

FTC Facts

For Consumers

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FEDERAL TRADE COMMISSION
FOR THE CONSUMER

ftc.gov ■ 1-877-ftc-help

Settling Your Credit Card Debts

If you've maxed out your credit cards and you're getting deeper and deeper in debt, chances are you're feeling overwhelmed. How are you ever going to pay it down? Now imagine hearing about a company that promises to erase your debt for pennies on the dollar. Sounds like the answer to your problems, right?

The Federal Trade Commission (FTC), the nation's consumer protection agency, says slow down, and consider all the steps that can get you out of the red without spending a whole lot of green.

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Many different kinds of services claim to help people with debt problems. Among them are "debt settlement" companies that negotiate with your creditors to reduce the amount you

owe. Some debt settlement companies claim that they can arrange for your debt to be paid off for a much lower amount – anywhere from 30 to 70 percent of the balance you owe. For example, if you owe \$10,000 on a credit card, a debt settlement company may claim it can arrange for you to pay off the debt for less, say \$4,000.

But there is no guarantee that debt settlement companies can persuade a credit card company to accept partial payment of a legitimate debt. Even if they can, you must put aside money for your creditors each month and pay the hefty fees debt settlement companies charge before they settle any of your debts. On top of that, you may have to pay a final fee to a debt settlement company that's a percentage of the money you've supposedly saved. Meanwhile, it may be months – or even years – before the debt settlement company negotiates with your credit card company to settle your debts. And, if you stop making your payments in the meantime, the credit card company usually will add late fees and interest to the debt each month. That can cause your original debt to double or triple. All these fees will put you further in the hole.

RED FLAGS

Avoid any company that promises to settle your debt if it:

- touts a “new government program” to bail out personal credit card debt
- guarantees it can make your unsecured debt go away
- tells you to stop communicating with your creditors
- tells you it can stop all debt collection calls and lawsuits
- guarantees that your unsecured debts can be paid off with pennies on the dollar
- requires that you pay the full fee within the first few months

WHEN YOU’RE IN A HOLE...

Ever hear the expression, “When you’re in a hole, stop digging”? If you need help managing your debt, it’s crucial to keep the lines of communication with your creditors open.

- **Contact your credit card company**, even if you have been turned down before. If at first you don’t succeed, be persistent. Keep good records so that when you do reach them, you can explain your situation. Your goal is to try to work out a modified payment plan that reduces your payments to a level you can manage. If you don’t pay on your debt for 180 days, your creditor will write your debt off as a loss; your credit score will take a big hit, and you still owe the debt. Creditors often are willing to negotiate with you even after they write your debt off as a loss. Rather than pay a company to talk to your creditor on your behalf, remember that you can do it yourself for free. You can find the telephone number on your card or your statement.

If you decide to pay a company to negotiate your debt, do some research. Consider other people’s experiences. One way to do that is to enter the company name with the word “complaints” into a search engine. Read what others have said. You are making a big decision that involves spending a lot of your money that could go toward paying down your debt.

- Another option is to **contact a credit counselor**. Reputable credit counseling organizations advise people on managing money, bills and debts, help them develop a budget, and usually offer free information and workshops. They should discuss your entire financial situation with you, and help you develop a personalized plan to get you out of the hole.

Finding reputable credit counselors has become more convenient. A new law requires credit card issuers to include a toll-free number on their statements that directs cardholders to information about finding nonprofit counseling agencies.

Most credit counselors offer services through local offices, the Internet, or on the telephone. If possible, look for an organization that offers in-person, face-to-face counseling. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate nonprofit credit counseling programs. The federal government maintains a list of government-approved organizations, by state, at www.usdoj.gov/ust, the website of the U.S. Trustee Program.

That's the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees. Cross-check any credit counseling organization that says it's government-approved against the U.S. Trustee's list of approved organizations.

- Occasionally, a credit counselor may suggest that if these options don't work, you **consider filing for bankruptcy**. Declaring bankruptcy has serious consequences, including lowering your credit score, but credit counselors and other experts say that in some cases, it may make the most sense. Filing under Chapter 13 allows people with a steady income to keep property, like a mortgaged house or a car, that they might otherwise lose through the Chapter 7 bankruptcy process. In Chapter 13, the court approves a repayment plan that allows you to pay off your debts over a three to five year period, without surrendering any property. After you have made all the payments under the plan, your debts are discharged. As part of the Chapter 13 process, you will have to pay a lawyer, and you must get credit counseling from a government-approved organization within six months before you file for any bankruptcy relief.

For More Information

The FTC has free materials about dealing with credit card debt at [ftc.gov/credit](https://www.ftc.gov/credit):

- **Knee Deep in Debt**
- **Fiscal Fitness: Choosing a Credit Counselor**
- **Before You File for Personal Bankruptcy: Information About Credit Counseling and Debtor Education**
- [ftc.gov/moneymatters](https://www.ftc.gov/moneymatters)

For more information about dealing with mortgage debt, visit [ftc.gov/yourhome](https://www.ftc.gov/yourhome).

- **Mortgage Payments Sending You Reeling? Here's What to Do**
- **Foreclosure Rescue Scams: Another Potential Stress for Homeowners in Distress**



4 FTC Facts For Consumers

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. Watch a new video, *How to File a Complaint*, at ftc.gov/video to learn more.

The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

*Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education*

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