

## Important Financial Information to Assist Consumers

- **Debt settlement** is a process through which your creditor agrees to accept less than the full amount owed, yet considers the balance as paid. Settlement companies often advertise that they can negotiate reductions of 50 percent or more in the debt you owe. They then set up a repayment plan that typically takes between two and four years.
- **Settlement companies charge significant fees.** Different settlement companies have different fee structures, but there are two basic approaches. In one model, the settlement company's fee will be a percentage of your total debt. The fees in that model typically range from 13-20 percent. Another option the settlement company may offer is to base their fee on the amount of debt reduction they can negotiate. Fees under this model can be as high as 35 percent. In addition, many settlement companies also charge a monthly fee that can range from about \$19 - \$89 a month for the entire program. Either way, it is not uncommon for settlement fees to total thousands of dollars.
- **Some debt settlement companies front load their fees.** In other words, they collect a large part of their fee before you receive any benefit. Much of the money you initially deposit goes to pay the settlement company to satisfy its fees. It can be months after you start the settlement program until your creditor receives any payment.
- **A settlement company may suggest that you stop paying your creditors** and instead begin making deposits into a special third-party account. The settlement company will attempt to negotiate a settlement offer with your creditor once enough money relative to the debt is on deposit. This may take six months or more, although the exact length of time will vary with circumstances. During this time, the balance on your debt can continue to grow if interest and various penalty fees continue to be charged by your creditor. As a result, you may owe more than when you started and your credit may suffer because of your failure to make any payments on your debt. Even worse, legal actions such as wage garnishment or a judgment may be filed against you during this time.
- **Debts paid off through settlement will generally show "Paid by Settlement"** on a consumer's credit report. If you later apply for new loans or credit, when reviewing your credit report the prospective lender(s) will see that a previous debt was paid by settlement, indicating that your repayment did not cover the total debt that you owed, but that your creditor accepted a lesser amount.
- **The credit score is based on information contained in the credit report,** with the highest consideration given to how you repay your debts. If you're not repaying the creditor or have missed payments, it will show on your credit report and potentially lower your credit score significantly.
- **The consumer may be responsible for taxes on the forgiven debt.** If the forgiven debt totals \$600 or more, you will generally owe income taxes on the amount forgiven, substantially reducing the total savings from debt settlement.