In this report, you will learn…

How to Eliminate Your Debts Quickly and Safely *Without* Filing Bankruptcy

And you will also learn…

"Why Most Debt Reduction Programs Have A High Failure Rate, Leaving Consumers Stranded When They Most Need Help, and What You Can Do To Avoid This Trap and Achieve Debt-Freedom On Your Own!"

In this report, I will describe a powerful and no-nonsense method to eliminate your problem debts in the fastest possible time, using your current financial resources to set the pace. The technique is called **Debt Settlement**. It's also called **Debt Negotiation**.

What we're talking about here is simply haggling with your creditors. Except the haggling is not over the size of the monthly payment to keep the account from delinquency or charge-off. Nor is it haggling over interest rates, late fees, and over-limit penalties. No, **Debt Settlement means haggling over the AMOUNT of money that you owe**, also called the debt PRINCIPAL. The goal is to have the creditor forgive at least 50% of what you owe, and hopefully even more.

Debt Settlement is an aggressive approach, and it's certainly not for everyone. But it does provide an ethical alternative to Chapter 13 bankruptcy. However, instead of using the services of a large debt settlement company, **I recommend a customized or "tailored" approach.** With my state-of-the-art method of Tailored Debt Settlement™, you get all the important benefits of Traditional Debt Settlement without all the drawbacks and risks.

IMPORTANT! Debt Settlement and Debt Validation are not the same thing! Don't believe the claims about a "new" system of erasing debts through "validation." Most of these firms charge illegal upfront fees, cannot perform as advertised, and will only make a bad situation worse.

So let's jump right into the good stuff with a much needed "attitude adjustment."

A FEW WORDS ABOUT BANKS…

Do you think that by having a pleasant conversation with a bill collector on the telephone, and disclosing the nature of your financial problem, the bank will somehow be sympathetic to your situation? NO WAY! If you're having trouble making payments on your debts, it's important that you understand one thing: THE BANK IS NOT ON YOUR SIDE!

SIDEBAR: Did you know that in recent years, the gross revenue collected by credit card banks for late fees and cash advance fees has exceeded the annual net profit for the entire credit card industry? Subtract those penalties and fees, and the banks would have posted losses in most years where they have posted profits!

They want their money, and that's all there is to it. The bank that holds your account doesn't care how the debt got there. They only want your minimum monthly payment, period.

- **It doesn't matter that you (or your spouse) lost your job and couldn't find another one for six months.**
- **It doesn't matter that you were sick or seriously injured and had medical bills that put the whammy on your finances.**
- **It doesn't matter that you're drowning in debt as the result of a difficult divorce or separation.**

As far as the bank is concerned, you signed an agreement, and unless you pay your bill on time, they intend to make your life very unpleasant. Once you start to fall behind, they lower the boom, and the dreaded collection process begins. It starts with polite phone calls and letters ("Did you forget to send us your payment?") and rapidly escalates to daily harassment, nasty letters, and abusive tactics.

Collection activity is designed to pressure you to find money **someplace** and send it in—**NOW**. Once you fall behind, the bank becomes your adversary—not your friend.

It’s common knowledge that the banks will jump your interest rate to 30% or more if you fall behind on payments. This is true even though Congress passed the CARD Act (effective February 2010) to restrict some of the more predatory practices of the credit card banks. (A “usury” cap on interest rates would have helped, but of course that was bargained out of the legislation.)

So the banks are still able to kick you while you’re down. Just when you most need them to LOWER the interest rate, so you can dig yourself out of trouble faster, they start charging a HIGHER interest rate. The justification is that you’re a “higher risk” now that you’ve missed payments, so they have to charge a higher rate. But we all know they do it BECAUSE THEY CAN GET AWAY WITH IT. It's about the profit, period.

SIDEBAR: Average credit card interest rates INCREASED while general interest rates DROPPED to historic lows. And before the 2008-2009 meltdown bank profits were up 300% during the same period that bankruptcy filings doubled. The credit card rules passed way back in 2010 appear to have helped consumers to some extent, but there is still no legal limit to the interest rates and fees banks are permitted to charge.

DEBT MANAGEMENT STRATEGIES

If you are a typical American family, you have about $30,000-$50,000 worth of credit card debt (excluding mortgages, car loans, and student loan payments), and you’ve been paying $750 to $1,250 every month in **endless minimum payments**. Then you hit a bump in the road, and suddenly it became difficult (if not impossible) to keep up with the payments. That's when the higher interest rates and penalties started kicking in, making a tough situation worse. So what do you do? Where do you turn?

Let’s examine the five basic strategies for dealing with problem debt:

1. **DEBT ROLL-UP**
2. **DEBT CONSOLIDATION**
3. **CREDIT COUNSELING**
4. **BANKRUPTCY**
5. **DEBT SETTLEMENT (or DEBT NEGOTIATION)**

I’ll deal with each of these options in turn, so you understand the full range of choices available to you.

OPTION NUMBER ONE: DEBT ROLL-UP

This strategy, quite simply, involves paying over and above the regular monthly minimums required on each of your accounts. So, for example, if you're normally paying $500 per month in total minimum payments and you can squeeze an extra $100 per month out of your budget to pay $600 total, then you can make this strategy work for you.

By paying over and above the minimums each and every month, you can greatly accelerate the rate at which your debts get paid off. Instead of taking 20 years to eliminate your debts, you can do it in 4 or 5 years with this technique.

The basic concept of the Debt Roll-Up strategy is very simple. You start by making a list of your debts and then ranking them in order of their size, starting with the smallest and working up to the largest. You should always start with the smallest debt because it will be paid off the fastest using this approach. While keeping the regular minimums in force on all the other accounts, you apply everything else to that one debt.

Once the smallest debt is paid off, then you work with the next one on the list. By repeating this process, a snowball effect occurs, because you will have a steadily increasing payment amount to work with each month as you go forward.

You do have to be realistic about your monthly budget for this to work. If you have only been paying the minimums every month, then you should examine your budget to see if you can pay enough extra each month for this strategy to make sense for you. If you're confident that you can do this month in and month out, then the Debt Roll-Up approach can work well for you. On the other hand, if you're only going to be able to pay extra above the minimums on an occasional basis, then you won't really benefit from this technique.

Now, I also want to remark that I'm a firm believer in paying your bills, and this strategy is an excellent approach to accomplishing that in a systematic fashion. However, since most of this report is about reducing your debt obligations through the settlement strategy, it might seem confusing that I have this attitude. So I want to be very clear about this. I'm the first person to admit that the debt settlement strategy is not for everyone. It's for people who have a legitimate financial hardship and need some relief and assistance from their creditors. But if you're capable of paying your debts in full, then I think you should. In other words, I don't teach this material so that people can go out and cheat the system. I firmly believe in personal responsibility.

The Debt Roll-Up Strategy is therefore an excellent approach for someone who is not exactly drowning yet financially, meaning they are keeping up with their bills, but still feeling a lot of pressure and anxiety over their debt levels. If you're in that situation, this is a great system to help you prioritize your debts for payback and to focus your efforts at becoming debt free.

SIDEBAR: Regulatory changes have made the Debt Roll-Up method more difficult for consumers to implement. That's because the major credit card banks have changed the way minimum payments are calculated, in response to pressure from the Office of the Comptroller of Currency (part of the U.S. Treasury Department). Previously, the minimums were around 2% to 2.5% of the debt balance. Now, many banks use a formula where the customer must pay 1% of the principal balance, plus any penalties or fees, plus that month's finance charge. The idea is to force consumers to pay down their debts faster and avoid being trapped with endless minimum payments. This is fine if you have low interest rates, but when your rates jump to 25-30%, it can easily put the minimum monthly payment out of reach for most consumers.

OPTION NUMBER TWO: DEBT CONSOLIDATION

Debt consolidation is another popular approach to managing a burdensome debt load. When most people use the term "debt consolidation," they mean one thing. But most of the services out there that offer debt consolidation mean something entirely different.

Here's a simple multiple choice test question:

Debt consolidation is:

a) Borrowing enough money from a bank or finance company to pay off all your bills at one time, leaving you with a lower interest rate and a single lower monthly payment.
b) Borrowing against the equity in your home to pay off credit cards and other unsecured debts.
c) A service offered by either for-profit or non-profit organizations, who work with your creditors to lower your interest rates and help establish a repayment budget. (These programs may be called "credit counseling" or

"debt management plans" or "debt adjusting plans" depending on the agency or company involved.)

d) Bankruptcy under the Chapter 13 procedure.
e) All of the above.
f) None of the above.

What's your guess? The chances are that you'll pick (a) or (b), because that is what most people think of as true debt consolidation. However, the correct answer is (e) "all of the above."

Let's take each one of these variations on debt consolidation in turn. (I'll deal with Credit Counseling separately under Option Number Three.)

a) BORROWING—Say you owe $25,000 in credit card debts. It will take you up to 25 years to pay off those debts with minimum payments, depending on how the bank handles the interest calculations.

If you go to a finance company instead, and borrow $25,000 at 12% interest, with a $400 minimum monthly payment, you'll have the loan paid off less than 9 years using a lower monthly payment. Sounds better, right?

There's a problem, though. Who's going to lend you $25,000 without collateral (like a house or other property)? In the real world, few people who do "consolidate" are accomplishing what I've described here.

Very few people who are in financial trouble have access to the credit necessary to borrow the lump sum in the first place. If you're behind on your payments, expect that to show up on your credit file, and therefore expect to get turned down by every loan officer in town.

If you're still current on your payments, you might pull this off, but it's still unlikely that you'll be able to borrow enough to solve the problem. (Many people simply add to their debt this way, by obtaining another line of credit, which then becomes part of the original problem.)

This is also where the scam operators flourish. Desperate consumers respond to advertisements for "guaranteed loans." The ads state "no credit check required" and offer attractive terms. BEWARE: These are usually variations on the "Advance Fee Loan Scam." The catch is that the operator on the other end of the telephone asks for a payment up front in order to process the application, anywhere from $25 to $300 or more. You send the money and never hear about the loan, or you are turned down for the loan.

People in financial difficulty are usually too broke to hire an attorney to chase the scam artist who ripped them off, or they're simply too embarrassed to go after them. Don't fall for this con game. If you're going to borrow money, borrow from a reputable company! If a reputable company won't loan you any money, then look for a better solution. You're only going to make things worse by borrowing from payday advance lenders, loan sharks, pawn stores, or "guaranteed credit" scammers.

IMPORTANT TRUTH: You cannot "borrow" your way out of debt.

b) EQUITY—Another variation on "debt consolidation" is based on your ownership of real estate. If your home is worth more than you paid for it, you have equity, and you may be able to obtain a loan against it (assuming your credit report looks good enough). Of course, it's much more difficult these days to obtain an equity loan than it used to be, and many homes no longer even have any equity, but let's review the theory anyway.

Let's say you have $25,000 equity in your house, and you find a bank willing to loan you $25,000 with your house as collateral. This is the ever-popular "second mortgage" or "equity line of credit." You then pay off your credit cards. At this point, things can go well or not so well. If you are a very disciplined person financially, and your hardship situation was temporary, you may emerge from the scenario with your financial future intact and with no damage to your credit. You still have the same level of overall debt, but it is structured in a way that you can live with.

Many people, however, find that they end up in worse shape using this approach. Why? Because they suddenly have $25,000 worth of credit available with new offers for credit cards coming in the daily mail. Then they get busy planning for the holidays, or they just have to buy that awesome home theater system for $3,500. Before they know it, they owe $10,000, $15,000, or even $25,000 again on those pesky credit cards, PLUS they have the second mortgage to keep up. The result is disaster.

There's also another big problem with borrowing against your equity. You trade an **unsecured** debt for a **secured** debt. If you default on a credit card balance, the creditor (if you ignore the problem long enough) can sue you and obtain a court judgment. Then they can put a lien against your house, so that if you ever sell the house, you're forced to hand over the money. But they cannot force the sale of your house. A secured debt is a far more serious matter, because you've pledged your house as collateral. If you default on a debt that has been secured by your house, then you risk losing that home.

Why trade unsecured debts for secured debts? For most people, this is not the best move to make. Yet countless individuals fall for this trap year after year.

c) CREDIT COUNSELING—See Option Number Three, discussed below.

d) CHAPTER 13 BANKRUPTCY—The final form of "debt consolidation" is actually not consolidation at all, but rather a form of bankruptcy called "Chapter 13." I'll discuss it below under its proper heading. Be forewarned, however, that many of the ads you'll see for "debt consolidation" are really attorneys advertising to take you through a formal declaration of bankruptcy.

OPTION NUMBER THREE: CREDIT COUNSELING

One variation on "debt consolidation" is not really consolidation at all in the true sense of the word. Instead, you are enrolled into a debt repayment program. You meet with a counselor who analyzes your monthly budget. The counselor then makes contact with your creditors and attempts to get them to lower the interest rate. You make one monthly payment to the agency, which then disburses the funds to your various creditors.

The theory here is that your overall payment per month is lower due to the counselor's success at obtaining lower interest rates and more favorable terms with the credit card banks. This approach is the one most often recommended by the banks themselves, and in the financial press these debt repayment plans (through "non-profit" agencies) are touted as the cure-all for debtors who are in over their heads.

So, does this really work? Well, sometimes, but more often not. Data is hard to come by, but what is available shows that more than half of the people who enroll in such programs do not complete them.

First, you have to understand that these agencies actually receive much of their compensation from the banks you owe the money to. So, whose side are they really on—the side of the consumer who's paying a monthly $50 administrative fee, or the bank that's paying a percentage of the restructured debt in the form of a kickback? In fact, many industry critics view such agencies as merely debt collection companies in disguise.

Second, most counselors are not going to work all that hard at getting an uncooperative bank to cooperate. The net result is that they simple enter into a typical hardship program that you could have easily obtained for yourself without the extra fees.

Third, a frequent complaint heard from folks who've dropped out of these programs is that they had little or no insight into what the agency was doing on their behalf, and they had virtually no control over the process. They sent in their single monthly payment, with no idea of how much went to which creditor, and since most counselors are busy people who work based on high volume, getting a return phone proved difficult.

Now, I'm not saying that all such organizations do a poor job. Like any business, there are good and bad services out there. However, they don't really SOLVE the problem at all. In other words, if you walk into the office of a credit counselor owing $50,000, you'll still owe $50,000 when you walk out.

In my judgment, credit counseling plans are a helpful approach for the consumer who knows that their financial hardship is temporary, as well as for those who do not have sufficient resources for the settlement strategy. Otherwise, stronger medicine makes more sense.

OPTION NUMBER FOUR: BANKRUPTCY

This is the "end of the line" for the debtor who is drowning in debts. Bankruptcy is the ultimate trump card. A declaration of bankruptcy forces all commercial creditors to cease and desist from attempting to collect the debts owed them; it stops wage garnishment, reverses judgments, and generally wipes out the debts, depending on which form of bankruptcy is declared.

Frankly, for some people, bankruptcy is the only realistic option. If you owe $50,000 in debts, and you'll never earn more than $1,000 per month, then you're broke! The sooner you face the music and wipe out the debts, the sooner you'll have a fresh start. Judging by the record number of bankruptcy filings during the past two decades years, this is a very popular option among consumers. And while the number of filings declined after the 2005 changes went into effect, bankruptcy promptly boomed all over again, with many millions of personal cases filed from 2008 through 2019.
There are two forms of personal bankruptcy: Chapter 7, usually called "straight bankruptcy," and Chapter 13, usually called "consolidation bankruptcy" or "the wage-earner's plan." The Chapter 13 approach is typically a very bad deal, because you end up paying back a chunk of the debt over a 3-to-5-year period anyway, plus you have the bankruptcy on

your credit history for seven years from the date of filing. Approximately seven out of every ten people who file bankruptcy are eligible for Chapter 7, while the other 30% are required to file under Chapter 13 instead.

Basically, the way Chapter 7 works is that certain personal property is treated as "exempt," meaning your creditors cannot touch that property in attempting to recover the money you owe them. A certain amount of home equity, personal effects like clothing, and some other assets, are usually considered exempt, although the exact details vary from state to state. Any property that is not exempt is *liquidated* and distributed to the creditors under the supervision of the court. Since most people entering Chapter 7 bankruptcy have only exempt property anyway, there's usually nothing left to distribute, so the creditors typically get nothing.

Under Chapter 13, you are required to pay back a portion of the debt over a five-year period. **Under current rules, the court will apply a "means test" to determine your eligibility for Chapter 7 versus Chapter 13. If your income is above the median for your state, and if you can afford to pay back $100 per month toward your debts, you will be denied Chapter 7 status and required to file under the Chapter 13 method.** Unfortunately, when the court calculates your ability to repay your debts, they will NOT take your actual documented living expenses into account (except under special circumstances, such as disability, etc.). Instead, they will use IRS schedules to determine what your monthly living expenses SHOULD be for your state and county. How's that for harsh?

Obviously, there is a huge difference between these two versions of bankruptcy. Neither version is a free lunch, when you consider that you'll have a bankruptcy on your record for 10 years, and this could cost you **significantly higher interest payments** in the future when you finance a mortgage or other major purchase. But compared to Chapter 7, where the debts are fully discharged, Chapter 13 is a really bad deal. You'll have the bankruptcy on your record AND you get to pay some or all of the debt back anyway, so it really is the worst of both worlds.

Some of the other potential problems with bankruptcy go beyond the financial though, no matter which version you're talking about. For one thing, bankruptcy entails a complete loss of control over the process, and a loss of privacy as well. Basically, your affairs are in the hands of the courts, and the case documents become a matter of public record, so anyone who wants to can see them at the courthouse. Another factor to consider is that bankruptcy is still a difficult and emotionally trying experience for most people. I've talked with a lot of people who have filed bankruptcy. And I've never heard a single one of them say they enjoyed the process.

Yet it exists as an important option for those who need it. If you are a senior citizen, I would especially encourage you to look at bankruptcy as an option. I know it feels bad to think in terms of bankruptcy, but if you are in a fixed income situation and struggling to pay your bills, you really should at least go talk to a knowledgeable bankruptcy attorney to get some good advice and see if you qualify for Chapter 7.

My overall view is that bankruptcy is a lifesaver for the people who truly need it, but that it should not be the automatic first choice for those who would be stuck with the toxic Chapter 13 version. It's important to evaluate other options like debt settlement and see if they make better sense for your situation.

I'll end this subject by offering three insights that I've gleaned from my years of professional experience:

1. Many Chapter 13 bankruptcies are completely unnecessary, since debt settlement would often be the better option.
2. Many consumers are forced, against their wishes, to file bankruptcy to protect themselves from aggressive creditor tactics.
3. Bankruptcy still means FAILURE to most people.

SIDEBAR: **Why Most Debt Relief Programs Have A High Failure Rate**

Debt consolidation, equity loans, credit counseling, debt management plans, even Chapter 13 bankruptcy – it doesn't matter which of these debt programs you're talking about. They all suffer from one fatal flaw, the number one problem that causes most people to fail at eliminating their debts through these techniques. Can you guess the problem?

It's probably not what you're thinking. It's not the fees, interest rates, or the quality of the companies behind these debt solutions. No, the number one problem with most debt programs is that they require FIXED monthly payments without exception. This major flaw is the main reason that very few people make it through a 60-month Chapter 13 bankruptcy plan.

Do you make exactly the same amount of money each and every month? If you are like most people, the answer is probably NO. It's easy to understand why. Salespeople, for instance, often experience ups and downs based on how much commission they earn from one month to the next. Seasonal workers experience boom and bust times depending on the time of the year (think of retail workers getting lots of overtime around the holidays). Overtime hours come and go depending on company workloads. Part-time jobs may offer hours that vary widely from week to week. And so on.

Now, what about your expenses? Do you spend exactly the same amount of money each and every month? Sure, your mortgage or rent and your car payments are a set amount each month. But doesn't your utility bill go up and down depending on the weather? What about your phone bill? How much will you spend on car repairs over the next 6 months? Medical bills? Dental bills? Can you predict such variable expenses with any accuracy?

If you have lots of room in your budget, with money left over at the end of the month, then fluctuating income and expenses are probably not a major issue for you. However, if you are struggling to make ends meet, living from one paycheck to the next, then an unexpected expense can destroy your monthly budget.

People enter debt relief programs with the best of intentions. Take credit counseling, for example. You enter a program to get some help in bringing your credit card debts under control. The monthly payment of $500 sounds good. You're humming along just fine for a few months, then wham! The water heater blows up. Time to shell out $800 for a new one. Unless you like cold showers, you'll need to skip the $500 payment to the agency this month, and part of next month's payment as well. Where does that leave you with the credit counseling program? Back on the street, that's where. You simply CANNOT miss payments into that type of plan and expect anything but failure.

Or look at Chapter 13 bankruptcy, where the court requires you to pay a set monthly amount to your creditors over a 5 year period. Since the court determines how much you are permitted for monthly expenses, based on the IRS figures for your state and county, you have no control over the size of the resulting monthly payment. With such an unrealistic and rigid payment requirement, it’s no wonder that more than 2 out of 3 people fail at Chapter 13 bankruptcy.

Again, the big problem with most debt relief programs is lack of flexibility. You cannot call your loan officer, the credit counseling agency, or the court trustee and say, "Hey, my kid broke his leg and I had to pay the hospital $1,000 to cover my insurance deductible, so I'll need to skip my debt program payment this month." If you could, then these plans might have a chance of working. But such inflexible programs simply do not reflect the unpredictable nature of the average household budget.

The reason debt settlement is a popular alternative is because it eliminates this flaw and provides the flexibility needed by folks who are struggling financially. It is flexible simply because YOU control the cashflow. Like any debt program, debt settlement has its downside and its risks, but no other program provides this level of flexibility. Because your monthly savings are going toward a negotiation fund that you set up and control, a bad month simply means you have less money to settle with. It's the only program out there that recognizes a basic reality: **Your**

budget should set the pace for your debt elimination program. Not the other way around!

Again, debt settlement is not a magic bullet. It won't cure every debt problem. But if you need to skip a month, or adjust up or down a little to reflect what's going on in the real world, it doesn't mean the end of the program. It's truly a shame that the financial "experts" who have set up the bankruptcy rules, consolidation loan terms, credit counseling plans, and debt management programs haven't figured this out yet. If they would just recognize this fundamental problem, then the success rate on their programs would increase dramatically and they could stop misleading the public about what works and what doesn't in the world of debt relief.

OPTION NUMBER FIVE: DEBT SETTLEMENT

As I said at the beginning of this report, there is another solution to burdensome debt, an approach that puts **YOU** in the driver's seat, that levels the playing field between you and your creditors, without having to file bankruptcy. That solution is **Debt Settlement (also called Debt Negotiation)**—good old-fashioned American haggling. Haven't you ever haggled over the price of a purchase? Well, exactly the same thing can be done for your debts!

Just imagine. If you could wave a magic wand and turn that $50,000 of credit card debt into $25,000 or even as little as $18,000, wouldn't that make a HUGE difference to your financial future? You bet it would! Most people are skeptical that this approach is possible. But if you have a the right information, the odds are good that you can cut your debt in HALF or less.

How is this possible? It's very simple, actually. Put yourself in the shoes of a manager of a collection department for a major credit card bank. You know that bankruptcy is always an option for consumers, and also that the chances of collecting any money get worse as the debt ages. You have the opportunity to close your books on a delinquent account by collecting 50 pennies for every dollar owed by the debtor, or take a chance on never collecting a single penny by trying to hold out for the full account value. You also realize that once the debt leaves your bank (usually after six months or so), it will go to a third-party collection agency. The agency will take 25% (or more) commission right off the top of whatever they collect, and they are unlikely to collect more than 70% of the debt even with the most aggressive tactics. So you'll probably never retrieve much more than half the money anyway. When you look at it this way, collecting 50% now doesn't seem like such a bad prospect.

HOW DEBT SETTLEMENT WORKS

The negotiation process will make more sense if I walk you through a "nuts and bolts" example. Let's say you owe $50,000 on five different credit cards, each one with a balance of $10,000. You've been paying an average of $1,250 per month in minimum payments, making sacrifices along the way, only to see your total debt stay the same or even grow due to late fees or over-limit penalties. And now you've started to miss payments here and there because of additional financial pressures.

<u>What happens if you don't send out the $1,250 and put that money into a savings account instead?</u>

Well, the first thing that will happen is that your telephone will start ringing off the hook, and the banks will want to know when their monthly payment is coming. However, there are several very simple techniques for dealing with the problem of creditor harassment, and provided you follow a few simple instructions, most of the nuisance calls can be eliminated.

When the strategic moment arrives you will make contact with the creditor to inform them of your hardship and your intention to "settle" the account. The timing of this process is usually based on how late you are on the debt and the amount of funds you have available for settlement. Now, during the initial months, most banks will not settle. This is not an overnight process. Sometimes it takes 5-6 months or more to reach an agreeable settlement. Let's say that three more months have elapsed. Over a total of four months, you've set aside $5,000 in your settlement fund ($1,250 times four months), because you haven't sent regular payments to your creditors for three months.

What happens next? One of the five creditors decides to get it over with and agrees to accept a 50% settlement, provided payment of the full $5,000 can be made within 90 days. You obtain a written settlement offer from the bank. You release the funds, payable to the creditor. You document everything correctly to protect yourself.

So what just happened? You paid $5,000 to wipe out $10,000 worth of debt, and saved $5,000 in the process. After five short months, your total debt stands at $40,000, instead of the original $50,000. <u>You've eliminated 20% of your problem debt in only five months!</u>

Further, you've traded an open situation for a closed one. That $10,000 debt that you just settled would have continued growing and growing. Instead, you've traded that never-ending situation for a defined settlement of $5,000, and once you've paid that $5,000, you're done with that debt. It's out of your life forever!

"But what about my other four debts?" you ask. Good question. Debt settlement companies claim you can safely take 3-4 years to settle all your accounts, but that's a sales pitch. The LEGAL RISK is far too high when you take that long to settle everything. A much better approach is to negotiate multiple settlements at the same time and work the project on a "fast-track" basis. ("Fast" is defined as being finished within 12-18 months or less from default.) This is accomplished with a combination of monthly savings (formerly wasted on those endless minimum payments) and funds from other sources like retirement accounts, sale of assets, or family assistance.

Using the above example, you'll need $25,000 to settle $50,000 of debt at 50%. There should be $15,000 available over a 12-month period from the monthly cashflow, leaving $10,000 needed from other sources. A loan of $5,000 from the 401(k), a tax refund for $2,000, plus $3,000 borrowed from family and you're there. The assumption is that any family or private loans can be repaid in the second year, after the creditor settlements are all fully paid. That way the monthly outlay will still fit comfortably within the original pace of $1,250/month. In 18 months, you could be completely debt free, without spending any more per month than you already were on minimum payments! Folks, this is a POWERFUL result. Credit card debt is a well designed trap, but once you understand the arithmetic of debt, the way out of the trap becomes clear. **In my experience, many clients ALREADY have the financial resources needed to become debt-free without even realizing it.**

SIDEBAR: If Your Bank Offers A "Hardship Plan," CAUTION!

Consumers who attempt to negotiate with their banks (without first learning the inside tactics necessary to success) are usually talked into a worthless "Hardship Plan." On such plans, typically the bank will agree to waive any penalties or late fees for six months, and lower your interest rate. Let's say you are offered a cut from 25% to 12% for six months, if you agree to stay on the plan and keep up with your minimum payments. Most people would feel that they had accomplished something significant at this stage.

The truth? You've been tricked! Why? Let's do the math.

After six months on the bank's version of a "hardship program," you're right back where you started from. OK, maybe you're a little better off, but not by much. If your debt was $10,000 before you started missing payments here and there (while juggling other over-limit card payments), and they lowered your rate to only 12%, you still have a big problem. Even with that lower interest rate, only $100 of your $200 minimum monthly payment goes to the principal, with the other $100 going to interest.

So, after six months (the maximum for most hardship programs) on the bank's plan, you've brought the debt down from $10,000 to $9,400. Big deal! Unless you can make substantially larger payments after the six months are over, you're just spinning your wheels. Even if the interest rate remains at 12% (which it usually won't), the minimum payment on $9,400 will be $188. Will that whopping $12 make any real difference to your monthly budget? It's better than a poke in the eye, but not by very much.

Here's another problem. Most banks will only show mercy ONCE. After that initial "hardship" program has expired, the account reverts back to the original terms, and you won't have a second chance at another assistance program. Tough luck!

On the bank's hardship plan, after six months, you'd still owe around $9,400. Using the debt settlement strategy, you could completely eliminate $10,000 of debt in the same six month period.

Which you would rather owe: $9,400, or ZERO? The power of the debt negotiation approach for rapid debt reduction is simply incredible.

To be completely fair, the negotiation example described above is overly simplified and ignores some of the complexities that can arise, but the basic math is sound. In fact, it frequently works out better than this. If the settlement average comes down to 40% (which is quite common), then the process could be completed faster.

WILL THIS STRATEGY WORK FOR ME?

Again, I'll be the first to admit that the debt settlement strategy is not for everybody. But for those who qualify, it's a no-nonsense financial recovery program that makes good sense. The list of questions below will help you decide whether or not you should consider debt settlement.

1. Do you have a legitimate financial hardship condition?

This will usually take the form of loss of income, medical condition, death of a family member, divorce or separation, loss of child support payments, or some other serious event that caused a severe financial setback. It doesn't always have to be drastic, but there should be an identifiable circumstance (or set of circumstances) that got you into trouble.

2. Are you trying to avoid Chapter 13 bankruptcy?

Debt settlement/negotiation makes the most sense if you are trying to avoid the five-year version of bankruptcy under the Chapter 13 procedure. Consumers who do qualify for a full discharge of their debt under Chapter 7 will generally find themselves better off with that approach on the long run, due to the quick resolution of Chapter 7 cases -- usually a few months or less -- as well as the drastically lower cost to file bankruptcy compared to funding settlements.

3. Do you owe more than $20,000 in unsecured debt?

If your debt level is much below that, it becomes unrealistic to apply negotiation strategies at the aggressive level I've been discussing. Discounts can still be obtained and favorable arrangements made, but frankly, major reductions in debt are much more difficult to obtain. A range of $50,000 to $150,000 is more typical, although there is no fixed rule and no upper boundary on the debt figure. It also depends on the exact nature of the debt.

4. Are your debts primarily from credit cards?

The negotiation strategy described above works well for a variety of debts, but the hands-down winner is credit card debt. The steepest discounts and greatest success can be obtained with credit card accounts. Department store charge cards, financing contracts, peer-to-peer loans, and miscellaneous bills can also be negotiated, but with less predictable results. Medical bills are often negotiable, depending on the background of the case, usually with good results. Federal student loans <u>cannot</u> be discounted, although in some cases private student loans can be settled. Auto loans can be refinanced, but generally not reduced. (However, deficiencies following repossession or surrender of a vehicle can usually be settled.) Negotiation and settlement of second mortgages or home equity lines of credit, while possible in some cases, is beyond the scope of this report.

5. Are your financial resources up to the job?

All the best intentions in the world won't help if you have nothing to offer your creditors. A good rule of thumb is that your monthly savings goal should be at least $200 for every $10,000 of debt. So if you owe, say, $30,000 total, then your monthly savings budget should be $600 or more. <u>Keep in mind that this number may be well under the current total of your monthly minimum payments</u>. This aspect of the debt negotiation approach is what makes it so attractive to many consumers—it allows you to back off on your monthly commitments while still handling your debts honorably and ethically, and without bankruptcy. However, it is very difficult to complete a debt settlement strategy based only on monthly savings, simply because it usually takes too long to get everything settled that way. Most successful debt settlement clients are able to supplement their monthly savings with other financial resources. Sources include funding from 401k retirement accounts, IRAs, annuities, cash-value insurance policies, real estate equity, borrowing from friends and family, or the sale of unneeded vehicles or household items.

BOTTOM LINE: If you are in a condition of financial hardship, committed to avoiding Chapter 13 bankruptcy, owe more than $20,000 of credit card debt, and still have some financial resources to work with, then you should definitely give serious consideration to the debt settlement strategy.

FREQUENTLY ASKED QUESTIONS

1. What happens to my credit?

Your credit score will decline during the program itself. How much it will decline will depend on your original circumstances. Some of the accounts are likely to “charge off”, which will reflect negatively on your credit. However, once a debt is settled, the settlement is reported to the credit bureaus. Settled accounts are less damaging on the long run than unresolved delinquent debts or bankruptcy. After all the debts have been settled, your credit score should begin to improve since the negative items have been resolved. In addition, your debt-to-income ratio (an important measurement made by potential lenders that is not directly reflected in your credit “score”) will greatly improve, since you will be debt-free. There are also several useful techniques for self-repairing your credit later on. Of course, credit is an important thing to have, but obviously your first priority should be to clear up your debts and get back on your feet financially.

2. Is this legal?

Definitely! This is America. You have the legal right to haggle with your creditors and/or appointment someone to do it for you. Besides, it's the banks that want to settle. That's because settlement is an existing part of their collection process, with the aim of reducing losses or recovering against prior losses.

3. What are the tax consequences?

Banks are required to report canceled debts exceeding $600 to the IRS and you are supposed to report the same as income on your annual tax return. However, the IRS permits you to write off any "income" from canceled debts up to the amount by which you were "insolvent" at the time. So unless you have a positive net worth, which is probably unlikely if you're deep in debt, then you ordinarily won't have to pay taxes on the forgiven amounts. You should consult your own tax advisor for advice specific to your situation.

4. Can my wages be garnished?

A common tactic used by aggressive debt collectors is the threat of wage garnishment. If you're already struggling financially, nothing is scarier than the prospect of having money taken out of your paycheck without permission. Collectors try to make it sound like this will happen on your very next payday if you don't send a check immediately. This, quite simply, is false. The creditor first has to sue you, obtain a judgment, and then file for a garnishment action. See Question No. 5 below. If you're willing to work with your creditors, wage garnishment can normally be avoided.

5. What about lawsuits?

Lawsuits happen less frequently in debt matters than most people think. Some debtors fall behind, don't make any payments for years, and never hear from a single attorney. Of course, creditors certainly have the right to sue you to recover their money. But the purpose of the lawsuit is to force a settlement on the matter. In other words, the creditor is just trying to get paid. Accounts that have reached this stage can still be successfully settled, provided you have sufficient funds at the time. Otherwise, most creditors are open to renewed payment arrangements in such a situation. The worst-case scenario is that you might have to pay back the balance in full on that particular debt.

6. Will I still be able to use my credit cards?

No. Since the banks are giving up half or more of the money you owe, they will of course discontinue your credit privileges. However, many clients keep current on one card with a small credit line for emergency purposes.

WHAT'S THE NEXT STEP?

If the Debt Settlement strategy sounds like a great solution for your situation, then the next step is to educate yourself about the different approaches to Debt Settlement.

There are basically three ways to go about Debt Settlement: (1) do it yourself, (2) hire a traditional company that offers risky long duration programs with very high fees, or (3) enroll with ZipDebt to implement a Tailored Debt Settlement™ plan that is customized to your financial situation AND your specific list of accounts.

(1) Do It Yourself -- There's certainly nothing wrong with taking matters into your own hands and negotiating settlements on your own. In fact, I've been the main cheerleader for DIY Debt Settlement (supplemented with ongoing coaching from yours truly) for more than a decade. ZipDebt has been the pioneer for this approach and I've helped thousands of people to settle on their own. However, I'm no longer actively recommending the DIY approach for most debt settlement situations. The reason is because over the past few years the process has become far more time-sensitive, technical, and data driven, and it's become a less efficient approach than it used to be. Miss an important settlement deadline, for example, and a possible 25-30% deal could be replaced with a sale to an aggressive purchaser who will demand 75-80% and sue you if they don't get it.

(2) Hire a Traditional Debt Settlement Company -- Most people don't want to handle the negotiation calls themselves, so they hire a debt settlement company offering long-duration programs. Good luck if you try this approach! I realize that the 36-48 month programs offered by these firms are attractive to people struggling to find resources to settle with on a faster basis.

However, I'm the person who invented the 36-month settlement program, 23 years ago (!), and I considered it already outdated and obsolete as of 2004. Yet there are companies out there still offering this approach today. You can tell it doesn't work very well just by the outrageous fees they have to charge in order to keep their doors open -- 20%-25% of the enrolled debt. If you owe $50,000 in debt, how does it make any sense to pay $12,500 in FEES?

Worse, how does it make any sense to accept that fee structure, when it means the debt company gets paid $12,500 in fees <u>regardless of how they actually perform</u>? The fee is the same whether they average 30% or 70% on your settlements, and this arrangement is simply not in the best interests of the consumer.

(3) Enroll in ZipDebt's Tailored Debt Settlement™ Program --

My unique approach to full service negotiation is called Tailored Debt Settlement™. Instead of a risky 36-48 months, I only accept clients who are in a position to have all the debts resolved in a period of 12-18 months or less (counting from the point of default). This approach provides a 3½ to 4-year head start on getting your financial life back compared to the 5-year Chapter 13 bankruptcy solution.

Further, my fees are very reasonable at 20% of SAVINGS (not the total debt balance!). If I settle your $50,000 of debt for $20,000, thereby saving you $30,000, then my fee is only $6,000 - a savings of $6,500 over the $12,500 that a Traditional company would charge you. Further, YOU PAY NOTHING UP FRONT, and my service fee is only due after I negotiate a settlement that you accept.

Please note: Not everyone with a debt problem will be eligible for my program. I only accept a LIMITED NUMBER of CLIENTS whom I deem a good fit for this approach after having performed an initial suitability analysis.

To learn more about Tailored Debt Settlement™, please read the 5-page series on my website. Click here to go to the first part in the series.

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