



# Consumer Affairs Tabloid



Keeping you in the "KNOW"

287- CITY

Army Community Service Financial Readiness Branch

August 2011



## Excerpt from Money Matters

[www.ftc.gov/bcp/edu/microsites/moneymatters/dealing-with-debt-relief-services.shtml](http://www.ftc.gov/bcp/edu/microsites/moneymatters/dealing-with-debt-relief-services.shtml)

### Debt Relief Services

If you've maxed out your credit cards and don't know how you're going to pay off your debts, you may think that a company that promises to erase the debt for pennies on the dollar is the answer to your prayers. Not true! Debt negotiation can be risky, and it can have serious, long-term consequences for your credit report and your ability to get credit in the future

### To Do

If you get a sales pitch from a debt relief firm, pay attention to the details. Stay away from any company that:

- promises that unsecured debts can be paid off for pennies on the dollar. The **truth** is that there is no guarantee that any creditor will accept partial payment of a legitimate debt.
- tells you to stop making payments to or communicating with your creditors. The **truth** is that if you stop making payments on a credit card expect late fees and interest to be added to the amount you owe each month. If you exceed your credit limit, expect additional fees and charges to be added.
- claims that creditors never sue people for not paying their unsecured debts. The **truth** is that creditors may have the right to sue you to recover the money you owe.
- claims that they can remove accurate negative information from your credit report. The **truth** is that no company or person can remove negative information from your credit report that is accurate and timely. It's illegal.

## Excerpt from 'The "Ask Experian" team'



### Settling accounts will hurt credit scores

Dear Experian,

I have an unsecured loan of \$10,000 and the loan company has offered me a settlement of \$5,000. If I take this settlement, will it affect my credit score? – TPF

Dear TPF,

Settling an account will negatively affect your credit score, for a simple reason. When you took out the loan, you agreed to repay the \$10,000 in full, by a specified date. If you settle the account for \$5,000 you will repay only half of the debt. That breaks the agreement you made with the original creditor.

Think about someone borrowing money from you. If you loaned the person \$10 but they only repaid \$5, would you lend money to them without being at least a little concerned that they might not pay you back the next time they asked?

However, if you are missing payments and failing to pay the account, your score will be negatively impacted by those delinquencies. Settling may be a way to resolve the debt, but neither missed payments nor settled debts are good for your credit risk.



**Excerpt from the Federal Trade Commission**  
**[www.ftc.gov/bcp/edu/pubs/consumer/credit/cre02.shtm](http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre02.shtm)**

**Settling Your Credit Card Debts**

If you decide to pay a company to negotiate your debt, do some research before you choose one. Consider other people's experiences with debt settlement companies. One way to do that is to enter the company name with the word "complaints" into an Internet search engine. Read what others have said. You are making a big decision to spend money that could go toward paying down your debt.

**Debt Settlement Fees**

Companies that sell debt settlement and other debt relief services by phone cannot charge or collect a fee before they settle or reduce your debt.

If you do business with a debt settlement company, you may be required to deposit money for the company's fees and potential settlements in a dedicated bank account, which will be administered by an independent third party called an account administrator. The account administrator may charge you a reasonable fee, and is responsible for transferring funds from your account to pay your creditors and the debt settlement company when settlements occur – as long as:

- the account is at an insured financial institution;
- you own and control the funds (and any interest accrued), and can withdraw them at any time;
- the debt settlement company doesn't own, control or have any affiliation with the account administrator;
- the debt settlement company doesn't split fees with the account administrator; and
- you can stop working with the debt settlement company at any time without paying a penalty. If you decide to end the relationship with the company, it must return the money in the account to you within seven business days – minus any fees the company legitimately earned.

**From the files of Fort Hood Consumer Affairs Office**

Debt settlement might be an option if you have the cash to settle, your credit report is already ruined, and this will get you out of debt quickly. Just remember, you don't need to hire a debt settlement company. Save money by contacting the creditor yourself. I suggest you write the business with your proposal and send it certified mail return receipt.

If possible, ask the company if they will report the debt in full on your credit report instead of stating it is a debt settlement. Get all promises in writing and as a minimum make sure the letter states they will not pursue legal actions and they are releasing you from any further liability.

Settling a debt can result in income tax liability. Creditors must report any forgiven debt in excess of \$600 to the IRS, and the debtor (you) will receive an IRS form (**1099-C**) for the amount of the forgiven debt.

If you owe money and cannot make the full payment there are other options available such as contacting the creditor to work out a new payment plan or contacting a not for profit debt management company. In most cases enrolling in a debt management plan will allow you to keep your security clearance.

Did you know all active duty military and their spouses can receive a free My FICO credit score analysis? For more information on financial, credit, and debt management or to receive your free credit score contact the Financial Readiness Branch at 553-4698.

Previous issues of the Consumer Affairs Tabloid are available on the Army Community Service (ACS), Financial Readiness section of the ACS website at [www.hoodmwr.com/acs](http://www.hoodmwr.com/acs).

Have questions? Contact: [melody.squires@us.army.mil](mailto:melody.squires@us.army.mil) 553-4702