The Definitive Guide on How To Negotiate Your Debts

mydebthelper.org

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What this book is all about

This is a guide to a self conducted debt resolution program. It will save you THOUSANDS of dollars and get you out of debt sooner than you ever thought possible. Inside, you will find a very practical guide to each step of building your own program. This how-to guide will relieve you of an unbelievable amount of stress and get you on a path to being truly debt free.

If you read nothing else, I want to put several keys to success right at the beginning:

- Stop paying your creditors immediately and do not engage with them for at least 3 months
- Figure out how much you need to set aside each month and make that savings plan automatic
- Communicate truthfully and transparently with your creditors when they are willing to negotiate, but do so in a manner you control such as email
- Find someone you can talk to openly about what you are dealing with. This can be a family member, a friend, or a professional

Is debt resolution right for you?

First, it will be helpful to describe “debt resolution.” This is where someone takes their unsecured debts (typically credit cards, personal loans, and medical debts) and negotiates to pay less than the full balance where creditors forgive the remaining amount (typically as much as 50%.)

Often people work with a third party to provide negotiation services. These services come with a substantial cost, often as much as 25% of the debt. *I’m writing this guide to help people like you achieve the same results on your own so that you can handle your debts sooner and for less money.*

In my experience working with thousands of clients, I have found that everyone has their own story to tell. There are several common elements that have introduced people to debt resolution, perhaps one of these sounds familiar to you?

- “I was always the person my family turned to for money help. Now no one can help me.”
- “I managed to pay down balances before, this time I just can’t get ahead of the interest.”
- “I have a good job, but they keep cutting my hours.”
- “I got laid off and went months (or even longer) without a job.”
- “I had a necessary medical procedure, but my insurance didn’t cover it. I’ve put so much money on credit cards to try and get out of the hole.”
- “No matter how I try, there’s no money left over at the end of the month.”

Let me take a minute to let you know that you are not alone. Thousands of other people are struggling with too much debt. It is easy to feel ashamed about your situation, but instead, I am proud of you for taking steps to resolve your problem, specifically that you just have too much debt. *I'm going to say that again because it is so important; I am proud of you for taking control.*

Debt resolution is not the right solution for everyone. The two most common alternatives people choose are a) paying their creditors as they have been doing and b) going through a bankruptcy. If you have enough money to pay your creditors in full, it is unlikely that you are reading this book. I do want to talk about the pros and cons of bankruptcy as that is likely a more top-of-mind option for many people.

	Debt resolution (self led)	Bankruptcy
What it covers	Unsecured debts	All debt and assets
What it costs	No monetary fees	Upfront legal and court fees of $1,900 or more
What happens to the debt	Reduced by roughly 50%	Debts are completely written off, after assets (such as a house or car) are sold and proceeds go to the creditor
Who this is best for	People who want to get out of debt, but do not want to lose important personal assets	People who do not have assets they could lose AND have enough money to file for bankruptcy now

As you've likely guessed, I am a proponent of negotiating your debts instead of bankruptcy for most people. In particular, although there are great debt resolution companies you can use, I believe that you will be better able to get great results by negotiating on your own which will save you a bundle on fees. Let me show you what that would look like by illustrating several different ways to handle $20,000 of debt:

Initial debt: $20,000	Minimum payments	Debt resolution service	Self guided Debt Resolution	
			Fastest	Slow
Monthly payment	$500	$379*	$400	$250
Monthly savings	$-	$121 (24%)	$100 (20%)	$250 (50%)
Total months (years)	87 7 yrs, 3 mo	48 4 yrs	30 2 yrs, 6 mo	48 4 yrs
Federal income taxes**	$-	$1,760	$1,760	$1,760
Interest and fees	$23,500	$8,200	$0	$0
Total cost	$43,500	$19,960	$13,760	$13,760
This cost includes third party fees that the debt resolution service collects for an outside bank account and a legal protection plan				
***Assumes a 22% marginal tax rate, appropriate for people making between $41,776 to $89,075 per year*				

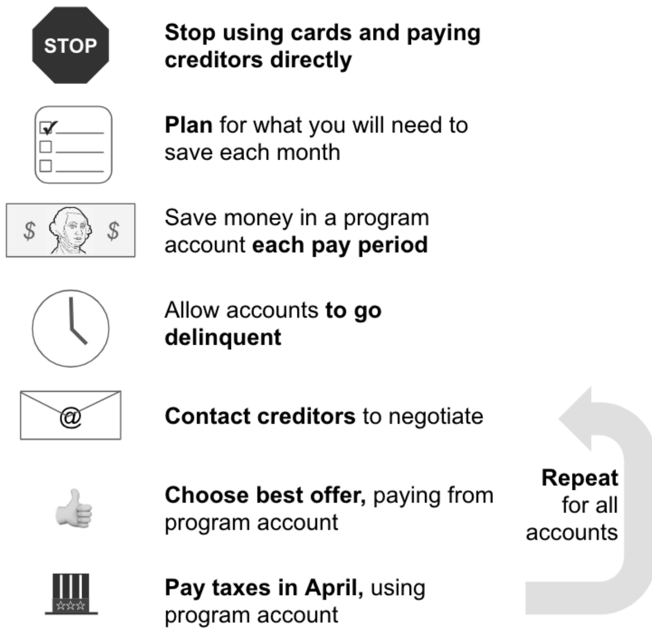
I want you to note two things that negotiating your debts allows you to achieve:

1) You will save A LOT of money (about $30,000) due to not paying interest upon interest
2) You will be able to get out of debt YEARS sooner than paying minimum payments

Also, you are able to save even more, and become debt free even faster if you do this on your own so you do not have to pay negotiation or administrative fees. Later chapters will get into the details on how to make this work.

How will this negotiating my debts work?

I know that this sounds complicated, so here are the big steps.



How do these steps work?

Stop using cards and paying creditors directly:

This is incredibly important - if you are still using your cards your creditors will not be willing to negotiate. Similarly, if they are still being paid every month, they have no incentive to negotiate with you either.

This can be difficult! I suggest that you either switch to a debit card or cash for your required spending as that will help you keep things in check. You may also need to figure out what services bill you automatically through your credit cards and which you are going to keep. (For example, I would suggest that you move utility payments to be paid via a debit card, but you may choose to turn off recurring subscriptions for services you do not use any more.)

It’s also very important to stop automatic payments to your creditors. I’ll share some tips on that in a later chapter.

Plan for what you will need to save each month

The trick to a workable plan is that it both needs to work with your month's budget AND it has to accumulate enough money so that the settlements you negotiate will be affordable.

We'll go into this in more detail later, but typically this will mean that you don't need to set aside as much money as you were paying your creditors each month, but enough to pay off your debts within 3-4 years.

Save money in a program account each pay period

It is important to set up an automatic process where you are essentially paying your program each and every month. By making this automatic, you will reduce the amount of worry you have and also make it much more likely that you will stick to the plan. Think about it this way - each dollar you save makes your next settlement that much closer to a reality!

Allow accounts to go delinquent

Your creditors will not negotiate with you until they believe that you will not return to paying them outrageous amounts of interest. This typically takes at least 3 months, but depending on the creditor could be up to 6 months after your first missed payment.

Contact creditors to negotiate

We'll give you some tools to complete this, but in short, you'll want to write short, professional emails which indicate your willingness to settle and give your creditors a clear sense of what it would take for you to accept their settlement offer.

Choose best offer, paying from program account

This can be tricky - do you take the biggest savings or the lowest monthly payment? Do you determine that by dollar amount or by percentage savings? We'll give you some tools to help make this decision in our program worksheets.

Pay taxes in April, using program account

Any debt over $600 that is forgiven can be taxed by the federal government. If you follow the plan you set up with the tools we provide, you will have saved enough money to be able to pay those taxes from your program account.

Repeat for all accounts

This is pretty clear, but you'll need to negotiate each account in turn until all of your creditors have settlements on the books. At that point, you will have paid off all of your debts and can go on living your life again. Congratulations!

Setting up your self-guided program

Are you ready to get down to business? This is where the rubber hits the road.

Stopping payments

In order for your own program to work, you will need to choose to stop paying your creditors. This can be a hard step, so let me explain why this is so important. As long as you continue to make any payments to your lenders, they will be unwilling to negotiate a settlement. There are a mix of legal, accounting, and practical reasons for this, but even making a $1 payment will make your creditors unlikely to settle with you.

If you have your cards and loans paid automatically, you will want to turn off that functionality.

Most of the time, it is relatively easy to turn off autopayment. For most lenders, all you have to do is log into your account and find your payments page and then toggle the “autopayment” field.

If that does not work, you can adjust your payment settings with your primary bank account. Here, you can change the settings to pay $0 instead of “minimum payment” or “full balance.”

Next, if you still are struggling, your next option would be to call your primary bank’s customer service line and they can help you directly.

Changing spending patterns

In order to demonstrate to your creditors that you are serious about your program, you will also need to stop spending on your cards. Although it feels drastic, I recommend that you go ahead and cut up your cards. In this day and age though, that may not be enough. Do you have any recurring bills that are paid by those cards? The easiest way to find those would be to look at your most recent month’s billing statement and look for things like “Netflix” or other services that you are billed for on a monthly basis.

Here’s what’s going to be a big shock. You won’t have your credit card to use while shopping any more. For the first months of your program, I suggest that you use cash while you’re building up your bank account reserves. This will likely require a periodic trip to the bank, but it will help you make sure that you’re sticking to your financial plan.

Planning your program

First - we need to get a handle on what we’re dealing with. How much debt do you have and with which creditors? Here’s a sample worksheet that you can use. Also, if you enrolled with a debt resolution company, they will have done a lot of this work with you already, feel free to just use that worksheet!

You can find templates for these worksheets in the workbook that is sold alongside this book.

Creditor	**Balance**	**Minimum payment**	**Due date**
Bank of USA	$10,230	$255.75	January 4
Capital Two	$5,475	$136.87	January 12
Local Credit Union	$3,795	$94.88	January 15
National Bank	$500	$12.50	January 15
…			
Total	$20,000	$500.00	

Next, it is helpful to figure out what you can afford to put towards resolving your debts each month. Here's a sample budget (don't worry if yours looks very different, these numbers change a lot based on where we live and what each of us chooses to spend money on.)

	With credit card payments	Without credit card payments
Monthly income	$3,750	$3,750
Rent / mortgage	$1,500	$1,500
Car payment	$700	$700
Credit card minimum	$500	$-
Gas	$150	$150
Insurance	$200	$200
Groceries	$400	$400
Entertainment	$50	$100
School	$100	$100
Clothing	$50	$50
Other expenses	$100	$100
Emergency fund	$-	$50
Total expenses	$3,750	$3,350
Remaining available	$-	$400

There are a couple of things I'd like to point out in this example.

- If the first example sounds familiar - there's no money left over and you cannot even put $1 into an emergency fund, you're in the right place. There are thousands of people who are just like you and who are negotiating their debts in order to start with a clean slate.
- Next, when you construct your plan, it's really important to include money for "entertainment" and "emergencies." If your plan doesn't include things like this, you aren't being honest with yourself and worse, you're likely to not follow this plan.

At this point, you've figured out two important numbers: the debt you are planning to negotiate and the amount of money you have available to put towards this self-guided program. In the examples we've put together here, you would have **$20,000 of debt** and **$400 each month** available to put aside.

We can make just one more assumption and then do a quick bit of math here to then see how long this program will take. We have to assume what our average settlement rate will be. In the debt resolution industry, it is common to aim for an average settlement rate at 50% over all of your debts. In order to make sure that you are prepared for anything however, I suggest that we assume an overall 60% settlement rate. Additionally, it is important to set aside enough money to account for taxes. We talk about taxes a fair amount later, but for now, know that the included worksheet does that calculation for you.

Alternatively, if you think that $400 is too much to set aside, the included worksheet will also calculate the "cheapest" monthly option for you to be able to calculate your program in 48 months or fewer. There's no "magic" behind 48 months, but that is enough time to ensure that you will be able to enter into settlements with each creditor in a timely fashion and get them paid off. If the figure that this worksheet calculates for you is more than you think you can afford, I encourage you to consider filing bankruptcy as your next best option.

Here are the situations we have outlined as calculated by the included worksheet:

Initial debt:				
$20,000	**Minimum payments**	**Paid Debt resolution**	**Self guided Debt Resolution**	
			Fastest	**Cheapest**
Monthly payment	$500	$379	$400	$286
	$-	$121	$100	$214
Monthly savings		24%	20%	43%
Total months	87	48	35	48
(years)	7.25	4.00	2.92	4.00
Interest and fees	$23,449	$6,200	$0	$0
Taxes*	$0	$1,716	$1,716	$1,716
Total cost	**$43,449**	**$19,916**	**$13,716**	**$13,716**
**Paid debt resolution will not have you set aside money for taxes, those would not be included in your program, but you would still need to pay them*				

The worksheet will also have a calculation for your unique circumstance, and there will be a yellow column where you can enter what you would be able to pay each month. Remember it cannot be more than you can afford, but it is best if you are putting aside enough to finish your program in 4 years or less.

Setting up your program account

In order to be able to afford settlements with your creditors, you need to put your payments somewhere. I strongly recommend that you create a separate account with your primary bank which does not have any debit cards attached to it. This will make automating your payments as easy as possible while also limiting the temptation to dip into those funds.

One exception here: if you use a credit union as your primary institution AND you are planning to negotiate a loan you have from them, you want to stop making automatic deposits into that credit union and DO NOT set up a new savings account with them. This is because a credit union has a “right to offset” and they can use the money in a bank account to pay off their loans at full value.

If you need to set up an account somewhere OTHER than your primary institution, I recommend searching Google for “free checking account” and choosing an institution that you do not have any loans with for simplicity’s sake.

Next, you should set up your regular payments to your program. I recommend that you make these automatic and have them tied to your payday. If you are paid on a bi-weekly basis, make your payments bi-weekly on the day after your payday. (For the example before, if you are setting aside $400 each month, each bi-weekly payment to yourself would be $200.) Making these payments automatic is very important - not only will you not have to remember to make these deposits, you will also be able to quickly look at this account and determine if you can afford settlement offers.

What to expect as you go through your program

Creditor outreach

As soon as you miss your first scheduled payment, your creditors will be quick to reach out. They will start with friendly emails that sound something like “we want to help” or “did you miss something?” This will progress to more aggressive language, a lot of phone calls, and also text messages. If you have multiple phone numbers on your account (such as a landline as well as a mobile number) they will call both. This will be startling, but it is manageable. You will also get a variety of letters. They will mirror the tone of the emails, starting friendly and getting more aggressive.

When working with clients, I have typically recommended not answering these calls. Sometimes it is not that simple however. These calls can be disruptive, so I have three strategies to recommend:

- First, you can block phone numbers from creditors as they call you. After a while, they will switch numbers, so this will be a temporary reprieve.
- Next, you can set your phone to “do not disturb” in settings. You can allow all calls from anyone in your contacts, so that family and friends will still be able to reach you.
- Finally, you can download a robo-call blocker from your preferred app store. This may block some of the calls that would have come through otherwise.

I want to prepare you for several tactics that seem scary.

- Your creditors will talk about “charging off” your account. This actually refers to the accounting treatment of your loan. In order to get a settlement, it is very likely that the loan will have to be charged off. It basically means that they no longer expect to be repaid in full on the account.
- You may also see that your creditor is “considering legal action,” “preparing to sell to a collections agency,” or something similar. We’ll talk about the legal side of things shortly, but it is still very straightforward to negotiate a settlement if a third party is brought in.
    - What happens most often in these cases is that your original creditor will sell a large number of late accounts to a collections firm. (These may be run by lawyers and have names that sound like law firms.)
    - These collections firms will purchase a number of accounts for well less than the full balance from the original creditor and then will do their best to collect as much as they can. This could be as low as 20 cents on the dollar, so they will still be very willing to settle for a good amount with you.

What will happen to your account?

You should be prepared for your accounts to be closed during this process. That may happen over several phases. These steps are NORMAL as you are preparing to negotiate your debts.

- You may exceed your credit limit
- Your charging privileges may be revoked
- Your account will likely be closed
- Your account may well be charged off

Clients often ask if they will ever be able to get a credit card again after negotiating their debts.

It is unlikely that you will get an account from the same institutions that you are negotiating with for a number of years until after your settlement, but other institutions will be likely to offer you cards sooner than you would expect.

When you can expect your first settlement

There are two key elements to a settlement; delinquency and affordability.

- Delinquency: For most creditors, they will not be willing to accept a negotiation until 3-6 months after the last payment you made to them. Each creditor is slightly different, but it is unlikely you will be able to get a settlement before at least 3 months have passed.
- Affordability: You should only accept a settlement offer that you will have enough money to be able to pay. Most of the more affordable settlement offers you will get will be for a lump sum. You may however be offered settlements with payments over multiple months. These are most useful for accounts that have large balances, but do require that you make each scheduled payment on time.

Let me use the sample accounts that I outlined previously to illustrate when you can expect to be able to negotiate a settlement.

Creditor	Balance	Offer amount	Offer payments	Monthly payment	Offer %
Bank of USA	$10,230	$5,115	10	$511.50	50%
Capital Two	$5,475	$3,011	6	$501.88	55%
Local Credit Union	$3,795	$1,973	3	$657.80	52%
National Bank	$500	$400	1	$400.00	80%

Note that you would be able to afford a settlement “National Bank” here once you’ve set aside one month’s worth of “payments.” But, remember, they will likely not be willing to settle until after at least 3 months have passed.

On the other hand, “Local Credit Union” may require as much as $1,973 to settle their account and that will take you 5 months to build up enough reserves to afford. This could be sooner if you are able to get a lower settlement amount of course!

We’ll talk more about negotiation strategy in a later chapter.

Should you be afraid of legal threats?

> *Please note that I am not a lawyer and I am not licensed to represent you in your state. Thus, none of this qualifies as “legal counsel” but it instead highlights what I have seen working with thousands of clients.*

Your creditors would prefer to settle an account with you instead of going to court. Why is this? Court proceedings are expensive (both lawyers and courts expect fees) and take a long time! So, what should you do if you receive any legal threats?

- Determine how serious the threat is. The most serious is when it is a “summons” to a local court.
    - In that situation, you will actually have a court date, but you can still negotiate a settlement.
    - You can still expect to negotiate for less than the full balance of the account, but you may find it harder to get all the way to a 50% settlement.
- If you get another letter (all correspondence that has any legal weight will be done on paper) which tells you that you have been referred to a law firm, you can treat that as your new creditor and adjust your negotiations strategy as you think is appropriate. You may want to try and settle this account earlier than you would have otherwise.

The worst financial outcome of a lawsuit is that you will be required to pay the full balance on the specific account that the suit is referring to. If you are up to the wire and have a 100% settlement, you will likely want to take that, but this is uncommon.

Also, if you have social security or disability payments, those are legally protected from garnishment. Other forms of income are not, so there is a chance that if a judgment is entered against you that money could be taken directly out of your paycheck.

Again, you are unlikely to encounter a legal issue, but if you do, you are still able to negotiate!

Negotiating your debts

How to get started

A reminder: your creditors are unlikely to be willing to negotiate until you are at least 3 months delinquent. Once that time has passed however, you can begin to engage your creditors in negotiations. At that point, it is a good idea to initiate contact and begin discussions.

Your creditor will likely aim to get you on the phone. I recommend that you avoid this for several reasons:

- Conducting all negotiations over email allows you to preserve a perfect record of what has been offered.
- Your creditors may pressure you over the phone, it will be easier to make decisions if you have time to think about your options.
- You will be able to use some of the templated scripts I will give you in order to frame your conversation.

When you initiate contact, you will either have an updated email address from direct correspondence or an old support email address. In either case, you will want to write a simple email that looks something like this.

Dear sir/madam,

I would like to be put in touch with someone who can negotiate a settlement for account number XXXXXXX.

I have been undergoing a substantial hardship which has made it impossible to pay this account. My hardship has been (describe hardship here.)

At this time, I am contacting all of my creditors to request settlement offers and will consider offers based on their affordability. I expect to respond to offers by the end of this month.

Thank you for your time,
Your name

What types of offers you should expect

You will typically be given two major types of offers, a lump sum or an installment plan.

Lump sum offers will typically be for a single payment that would be due on or before a specific date.

Installment plans typically are for multiple smaller payments over a number of months.

You may even be offered the choice of either for the same account.

Here's an example of what a settlement offer could look like for our sample account with Bank of USA. Remember, this account started with a balance of $10,230. In the sample letter, I will show that this balance has been slightly increased due to fees and interest. These fees and interest will only accrue until the account is charged off.

Dear Ms Smith,

You qualify for a balance reduction settlement for your Bank of USA account 1234567. As of April 3rd, this account has a balance of $10,650 after fees and interest. In light of your hardships, we are willing to offer you two settlement options.

Option A: A single payment of $5,325 to be paid on or before May 6th.

Option B: Ten monthly payments of $575, to be paid on or before the 6th of each month beginning May 6th, with the last due on February 6th of next year.

Please respond with your acceptance by no later than April 30th.

Note that the lump sum payment is for 50% of the total and the installment option is for 57% of the initial debt.

Offer evaluation and tactics

When evaluating an offer like this, it is also very important to determine if you have enough money (or expect to have enough money) to be able to afford it.

- Looking at a lump sum offer is relatively easy, you need to see if you have more than the offer amount in your program account and if you do, you can afford it.
- Evaluating an installment offer is a bit more difficult. In this example, the monthly installment payments are more than you are setting aside in your program. That means you would need to have enough money in your account to cover that difference OR you would need to add more to your program account each month to afford this.
    - In this case, the difference between the offer amount and your monthly "payment" to your program account is $175. (This is $575 minus $400.)
    - In order to afford the offer, you would need to have $175 time 10 payments or $1,750 in your account to be able to afford this without changing your monthly contribution.

- So which of these offers should you accept? It depends! Which can you afford? What are your options from other creditors?
  - Typically, I like to settle big accounts as quickly as possible. Those are probably the ones that are giving you the most heartache and would be the most likely to go to court at some point in the future.
  - You may be able to play your creditors off of one another to get better offers too. Going back to this sample offer from Bank of USA, you could ask for even better terms, especially if you have an offer from Capital Two at the same time.
    - You could ask if instead of ten payments of $575 for a total of $5,750, would they be willing to take 15 payments of $375 for a total of $5,625. They can always say “no”, but it is worth asking.
    - This type of strategy is most effective when you can say you plan to take an offer from another creditor instead which will delay when you can afford to consider another offer from Bank of USA.

Choosing between offers

I’ve also built a tool you can use to determine which of multiple offers you should accept and that is included in the attached worksheet as well. Here’s what the output would look like:

Creditor	Balance	Offer amount	Offer payments	Monthly payment	Offer %	Affordable?	Good savings?	Which to take?
Bank of USA	$10,230	$5,780	10	$578.00	57%	No	Yes	No
Capital Two	$5,475	$3,011	6	$501.88	55%	Yes	Yes	Yes
Local Credit Union	$3,795	$1,973	3	$657.80	52%	Yes	Yes	No
National Bank	$500	$400	1	$400.00	80%	Yes	No	No

Pay attention to a couple of things in this example:

- Two out of these for offers are both affordable and have good savings rates (Capital Two and Local Credit Union) but you cannot afford both
- This tool will recommend that you accept the offer you can afford on the largest available account, even if it isn’t the best percentage savings

This tool is just that, however; if as you are evaluating options, you believe that it’s best to go against the tool’s recommendations, you can and should make your own decision.

Some tactics to consider when negotiating with your creditors:

- Your creditors now expect to be paid less than the full amount that is on your account. At this point, they are trying to get as much as they can as quickly as they can.
- Your major tools are the amount of money you can pay and how quickly. You can often trade these off against each other! If you pay faster, you can ask to pay less.
- Your creditors know that you likely have other accounts that you are negotiating too. You can absolutely mention that you are asking for and considering offers from multiple creditors. This will encourage them to make the best offer that they can.
- Always be polite and respectful. You are working with people on the other side, they are just as likely to be prone to emotional responses as anyone else, if you are difficult to work with, they may choose to be difficult as well.
- Always be truthful. If you lie about something, you may be caught out and that makes it difficult for your creditors to believe you will stick to your negotiated agreements.
- Stick to your timelines. If you say you will respond within a certain time, make sure you do, even if you are turning down an offer.

Executing your negotiated settlements

Do NOT send any payments to your creditor unless you have a signed document. Why is this important? If you do not have a signed settlement letter, your creditor could claim that negotiations were not finalized and not accept the payment as a part of that settlement.

Once you have a signed document, you will want to set up all of your payments to be sent automatically from your program account enough BEFORE the due date so that they arrive early. If your settlement payments are due on the 6th of each month, you should have them sent on the 3rd. That gives 3 days for the payment to arrive. If your settlement is an installment plan, you can set up the required number of payments as soon as you get the signed agreement. That way you will not have to remember to make each payment.

Keep track of all of your settlement documents. You will likely get a final letter which acknowledges your last payment which you will want to keep in your files.

Why do creditors negotiate?

Lending decisions

I think it's helpful to start by understanding how banks make lending decisions.

When I started my career, I was a banker. Any loan we wanted to make had to be approved by the credit officer. They basically asked two questions: 1) how much money can we make on this loan? and 2) how much money will we lose if the loan isn't repaid?

The bank understands that it will lose money on some of the loans it makes! When loan payments start to be missed, the bank shifts to think about how it can get back as much money as possible and away from how it can make as much revenue as it can.

Loan portfolio considerations

A loan is classified as "non performing" when payments have been missed for between 90 and 180 days. At this point, a bank is required to make accounting adjustments that reflect they expect to get less than 100% of that loan repaid.

Banks are most concerned that "non performing" loans will not be paid back at all (most specifically through bankruptcy,) so are willing to consider alternative options at that point. Typically, they have the option of negotiating for a less than full settlement or selling the loan to a third party. They have entire teams which will determine which loan gets which treatment and those processes change regularly.

Banks look at these loans as an entire group and are willing to accept a wide variety of outcomes. You may see settlement offers as low as 35% and as high as 100%. If you see a great offer, take it! If you see an offer that isn't good enough yet, you can wait for a better one.

Why banks consider negotiations

At this point in a loan's life, a bank is balancing the costs and risks of further collections activity versus additional principal recovery. Generally, they are most worried about a "bad credit" going bankrupt where they will essentially get $0, but they also do not want to spend hundreds of dollars trying to collect either. If they are able to take a "sure thing" from a negotiated settlement, that is better than paying lawyers and collections agents large commissions which will reduce their net recovery. For example, let's look at a $10,000 outstanding bill and compare possible outcomes.

$10,000 initial debt	Settlement	Lawsuit	Collections
Percent recovered	50%	100%	60-80%
Additional costs	$0	33% legal fees	30% collections fees
Bank's net recovery	$5,000	$6,667	$3,000-$5,000
Other considerations		Bankruptcy risk, substantial delay	Bankruptcy risk, reduced control

Note that the net recovery to the bank is likely to be best in a negotiated settlement, largely due to the risk of bankruptcy.

What to look out for

What to look for from your credit score

In my experience working with clients, one of the hardest parts was watching their credit score in the first months after beginning their program. That's entirely reasonable because when you stop making regular payments to your creditors, your credit score will drop.

Before we get into the details on the mechanics of your credit score, it's worth discussing what a credit score is for. Your credit score matters when you need to make a large purchase such as a car or a house. Otherwise, it does not make much difference in your day-to-day life, despite what your regular credit score monitoring updates tell you. **Please don't treat your credit score as an evaluation of your worthiness as a human being!**

It will probably also help to know what to expect to see happen to your credit score. That will largely depend on what your score was to begin with. The broad strokes however are that it will go down quickly as you start missing payments, start to recover quickly as you begin to accept settlements, and is likely to recover to at least where you started by the time you have gotten all of your settlements taken care of.

If your credit score is below 500

- You will see a small drop (fewer than 20 points) in your credit score
- It will start to get better in about 3 months, or when you negotiate your first settlement
- Your credit score is likely to be higher than it started within a year after your first missed payment

If your credit score is between 500-650

- You will see a moderate drop (fewer than 50 points) in your credit score
- It will start to get better in about 4 months, or when you negotiate your first settlement
- Your credit score is likely to be higher than it started within three years after your first missed payment

If your credit score is above 650

- You will see a larger drop (about 100-150 points) in your credit score
- It will start to get better in about 4 months, or when you negotiate your first settlement
- Your credit score is likely to be higher than 650 within three years after your first missed payment

Tax considerations

Any debt over $600 forgiven may be reported as income to the IRS. This would be reported via a 1099-C form and would be taxed at your marginal tax rate. Your creditor would be responsible for sending you any forms.

This is important to keep in mind when you are reviewing and accepting offers. In particular, keep these things in mind:

- The tax liability will come into play when a settlement is completed. Let me illustrate why this could matter. If you have a settlement which has 10 payments and the last is due in December, you will incur the tax this year. If instead, the last payment is in January, you will not have any additional taxes this year, they will be delayed.
- The amount of taxes you would pay will depend on your income. If you expect to have large changes in your income, it is better to time your settlements come in a year where you have less income.

$10,000 initial debt, settled for $5,000 ($5,000 forgiven)	Moderate income	High income
Total income	$50,000	$120,000
Debt added to income	$5,000	$5,000
Marginal tax rate	22%	24%
Additional taxes	$1,100	$1,200

You will still be in a better position after these taxes, the important thing is to make sure to save enough so that you can afford to pay taxes in April. Your program setup guide has taken this into account, your program account should have enough money in it to pay these additional taxes.

Tips for talking to family

In my work with clients, I have found one common theme amongst our most successful clients: they were able to clearly describe to family and friends how their program was helping them. Hopefully after you've read this book, you will be able to do that! *(Hint: your lower monthly payments actually go towards settling the debt instead of just paying for interest and leaving the debt in place. Your credit score will go down and you'll get a lot of emails, letters, and calls, but you'll emerge without debt and you'll be able to breathe again!)*

The hard part for most folks was having the "money talk" with people they care about. Often we're afraid of being told that we're stupid, or perhaps something even worse. And that makes so much sense. However, I want you to think about what your reaction would be if your best friend told you they're over their head in money trouble. Would you criticize them? Or instead, would you hear them out and see if you could help? It's very likely that your friends would react exactly the same way.

So, I'd like to share some thoughts about how to tactically bring up the topic:

- You can make it very clear that although you want their help in understanding what you're going through you are NOT asking for money.
- Let your friend know WHY you are informing them. For most people this is because they find that keeping this all to themselves can feel like a shameful secret and it's wearing on their ability to have positive interactions. But share your own feelings!
- You can set boundaries - you can let them know that you do (or do not) want input on how to handle the situation. It's okay to be up front and direct here.
- Be in a good headspace to have this conversation; be well rested, fed, and comfortable. You will be more able to react positively to your friend or family member.
- Again, make sure that your friend knows that you are not asking for money. That reassurance will make sure that the conversation is about you and what you are doing, not anything that you expect/need from them.

Thanks for reading!

I know that I’ve thrown a lot at you here. Before you go, I want you to know that **I believe in you** and **I am proud of you** for taking an important step to deal with your debt.

In order for me to continue to be able to provide this service at such a low cost to you, I would love your help. Here’s how you can help me!

1) Provide reviews! Not only are these helpful to future readers, they also help me improve the tools I have built.
2) Share your success stories! It helps people see that this works if they hear from you about your experiences.
3) Send family and friends my way. I’d love to help them make their future debt free too!

MDH