

**DEBT MANAGEMENT
RESOURCE**

FINANCIAL EDUCATION



Loans to pay off debt

Using loans to pay off debt can be a double-edged sword, and there are several warnings and considerations you should keep in mind:

- **Accumulating more debt:** Taking out a new loan to pay off existing debt might lead to the accumulation of even more debt if you are not careful. You could end up with multiple loans to manage, which could be financially burdensome.
- **Higher interest rates:** Depending on the type of loan you get, the interest rates could be higher than your existing debt. If you are not careful, you might end up paying more interest over time.
- **Loan fees and charges:** Loans often come with various fees and charges, such as origination fees, processing fees, and prepayment penalties. These can add to your overall debt burden.
- **Longer repayment terms:** Consolidating debt with a loan might extend the repayment period, meaning you'll be in debt for a more extended period.
- **Risk of default:** If you struggle to manage your finances and repay the new loan on time, you might risk defaulting on the new loan, which could have severe consequences for your credit score and financial stability.
- **No behavioral change:** Taking out a loan to pay off existing debt does not address the underlying spending and financial management issues that got you into debt in the first place. If you don't change your spending habits, you might find yourself in a similar situation again.
- **Secured loans:** If you opt for a secured loan (e.g., using your home or other assets as collateral), you are putting your property at risk if you cannot make loan payments.
- **Emotional and mental stress:** Dealing with debt can be stressful, and taking on more debt to address it might exacerbate the emotional toll it takes on you.
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Before considering a loan to pay off debt, it's essential to evaluate your financial situation, budget carefully, and explore other debt repayment strategies. If you're struggling with debt, it's often advisable to seek advice from a coach before credit counseling service to explore the best options for your specific circumstances. Below is an outline of two options for the type of credit counseling services. .

Debt Settlement Vs. Debt Management Programs: Which Is Right For You?

Excerpts taken from a Forbes article.

If you're struggling to manage your debts, having trouble making payments on time or considering declaring bankruptcy, you may want to get professional financial help. Two options for debt relief available to consumers are debt settlement and debt management programs. Depending on your financial situation, you may benefit from debt management, debt settlement or another form of debt relief, like [debt consolidation](#). Both the debt management and debt settlement options have pros and cons. Before you commit to one path or another, make sure you understand [how debt relief works](#) and the difference between debt settlement and debt management plans.

Here's more about what to expect from debt management plans and debt settlement and how each affects your personal finances.

Debt Management

Debt management programs, also called [debt management plans](#) or DMPs, are a service offered by consumer credit counseling agencies. Credit counseling agencies are nonprofit organizations that help people who are having trouble managing their debts but want to avoid declaring bankruptcy. Most of their services are provided at low or no cost to you as the customer. Credit counseling agencies are funded in part by creditors.

When you sign up to work with a credit counseling agency—along with your debt management program—you'll receive personal finance coaching and advice on setting a budget, managing your money and credit more responsibly, and building a better financial future.

A debt management program gives you a fresh start and heightened focus on paying off your debt. The credit counseling agency will work with your creditors to negotiate a lower monthly payment to cover all of your debts, while waiving fees or reducing your interest rate if possible. In exchange, you agree to repay the full amount of your debt over a period of months or years. Most people on a debt management plan are able to pay off their debt within three to five years.

Why You Might Choose Debt Management

There are several good reasons to choose a debt management plan to help you get out of debt:

- **One monthly payment.** Credit counseling agencies help by giving you one monthly payment that combines all of your debts. You pay the agency this lump sum each month, and then the agency pays your creditors separately. Having just one monthly payment can help you simplify your finances, and the credit counseling agency is on your side in working with your creditors.
- **Save money.** Credit counseling agencies can work with your creditors to negotiate lower interest rates, get fees waived and otherwise help you save money on your debt payments. As a result, the new monthly payment you make as part of your debt management plan may be less than you were paying before. This can free up space in your budget to help you build emergency savings or work toward other financial goals while getting out of debt.
- **No damage to your credit.** Being on a debt management plan can help you build or reestablish your credit history. Your accounts get credited with 100% of the payments that you make over time. If you have some less-than-perfect credit history due to late payments or excessive debts, debt management can help you make a fresh start.

Debt Settlement

Debt settlement is a form of debt relief where people try to renegotiate the amount of debt they owe, and ask their creditors to accept a lower repayment. This can be done by the individual creditor or by using the services of a [debt settlement company](#).

Instead of paying the total amount you owe (as you would with a debt management plan), debt settlement involves “settling” the debt for less than what you owe. Debt settlement can be risky and it can damage your credit. It should be considered only as a last resort for people with severe financial distress.

Why You Might Choose Debt Settlement

There are a few reasons to choose debt settlement:

- **Cannot or don't want to declare bankruptcy.** If you are not able to declare bankruptcy, debt settlement may be an option of last resort.
- **Cannot or don't want to apply for a debt consolidation loan.** If your credit is poor and you do not qualify for lower-interest debt consolidation loans or balance transfers, debt settlement may fit your needs.
- **Willing to accept damaged credit.** The debt settlement process will cause you to be delinquent on your payments and will damage your credit. If your credit is already poor, or if you are willing to take a hit on your credit as part of your longer-term plans to rebuild your finances, debt settlement may be a valid option.

Debt settlement is not the right fit for every situation because of the risks and credit damage involved. Still, in some circumstances, debt settlement may be worth pursuing.

	Debt Management	Debt Settlement
How It Works	With a debt management plan, a nonprofit consumer credit agency works with your creditors to arrange a combined lower monthly payment. You may also receive financial counseling and advice on how to set a budget.	You ask creditors to settle your debts for a lower payoff amount. Debt settlement can be done by yourself or by hiring a debt settlement company. Debt settlement companies negotiate with your creditors in exchange for a fee (a percentage of the total debt).
Does It Affect Your Credit Score?	Participating in a debt management program does not negatively affect your credit score. Successfully completing a debt management program may improve your credit—from your on-time payments and any reduction in your credit utilization ratio.	Debt settlement hurts your credit, because the process requires you to stop paying your bills and go delinquent on payments. This negative effect can stay on your credit report for seven years. This is one reason why debt settlement is typically considered a last resort.

<p>What Does It Cost?</p>	<p>With an accredited credit counseling agency, most services are provided at low cost or no cost to you as the customer. Credit counseling agencies also can negotiate reduced interest rates and fees with creditors.</p>	<p>Debt settlement companies generally charge a fee of 15 to 25% of the total amount of enrolled debt. There is no fee if you negotiate with your creditors yourself.</p>
<p>Advantages</p>	<p>Debt management plans give you expert help and support. You receive financial counseling on how to improve your overall financial situation. The credit counseling agency develops a reasonable plan where you get out of debt and your creditors get paid in full.</p>	<p>Debt settlement can reduce the total amount of debt you owe. May be your best option if you are in serious financial difficulty and cannot make more payments, do not want to declare bankruptcy and do not want (or are not able) to apply for more loans.</p>
<p>Risks/ Drawbacks</p>	<p>If your debts have reached an unpayable level and filing for bankruptcy is a better option, the credit counseling agency will talk with you about that and should be prepared to recommend bankruptcy instead.</p>	<p>Your credit will take a hit, you may have to pay income taxes on the forgiven debt and not all creditors will agree to negotiate or reduce your debt. Also, the FTC and Consumer Financial Protection Bureau have fielded complaints about unethical practices by some debt settlement companies.</p>

We highly recommend Debt Management as the ideal option for most of our clients. To facilitate a comprehensive review, we have two reputable companies that we trust and suggest for obtaining a debt plan. Your coach can compare the offerings of these companies to help you make an informed decision.



CCOA- local nonprofit with offices in Fayetteville and Bentonville.
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