

# Credit Counseling vs. Debt Settlement



## Credit Counseling

- You make one payment to a credit counseling agency and then they divide it and pay your creditors.
- The credit counselors negotiate with your creditors for smaller interest rates.
- You pay your debts in full.
- Your credit rating may decrease at first, but as you make regular payments to your creditors it will go up.
- After creditors see you are making regular payments they will stop collection activity.
- Credit counselors provide you with financial education to help you stay out of debt.



## Debt Settlement

- You pay the settlement company and they set money aside.
- You completely stop paying your creditors, until the debt settler is able to negotiate a deal with them.
  - This could possibly take years.
- The debt settler negotiates with your creditors to lessen your debt.
  - **Example:** You owe a credit card company \$4,000, but the settler convinces the creditor to lower the amount to \$3,000.
- Your credit report is severely damaged because you are not paying your debts.
  - When you do finally pay, it is not the full amount.
- Creditor calls and collection activities continue, including garnishments and suits.

## Consider this before contacting a debt settlement company

- Credit card companies will report to the IRS that the debt was forgiven and this amount must be recognized as income. You will receive a 1099 form for anything over \$600.
- You will need to be comfortable having creditors harass you while the settler is negotiating with your creditors.
- Your account will be marked as “settled” and not paid in full.
- Debt settlement is only appropriate in very few severe cases of repeat and prolonged financial setbacks.

If you would like any additional information on this topic or have any other credit related questions, call Credit Advisors and speak with a certified credit counselor at (800) 942-9027. They will answer your questions and help you figure out the best way for you to get out of debt.

# [www.creditadvisors.org](http://www.creditadvisors.org)