

Debt Relief Options

When Budgeting Is Not Enough

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If you are struggling to pay your credit cards or other unsecured debts each month and you simply do not have sufficient income to balance your budget, there are three primary options that may provide you the relief you need.

Debt Management Plans (DMPs)

DMPs are offered by your creditors through authorized credit counseling agencies and are designed to help you payoff your credit cards and other unsecured debts in full within 5 years. Benefits generally include reduced interest rates, one lower consolidated monthly payment, and no more collection calls or past due fees. Some creditors will also re-age your past due accounts and report them to the credit bureaus as current.

Credit counseling agencies offering DMPs are highly regulated, insured and bonded. Fees typically consist of an initial setup fee not exceeding \$75 and recurring monthly fees based on your amount of debt not exceeding \$50.

Debt Settlement Plans (DSPs)

If you cannot afford the payment required by a DMP, another alternative to bankruptcy is a debt settlement plan. A DSP provides you relief when your creditors agree to accept payments for less than you owe in full settlement of your debts. However, your creditors will only accept settlements if they believe you are unable to repay the full balance. Under a DSP you stop making any payments to your creditors and instead, save the specified plan amount each month in a bank account until there are sufficient funds to make acceptable settlement payments.

It is important to understand that DSPs are not endorsed by most creditors and during the time they are not getting paid, they will increase their efforts to collect from you. DSPs are primarily offered by attorneys and for-profit companies. Fee rates are generally not regulated, and typically

consist of recurring monthly fees plus settlement fees at the time each debt is settled.

Bankruptcy

If filing for bankruptcy protection from your creditors is your best option, there are two types of filings that are available to most consumers; Chapter 7, which will discharge most of your unsecured debts in full, and Chapter 13, which will provide you a plan for the partial repayment of your debts. The Chapter under which you are qualified to file is determined by specified tests. Consumers filing bankruptcy are required to receive credit counseling from an approved provider prior to filing and complete a personal financial management course after filing. Although not required, most consumers use attorneys to file bankruptcy. Fees typically average \$1,700 for singles filing Chapter 7 and \$3,500 for Chapter 13, plus court costs.

Phil Heinemann is the Executive Director of Debt Management Credit Counseling Corp. (DMCC) a 501 (c)(3) nonprofit charity committed to educating consumers on financial issues and providing personal assistance to consumers who have become overextended with debt.

DMCC is approved by HUD to offer housing counseling and by the U.S. Department of Justice to provide bankruptcy counseling and education.

DMCC is located at 700 W. Hillsboro Blvd., Building 1 Suite 105, Deerfield Beach, FL 33441. To speak to a certified credit counselor, call 866-618-DEBT (3328) or email contact@dmconline.org.

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