FISCAL YEAR 2016

DEBTCONSOLIDATION.COM

HANDBOOK

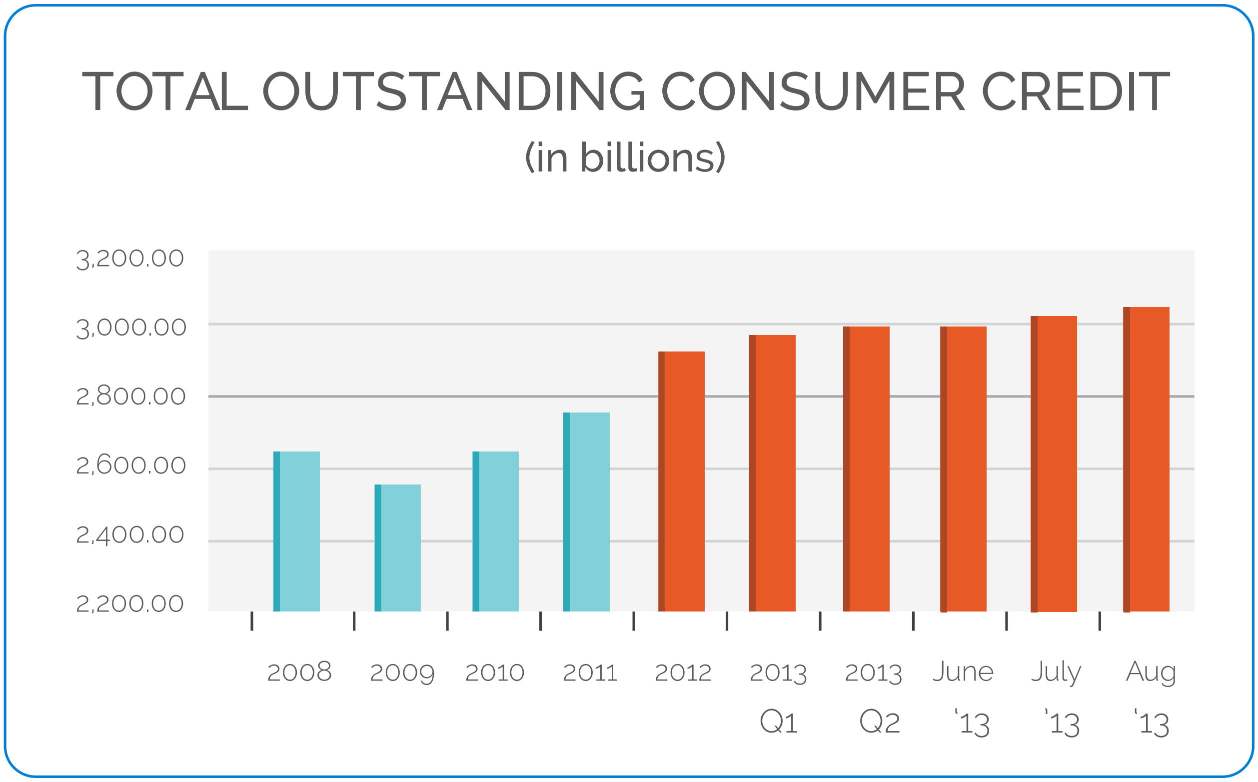
THE OFFICIAL GUIDE

www.DebtConsolidation.com

TRAPPED IN THE
DEBT HOLE

"Daddy, why are you coming home late again?"

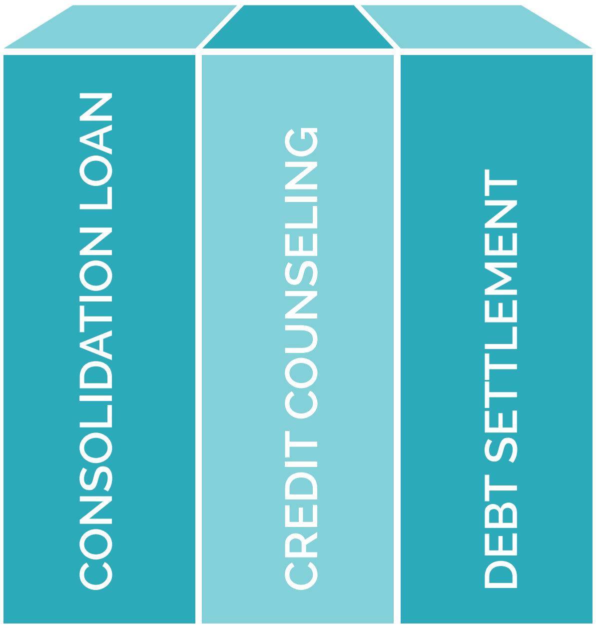
Jonathan is a typical American consumer. He works hard to provide for his family and enjoy his time off, but he never seems to have enough. Jonathan was late getting home today because he had a job interview – for a second job. As much as he doesn't want to work all the time, Jonathan has children to feed, a home to take care of and tens of thousands of dollars in consumer debt. He's trapped in the debt hole.



Jonathan's situation is similar to many others. In fact, the levels of U.S. consumer debt continue to rise. As of November '14, just the level of outstanding consumer credit had increased to a massive $3.278 trillion dollars. Total U.S. consumer debt is over $11 trillion. Jonathan, like many others, spends more on credit than the income coming in.

Tomorrow, Jonathan is going to make changes so he can get out of debt. And he has options. He can choose to consolidate his debt through a debt consolidation loan, get on a debt management plan with the help of a credit counselor or try to settle his outstanding bills through debt settlement.

These three options represent the three pillars of debt consolidation.



3 PILLARS

PILLAR ONE

DEBT CONSOLIDATION LOANS

"Daddy, what are all these envelopes for?"

Like many people, Jonathan has credit accounts all over the place. From the hardware store to the four credit cards and those miscellaneous accounts at the mall, sometimes he just forgets to pay one or two of them. That's why he's paid hundreds of dollars in late fees and thousands in increased interest over the years.

Is a debt consolidation loan the answer he's looking for?

About Debt Consolidation Loans

When there are several loans, it can be easier to pay them by turning them into a single new loan - a debt consolidation loan. A bank or other lender first authorizes and provides a new loan that is then used to pay off outstanding balances. The debt consolidation loan is repaid on a monthly basis, but now there is only one payment per month. Some of these loans are secured with a home; some are not. In general, the old loan's interest rate Is replaced with a new, lower rate.

The Many Kinds of Debt Consolidation Loans

Finance companies began increasing advertising of debt consolidation services in the 1950s and 1960s. By the 1990s, consolidation had become common. Here are what some of the options look like:

Loan Options

Home Equity Loan or Home Equity Line of Credit (Secured)

Both of these loans are secured by the home's value. However, there are some differences. Home equity loans tend to have fixed interest rates and must be repaid over a set number of months while a Home Equity Line of Credit (HELOC) typically has a variable interest rate and no set payment schedule. To qualify, a minimum credit score - typically starting in the high 600s, is needed.

Credit Card Balance Transfers

Credit card companies often offer low interest rates to attract new members. Using a new lower-rate card to pay off a number of higher-rate balances on a number of others is a strategy to consider, however the low rate on the new card is only available as long as payments are made on time and a relative short period of time (like 6 to 18 months).

Peer Lending

Peer lenders are independent companies that essentially broker consolidation loans between a borrower and an individual or group of investors. These investors pick from loan requests posted by would-be borrowers. Once enough investors have agreed to contribute to a given loan, the money is transferred to the borrower by the lending company. Typically, borrowers can ask for up to $25,000, and the payback period is usually set at a maximum of three to five years. Interest rates have a wide range and can be lower than 5% or higher than 30%.

Bank/Credit Union Personal Loan (Unsecured)

These are loans with fixed interest rates that largely depend on the loan size, term and credit score. The amounts can be high (some lenders offer $100,000 loans) but depend on the quality of the credit score.

Is Refinancing an Option?

Restructuring a mortgage is called refinancing. For example, if there is both a mortgage and a home equity loan, refinancing these would create one new balance with one new payment due each month. Like debt consolidation, a goal of refinancing is to secure a lower interest rate in the process. **Here are some key examples of refinancing:**

More $ Down = Lower Payment

Cash-In: Instead of a cash-out, a lump sum is paid at the start of a new mortgage, lowering both the balance and the monthly payment afterwards.

~~6.4%~~ 4.5% Lower Interest Rate

Standard: For those who want to replace your current interest rate with a lower one, use a standard refinancing plan. There will likely be a closing cost, but the money saved on the lower interest rate is often worth it.

~~Old Mortgage~~ > New Mortgage

Short: Some lenders will create a new mortgage to replace one that's in trouble. The idea is that the lender would rather keep the borrower than lose them to foreclosure.

New Mortgage - Old Mortgage = Cash

Cash-Out: Under this plan, the difference between the old mortgage amount and the new one is delivered as cash. This money can be used to pay down other debts such as car loans and credit cards, but the interest rate on the new mortgage tends to be higher. The new repayment term is typically 30 years.

+25% Home Value = Lower Interest Rate

Home Affordable: The U.S. Treasury Department and the Department of Housing and Urban Development introduced this program during the mortgage crisis of the late 2000s. Certain struggling homeowners can qualify to take a new loan for 25 percent more than their home's value, securing lower interest rates.

Consider Your Options

Both debt consolidation and refinancing can help get a troubled payment history back on track. But here are some important details to consider before choosing one over the other:

Secured Loans and the Home:

Lowering a credit score is one thing. Losing a house is another. If debt consolidation or refinancing is only a stopgap measure, experts say bankruptcy is sometimes an option to consider over and above new loans.

Interest over Time:

Lower monthly payments and lower interest rates can be deceptive. Taking a mortgage that is 10 years old and replacing it with a new 30-year balance could mean paying more in interest over time. Use a debt consolidation calculator, like the one at www.debtconsolidation.com to find the interest amounts.

"Hidden" Costs:

Closing costs for refinancing are often 3%-6% of the principal. There are also other fees that vary dependent upon the lender.

Credit Card Transfers and the Credit Score:

Opening new accounts with credit card companies tends to lower credit scores at first. However, scores climb again as long as payments are made on time and the credit line isn't maxed out.

Cash-Out Hazards:

Some experts say that the cash-out option is only for improvements to a home or for personal emergencies. Recent trends suggest that borrowers are moving away from cash-out refinancing. In the fourth quarter of 2014, Freddie Mac reported 72% of homeowners who refinanced their mortgage either maintained about the same loan amount or lowered their principal by the cash-in method.

PILLAR TWO

CREDIT COUNSELING

"I can't do this alone. Maybe I should call someone?"

Sometimes trying to get out of debt looks easier on paper that it really is, especially when interest rates and fees continue to rise. Jonathan realizes that he needs the help of a professional that understands his options and his limitations. He calls a credit counselor to see if this is his best option.

What is Credit Counseling?

Credit counselors work with consumers to educate them about money and debt, develop household budgets and to come up with a plan to eliminate debt. Credit counseling can move in a wide range of directions depending on your situation, from simply offering guidance to negotiating with creditors to resolve debt that is beyond your ability to pay.

Credit Counseling Fees:

$ Initiation Fee ($45-$75)

$ Monthly Maintenance Fee ($20- $50)

More About Credit Counseling

Who Provides Credit Counseling?

Credit counselors work for different agencies and organizations. Some are nonprofit and others are for-profit companies. These organizations and agencies generally provide a wealth of free information about money and debt.

A good counseling agency is part of an accreditation group, such as the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling Agencies. Their counselors are trained in budgeting, debt management, spending habits and financial education and should be well-versed in collections, consumer rights and responsibilities and bankruptcy.

Counselors will work to help identify the best path for restoring financial health. They cannot, however, dispense legal advice. Meetings between a credit counselor and a client are considered confidential.

Non-profit Credit Counseling

Nonprofit credit counseling organizations are typically funded from fees paid by clients, grants from the credit/ lending industry and a percentage of the payments made by debtors - known as "fair share" payments. Up to 15 percent of what is collected can be returned to the agency. Under Internal Revenue Service guidelines, a non-profit credit counseling agency may only collect up to 50 percent of its revenue from those payments.

Finding a Credit Counselor

Finding a good credit counselor is simple. Lists of member agencies are available from both the National Foundation for Credit Counseling and the Association of Independent Consumer Credit Counseling Agencies. Once you have a list together, you can contact either your state attorney general or local consumer protection office to find out whether there have been many complaints filed.

For the contact information specific to your state, visit www.debtconsolidation.com/credit-counseling and choose your state from the list on the right.

What are the fees?

If Jonathan signs up, he will pay an initiation fee followed by a monthly maintenance fee. As an example, one Massachusetts based company, which regularly discloses its success rates and fees as part of an ongoing accountability project, reported that its clients paid an average of $32.87 for their initial fee and an average of $24.97 monthly.

Members of the Association of Independent Consumer Credit Counseling Agencies must agree to cap the initial charge at $75 and the monthly maintenance fees at $50. The National Foundation for Credit Counseling suggests fees should be no more than $50 for a set-up and $25 monthly thereafter.

What Will a Counselor Discuss?

Discussing money can be intensely personal. Clients must be prepared to disclose all aspects of their financial lives. A complete financial picture is needed for the counselor to help come up with a strategy to attack the debt.

Income, household expenses, existing debt and spending habits will all be discussed. Copies of financial statements - including the debt accounts - will be needed.

Prior to coming up with a plan, it is vital for the counselor to have a clear picture of all the money that is available, including expected income and all expenses.

The Credit Counseling Plan

The credit counselor will help develop a unique plan to address specific needs, whether in the form of a debt management plan, improved budgeting, bankruptcy, or a combination of these.

All of those in credit counseling are provided with tools to help them manage their finances, including budgeting software and educational materials. Many programs will require their clients to close their credit card accounts while they are working to reduce their debts.

In addition to helping control and retire debts, a credit counseling firm should also be able to help clients develop plans for savings, building a retirement nest egg and establishing a college fund.

PILLAR THREE

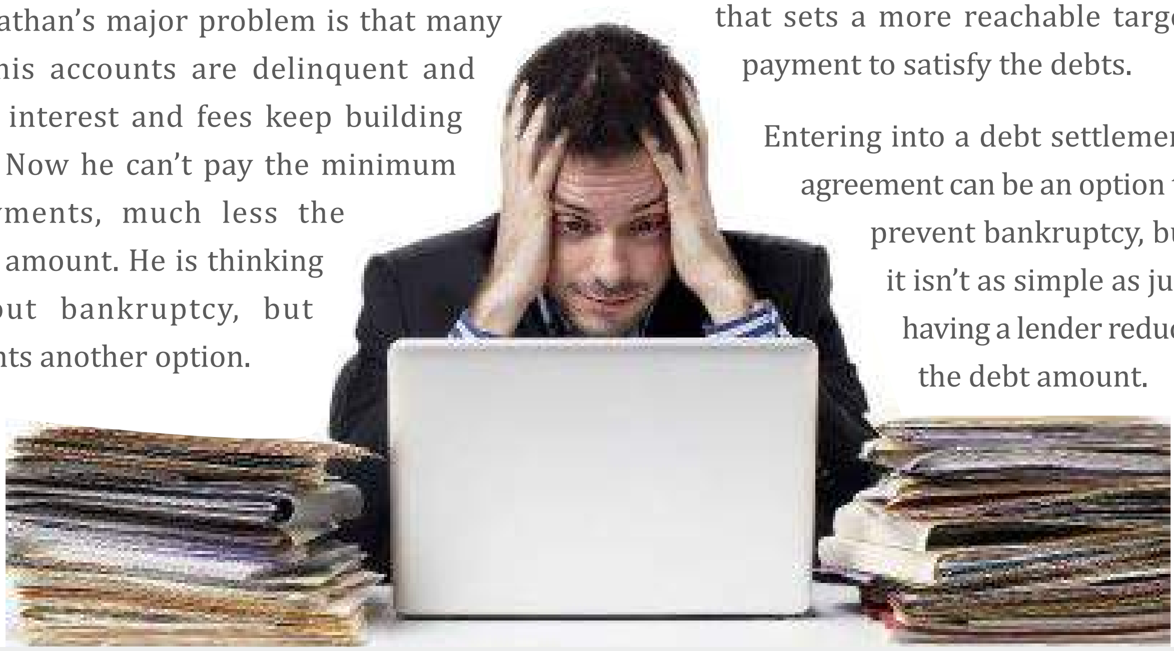
DEBT SETTLEMENT

"There is just not enough money. What are we going to do?"

Jonathan's major problem is that many of his accounts are delinquent and the interest and fees keep building up. Now he can't pay the minimum payments, much less the full amount. He is thinking about bankruptcy, but wants another option.

Debt settlement is an option for those deeply in debt who do not want to file bankruptcy. It's a legal way to pay less than actually owed, usually through an intermediary, by reaching an agreement with the creditors that sets a more reachable target payment to satisfy the debts.

Entering into a debt settlement agreement can be an option to prevent bankruptcy, but it isn't as simple as just having a lender reduce the debt amount.



The Debt Settlement Process

A consumer, like Jonathan, who is unable to pay his or her debts works through a debt settlement company. This company negotiates with creditors to reduce the total debt.

The consumer pays a fee to the debt settlement company. Federal telemarketing laws prohibit these fees from being collected in advance of a settlement being negotiated. And the American Fair Credit Council, the industry association, only permits its members to collect fees after settlement is reached.

Fees and Payments

Settlement companies can assess fees using several different models.

% of Overall Debt

The company charges a percentage of the debt, typically between 13 to 20 percent.

If the debt is $20,000, the fee could vary between $2,600 to $4,000.

% of Debt Reduced

The company charges a percentage of the debt reduced, (example below).

Total Debt = $15,000
Debt Reduction = $7,500 (50%)
Fee = 30% of reduced debt
Fee Paid = $4,500 (30% of 7,500)

Assessed Monthly Fee

The company assess a monthly fee ranging from $20 - $90 per month for the duration of the program.

Fees and Payments

Settlement companies can assess fees using several different models.

Some will charge a percentage of the overall debt -- usually between 13 to 20 percent. If the debt is $20,000, the fee could vary between $2,600 to $4,000.

Another way companies assess fees is based on how much they reduce the debt. Those fees can be as high as 35 percent of the debt reduction, according to the National Foundation for Credit Counseling. If a $15,000 debt was cut in half and the fee was 30 percent, the fee paid would be $4,500.

Companies may have monthly fees ranging from about $20 a month to $90 a month for as long as the program continues.

How the debt is paid is also a vital part of the process. Often, the debt settlement company will ask the consumer to stop paying his or her bills and stop accumulating debt.

Once in the program, the consumer pays a specific amount per month to the settlement company. The company holds that money in a separate account, allowing it to accumulate until it grows large enough to begin to be used to satisfy debts and pay the fees.

It typically takes several months before the first settled debt is paid off. The American Fair Credit Council says it generally takes take two to four years to complete a debt settlement program, depending on how much money is owed and how much money the consumer can pay into the account.

Credit Score Implication

Debt settlement can have a significant impact on a person's credit score. However, for Jonathan (or someone like him), who is already delinquent on his bills, the effects won't be as drastic because his credit is already hurt.

What damages credit the most? The process of halting payments -- while it is the way the debt settlement company can pay off the agreed-upon amount -- can mean showing month after month of late payments on your credit history.

Once debts are satisfied, they will show that they were paid through an agreement -- documenting that nothing is owed but the full amount was never paid.

Don't Forget About Taxes

While seeing debt reduced is a relief, it is important to know beforehand that the Internal Revenue Service considers forgiven debt as income. This means that the gross income for the year will increase by the amount of debt settled, with the appropriate taxes will be due.

> "Debt settlement is the fastest and least expensive way to resolve a debt."
>
> **- The American Debt Council**

HOW LONG WILL IT TAKE YOU TO PAY OFF YOUR DEBT?

For $30,000 of debt:

Debt Settlement Cost = $23,000

Other Options= $38,000-$52,000

According to the American Fair Credit Council, debt settlement is the fastest and least expensive way to resolve a debt. Using the example of a $30,000 debt, it would take three and a half years using debt settlement, five for credit counseling, nearly 22 years paying just minimum payments and 10 years using a home equity loan. Debt settlement, even with the fee, would cost about $23,000 for the $30,000 debt -- while the other options range from $38,000 to $52,000 because they include the full debt plus interest.

The average Debt settlement program lasts **3-5 Years.**

- The American Debt Council

Is debt settlement the right option for you?

Find out at:
www.debtconsolidation.com/settlement/

TIME TO GET OUT
DECISION TIME

"I WILL get out of Debt!"

The most important step Jonathan took to climb out of debt was deciding to do something.

What option did Jonathan choose?

Jonathan chose the one that fit his unique situation, and you should too.

Visit DebtConsolidation.com and learn more about how you can get out of debt once and for all.

Visit DebtConsolidation.com