CCCS of Buffalo

Debt Solutions	Advantages	Disadvantages	May be a good choice when…	May <u>not</u> be a good choice when…
<u>Power Payment Method</u>- A self administered, systematic way to pay down debt by paying all minimum payments but paying the most possible on the highest interest account, once this account is paid off, that payment gets applied to the next highest interest account and so on and so forth until the debt is paid off in full. (snowball effect)	✓ Balances are paid off more **quickly** ✓ Amount of **interest** paid to creditors will be less as compared to just making minimum payments ✓ **Staying current** on payments and paying down balances will improve credit score	✓ **Need extra money** available within budget after covering living expenses ✓ Must be **self disciplined** and cease any additional spending ✓ Must **stop** using all credit cards	✓ There is a surplus in budget after living expenses so current minimum payments can be doubled or tripled ✓ Interest rates are moderately low ✓ Credit cards can be cut up and not used	✓ Only minimum payments can be afforded ✓ Interest rates are high and lenders refuse to lower them ✓ Credit cards still need to be used
<u>Debt Management Plan (DMP)</u>- A structured repayment plan set up and administered by a designated third party agency. Monthly deposits are made to the Agency, and the funds are then disbursed out to the creditors. Serves a dual role of helping a consumer get their debts paid while the creditors receive the money owed.	✓ Interest rates **may** be lowered ✓ Debt will be paid (in full) in **5 years or less** ✓ Payments will **stay current** & balances will be paid in full-good for credit score ✓ After 3 billing cycles late/ over limit fees stop ✓ Reduces and/or stops creditor calls ✓ One convenient monthly payment ✓ When using a non-profit Agency fees are low	✓ **No use of credit cards** while on the DMP ✓ All unsecured credit card accounts must be included on the DMP (there are some exceptions) ✓ **Credit cards will be closed**, possibly causing an initial decrease in credit score ✓ May be charged higher interest rates for secured debts if applying for a loan while on the DMP	✓ There is room within the budget to cover the DMP payment provided ✓ Interest rates are high and creditors will not permanently lower them directly ✓ Only the minimum payments can be afforded when paying creditors directly	✓ Rent/mortgage, utilities and other general living expenses cannot be afforded let alone credit card payments ✓ Secured debt or student loans are the main problem ✓ There is only a small amount of debt that could paid off directly-in which case Agency fees may not be worth going on a DMP
<u>Consolidation Loan</u>- An unsecured loan extended by a bank or credit union that is used to pay off all outstanding credit card debt. Be wary of Finance companies, they often charge high interest rates. **It is not advised that you take a loan from your retirement to pay off credit card debt due to the penalties that are imposed	✓ Credit cards do not need to be closed lessening impact on credit score ✓ Only one monthly payment to budget for ✓ The **loan payment may be lower** than what all combined minimum payments were	✓ **May be difficult to obtain**- a good credit score and/or a low income to debt ratio is needed because the loan is unsecured ✓ May not get approved for a loan that covers the total amount of debt ✓ **The repayment period** may be stretched over a long period of time increasing interest paid to the lender	✓ A bank or credit union will extend a low interest loan due to having good credit ✓ Approved for a loan that covers the full amount of the credit card debt ✓ The total amount of debt is less than $10,000-credit unions or banks may not be willing to extend an unsecured personal loan for more than that amount	✓ Credit score is average to low and cannot get approved for a low interest loan ✓ Only approved for a loan that covers part of the debt ✓ Credit cards still need to be used after they are paid in full by the consolidation loan

Debt Solutions	Advantages	Disadvantages	May be a good choice when…	May not be a good choice when…
Home Equity Loan- A secured loan that is used to pay off all outstanding credit card debt. **Reverse mortgage- An arrangement for those individuals 62 and older in which a homeowner borrows equity in his/her home and receives regular monthly payments or a lump sum amount (tax-free) from the lender.	✓ The repayment period is lengthened possibly **lowering the monthly payment** ✓ Possible **lower interest rate** than on credit cards ✓ Interest paid is **tax deductible** ✓ Credit cards can be left open-lessens any impact on credit score	✓ **Makes unsecured debt secured**-now if a payments are missed the home could be foreclosed on ✓ Takes away Chapter 7 bankruptcy protection for eligible individuals ✓ Repayment is stretched out over a long period of time possibly increasing the total interest paid	✓ Income is stable and secure ✓ The payment will comfortably fit within budget ✓ There is equity within the home ✓ There is at least 15% of equity in the home	✓ Income varies an is not secure ✓ Expenses are at risk for increasing and the payment may not fit in the budget in the future ✓ Owe more or close the amount the home is worth ✓ The loan has a variable interest rate and it is not paid off at an accelerated rate-the interest rate may go up
Negotiated Debt Settlement- Negotiating with creditors to settle debts for less than the full balance owed. **Be wary of Debt Settlement Companies-they are for profit and charge exorbitant fees for a process you can administer on your own. Many of these companies are scams.	✓ Pay less than the original amount owed ✓ May be able to pay off debt more quickly due to not paying the full amount owed	✓ Accounts usually need to be past due (**decreases credit score**) & will show on credit report as settled ✓ If any creditor forgives over $600 **income tax** will be owed on forgiven debt. ✓ Creditors will typically want the settlement in 1-3 **lump sum payments** ✓ If delinquent for too long, a creditor may try to sue you and get a **judgment** for the full amount owed plus interest and legal fees	✓ Accounts are already in **collections** ✓ Able to self administer settlements with collection agencies directly ✓ The account **balances are small** ✓ You are on a fixed income and can only afford to pay off one account at a time ✓ You either have a good amount of liquid savings or you will be able to create savings	✓ The accounts are all current ✓ The accounts have high balances (could not afford to settle account in 1-3 payments) ✓ You don't have liquid savings in order to offer large lump sum payments to the collection agency
Bankruptcy- A legal proceeding filed in the U.S. Bankruptcy Court. A Chapter 7 permits a discharge/ liquidation of the total debt obligation and a Chapter 13 involves repayment of some or all of the debt obligation. An attorney must perform a means test to see which chapter an individual is eligible for. The bankruptcy laws are intended to allow an honest but unfortunate debtor an opportunity to get a fresh start. Contact a bankruptcy attorney regarding your options.	✓ In most cases retirement funds are protected ✓ Chapter 7: all eligible **unsecured debt is forgiven**, allowing a fresh start ✓ Chapter 13: you can keep all assets such as a car and a home & get on an **affordable payment plan** to repay unsecured and past due secured debt back through the courts	✓ Will **lower credit score** approx. 150-200 points ✓ May take 2-4 years to repair credit score & stays on credit report for 10 yrs ✓ Chapter 7: only allowed to have a certain amount of savings & certain assets may be seized ✓ Chapter 13: may have to pay some or all debt back and ask permission to take out any new loans during the repayment period	✓ Debt repayment cannot be afforded on top of general living expenses ✓ Chapter 13: past due on secured loans, the bankruptcy may save the property	✓ **All other options have not been explored** ✓ There is room within the budget for debt repayment or there is opportunity to create room by decreasing expenses and/or increasing income ✓ A home and/or car are owned free and clear (may be seized through a Chapter 7 bankruptcy)