, you may want to consider one of the options below, which involve getting help from a professional.

#### Learn more about debt reduction

- Facts for consumers: knee deep in debt:  
<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre19.shtm>
- Do-it-yourself debt reduction:  
<http://www.credit.com/products/debt/Debt-Reduction-Do-It-Yourself.jsp>

More tips for getting out of debt: <http://www.debt-tips.com/tips-debt.html>

## **Credit Counseling**

### How does it work?

If you want professional help, working with a credit counseling agency is a good choice. You will be asked to provide information about your income, expenses and debts. The counselor will then analyze the information, discuss your situation with you and make recommendations to help you address your financial problems. These suggestions may include help with budgeting, attending a financial education course, or enrolling in a debt management plan.

### The good

- All of your bills are consolidated into one payment
- Pay a lower interest rate
- No or low cost to participate
- Stop phone calls from creditors
- Learn strategies to manage your finances better

### The bad

- Can possibly hurt your credit score
- Not a “quick fix” solution, but a long-term plan that must be followed to work

### So, should I use credit counseling?

For most people struggling with credit card, credit counseling is a great option. You can lower your interest rates, combine multiple payments into one, and therefore pay off your debts faster. And you can also learn how to handle your finances better for the long term. Most credit counseling programs promote the fact that they are “non-profit”. But don’t let this fool you – you still need to do your homework, research each company thoroughly (checking their Better Business Bureau rating is a good idea), ask lots of questions & read the fine print, so you know exactly what you’re signing up for.

Many people are hesitant to seek professional help because it may damage their credit. However, if you can’t pay your bills, protecting your credit score (which is probably already damaged) should be secondary to getting your finances in order. If you own a home, or your financial situation is at the breaking point, you may need a more aggressive strategy like debt settlement or even bankruptcy, described below.

### Learn more about credit counseling

- Fiscal fitness: choosing a credit counselor:  
<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre26.shtm>
- BBB tips on choosing a credit counseling agency:  
<http://www.bbb.org/us/article/tips-on-choosing-an-credit-counseling-agency-6104>

More tips for getting out of debt: <http://www.debt-tips.com/tips-debt.html>

## Debt Consolidation Loan

### How does it work?

If you're living the American Dream and you already own a home, and you have equity available in your home (meaning your house is worth more than you owe), then a debt consolidation or home equity loan might be the right solution to your debt problems. If the interest rate on your mortgage is higher than the going rate, then refinancing (which will lower your interest rate and add your debt to your new loan) might be a good choice. A bank loan officer or mortgage broker can help you explore your options further.

### The good

- Interest may be tax deductible (consult with a tax advisor)
- Lower interest rate
- No bad effect on your credit report
- Stop phone calls from creditors

### The bad

- Puts home at risk if you cannot make the loan payments
- Potential closing costs
- Uses equity that you won't be able to use later for home repairs or improvements
- If the housing market dips, you might owe more than your home is worth (usually only an issue if you try to sell your home)

### So, should I use a debt consolidation loan?

If you have some "breathing room" each month, and can comfortably make your new monthly loan payment, then taking out a debt consolidation loan can be a good solution. If not, then think long and hard before putting your home at risk (if you stop paying your mortgage, you can lose your home entirely through foreclosure) when other debt reduction options are available to you. Adding to your financial problems by losing your home would be devastating. So consider all of your options carefully before combining your credit card debt with your home loan.

### Learn more about debt consolidation loans

- Your 3 worst debt consolidation moves:  
<http://moneycentral.msn.com/content/Savinganddebt/Managedebt/P36230.asp>
- Debt consolidation calculator:  
<http://www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx>

More tips for getting out of debt: <http://www.debt-tips.com/tips-debt.html>

## Personal Loan

### How does it work?

Personal loans work very similar to credit cards. You don't need to own a home to get a personal loan, but because the loan is not secured with a home (a secured loan means the home is used as collateral and can be taken by the bank if the loan is not paid), it usually involves a higher than average interest rate - even if you have great credit.

### The good

- A quick way to get money

### The bad

- You must be able to qualify
- If you have poor credit, the interest rate could be higher than on credit cards

### So, should I use a personal loan?

Personal loans are usually not a good way to consolidate debt. A personal loan can be used in case

of emergency, when cash flow is low, or for small purchase that can be paid back quickly. But unless you can get a better rate than you have on your credit cards, using a personal loan should not be your first choice for consolidating debt.

#### Learn more about personal loans

- Pay day loan scams:  
<http://consumer-law.lawyers.com/consumer-fraud/Pay-Day-Loan-Scams.html>
- Personal loans: the basics:  
<http://www.bankrate.com/brm/perstep.asp>

More tips for getting out of debt: <http://www.debt-tips.com/tips-debt.html>

## **Debt settlement**

### How does it work?

Debt settlement is an aggressive approach to debt reduction, and is usually best suited for consumers with very serious debt problems who are considering bankruptcy. A debt settlement company will negotiate with your creditors to settle the debt for a lower amount than you owe, and is paid in a lump sum upon agreement of the settlement amount. Some settlement companies require you to come up with the lump sum on your own (through borrowing money, using savings, selling assets) others will help you save money while they are negotiating with your creditors.

Creditors will usually only settle when you are under serious financial strain, since if you choose to file bankruptcy then the creditor is at risk of receiving only a small portion of the original debt (or no money at all). If you do not have a financial hardship, the creditor may refuse to settle the debt and instead pursue collection if you cannot pay your bills.

### The good

- Pay off bills faster
- Settle for less than you owe (often 40-60%)
- Preferred alternative to bankruptcy
- Fees are usually based on the amount of money saved

### The bad

- Has negative affect on credit report
- There are fees for the service
- Could be sued, especially if not handled properly

### So, should I use debt settlement?

If you have a serious financial hardship, and can no longer pay your bills every month, then debt settlement is often a good alternative to filing bankruptcy. But, if you do not have a serious hardship, and still have the ability to pay all of your bills each month, then most (ethical) debt settlement companies will not take you on as a client. Debt settlement is a more aggressive solution, and it does work - but it is not right for everyone. So if you decide to hire a debt settlement company to help you get out of debt, make sure you understand exactly how the process works (and does not work), ask lots of questions, read the fine print, and research each company thoroughly before signing up.

You can also “do it yourself”. While you may save a little on the fees, you may not be able to negotiate as good a settlement as a professional settlement company can do for you. Or you could even end up with more serious issues if you don’t know what you are doing. If you decide to settle your own debts, make sure you research the process thoroughly and take the proper precautions.

### Learn more about debt settlement

- Questions to ask when considering debt settlement:  
[http://www.cccsoc.org/pages/settlement/settle\\_02.phtml](http://www.cccsoc.org/pages/settlement/settle_02.phtml)

- Debt settlement pros and cons:  
<http://www.articlesbase.com/finance-articles/debt-settlement-pros-and-cons-761605.html>

More tips for getting out of debt: <http://www.debt-tips.com/tips-debt.html>

## **Bankruptcy**

### How does it work?

Bankruptcy is typically the “last resort” for dealing with debt. It is a legal process that helps you either eliminate your debts or repay them under the protection of the bankruptcy court. Bankruptcies usually fit into one of two categories, “liquidations” or “reorganizations.” Chapter 7 bankruptcy is for liquidating debt: If you own property that isn't exempt under your state's laws, it may be taken and sold (“liquidated”) to pay back some of your debt. Chapter 13 bankruptcy is more common and helps you “reorganize” your debts. You get to keep all of your property, but you must make monthly payments over three to five years to repay all or some of your debt.

Both kinds of bankruptcy have lots of rules (and exceptions) about what kinds of debts are covered, who can file, and what property you can and can't keep. Anyone considering bankruptcy should consult with an experience bankruptcy attorney before proceeding.

### The good

- Provides relief for the most serious debt problems

### The bad

- Stays on your credit report for up to 10 years
- Impacts your future ability to use credit
- Carries a negative “stigma”

### So, should I file for bankruptcy?

Since bankruptcy is usually a “last resort” tactic, it should not be taken lightly. And while bankruptcy can help you eliminate many types of debt, such as credit cards, medical bills, and personal loans, there are other types of debt that are not covered. So you should consult with a qualified bankruptcy attorney to determine if bankruptcy is right for you. To many people, bankruptcy is seen as either a sign of weakness, or an “easy way out”. But as horrible as bankruptcy sounds, the emotional and physical stress caused by debt is often much worse.

### Learn more about bankruptcy

- Before you file for personal bankruptcy:  
<http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre41.shtm>
- Bankruptcy basics:  
<http://www.uscourts.gov/bankruptcycourts/bankruptcybasics.html>

More tips for getting out of debt: <http://www.debt-tips.com/tips-debt.html>