-DEBT RELIEF-

# DEBT RELIEF OPTIONS 

Eliminate Debt without Bankruptcy

An informative report from National Debt Relief, LLC.

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## Are You Struggling with Debt?

If you or a loved one is struggling with debt, you know first-hand how it affects every aspect of your life. Not only does it leave you feeling insecure and helpless, but the stress seeps into your relationships, creating strain in marriages, families, and friendships.

Studies prove that debt has a debilitating effect on your physical and psychological health as well. Those who are struggling with debt tend to feel alienated, lonely and distracted. You are not alone! There are hundreds of thousands of people who are going through these very same trials.

Many borrow money, hoping for some respite from the financial stress. Any such respite is temporary. Eventually the debt piles up and you are in a deeper hole than you ever imagined you would be. Living in denial and ignoring the reality of your financial situation magnifies the problem, pulling you deeper and deeper into debt.

Consumers typically only become aware of a serious problem with debt once it has already grown beyond the scope of a simple fix. You may not know the significance of the debt or what options are available to you. You might even be considering bankruptcy.

## LET US STOP YOU RIGHT THERE

Although there are a number of truly good reasons to file for bankruptcy, this long-term destructive step can frequently be avoided through educating consumers about the alternative options. The very first thing you've got to do to determine what sort of help you need is to evaluate your financial situation by honestly answering a few important questions.

## Financial Health Assessment

## 1. How secure are you with your annual income?

| A. Extremely secure | B. Somewhat secure |
| :--- | :--- |
| C. Somewhat insecure | D. Extremely insecure |

## 2. How has debt impacted your personal finances in the past 5 years?

| A. Almost no impact on finances | B. A fairly manageable impact |
| :--- | :--- |
| C. Somewhat unmanageable impact <br> on personal finances | D. Immense impact on personal <br> finances |

## 3. How often do your monthly expenses exceed your income?

| A. This never happens. | B. This happens one to two months <br> out of the year |
| :--- | :--- |
| C. This happens three or four months <br> out of the year | D. This happens five or more months <br> out of the year. |

4. Do you prepare a personal monthly or weekly budget?

## A. Yes, I always prepare and stick to a budget.

C. I have tried to keep a budget, find it difficult to follow.
B. I try to keep up with a budget, but occasionally lapse.
D. I do not prepare a personal budget at all.
5. How easy or difficult do you find it to stay within a monthly budget?

| A. It is very easy for me. | B. I occasionally lapse. |
| :--- | :--- |
| C. I seem to struggle with this more <br> than others. | D. I find this very difficult or <br> impossible to do. |

## 6. Do you feel like you have sufficient money for entertainment?

A. Yes; we have a lot of fun.
B. Yes; we enjoy the basics.
C. We rarely can afford entertainment.
D. We can't afford entertainment.

## Financial Health Assessment

## 7. Do you set aside money regularly for future/emergency requirements?

| A. Yes, on a consistent <br> basis. | B. Frequently, but not consistently. |
| :--- | :--- |
| C. Sometimes, if I have any <br> extra money. | D. I don't or can't afford to set aside money. |

## 8. How many credit cards do you have?

A. I don't have any credit cards.
B. I have one or two credit cards.
C. I've got three or four credit cards.
D. I have more than four credit cards.
9. Do you borrow money or use a credit card to pay off debts?

| A. I have never done anything like that <br> (and would not). | B. I am seriously considering this as a <br> practical option. |
| :--- | :--- |
| C. I have already done this in the past <br> once or twice. | D. I have done this several times. |

10. Do you have and follow a strict regimen to pay off your debts?

| A. Yes, I always prepare and stick to a <br> budget. | B. I try to keep up with a budget, but <br> occasionally lapse. |
| :--- | :--- |
| C. I have tried to keep a budget, find it <br> difficult to follow. | D. I do not prepare a personal budget <br> at all. |

## 11. Have you ever lied to your creditors or made unrealistic promises to them?

| A. I have never done this | B. I have done this once or twice. |
| :--- | :--- |
| C. I have done this more than a few <br> times in the past. | D. This is something I frequently do. |

12. Is the stress of your debt affecting your health or relationships?
A. Financial stress has not affected
my health/relationships.
C. My health and relationships are affected by the stress of debt.
B. Financial stress has had a slight affect on my health/relationships.
D. My health and relationships are affected by the stress in bad ways.


## Interpreting Financial Health Assessment Results

Score your assessment using the following key:
$A=\mathbf{1 0}$ points $\mid B=\mathbf{7}$ points $\mid C=\mathbf{5}$ points $\mid \boldsymbol{D}=\mathbf{0}$ points

101

120
is a perfect or near perfect score. You are probably not truly struggling at this point. You may be interested in educating yourself about consumer debt and protecting yourself from potential financial pitfalls.
indicates that you are truly struggling, though you have options. You are in a complicated and unstable financial situation that is affecting your quality of life.

It is going to be difficult for you to pay off all your debts, but not impossible. You are feeling the weight of your debt, looking for a practical solution, and seeking sound advice.
indicates that you're in good standing. The situation is not ideal, but it's still manageable. With a little planning, you can successfully pay off the debt and land yourself a much better financial situation.

While you may be facing some overwhelming debts at the moment, there's a good chance that you can get yourself back on track fairly easily. Learn a bit about your options and avoid extreme measures.
indicates that your situation is quite serious and you need to seek advice from a qualified debt relief professional.

You need immediate and comprehensive debt relief options. There is always hope, but you need help.


## DEBT: THE ULTIMATE STRUGGLE

Struggling with debt is never easy. For many, the road to financial stability is long and arduous. On that note, there is always a way out. With the right guidance and understanding of the debt relief options, anyone can feel their way out of the dark abyss of unmanageable debt.

To get you started on the right path, this report on eliminating debt without resorting to bankruptcy is an introduction to the various methods that debt relief experts and consumers just like you are using to combat debt and financial instability all over the world.

There are various approaches to dealing with debt. These are not over-night solutions. When it comes to financial problems, there are no over-night solutions. There are a number of solutions, however, that are not as difficult or costly as many people believe. Primarily, debt reduction, debt consolidation, and debt settlement are excellent ways to tackle debt head one without a lot of upfront fees and false promises.

Debt Reduction involves two distinct approaches, frequently promoted by financial gurus for successful debt reduction. These include-the Snowball and Avalanche Methods.

## The Snowball Method



The Snowball Method involves creating a list of debts, ordered from the lowest balance to the highest balance, ignoring interest rates. Pay the debt with the lowest balance and move up. Pay the minimum amount on all other debts while focusing on the lower balance accounts. These debts will be repaid much more quickly, improving your confidence and motivation while preparing you for the larger debts that will follow.

## Snowball Method Example

| Credit Card1 | $\$ 1,500$ | $\$ 60$ Fixed Pay (above minimum due) |  |
| :--- | :--- | :--- | :--- |
| Credit Card2 | $\$ 3,500$ | Pay Minimum |  |
| Student Loan | $\$ 12,000$ | Pay Minimum | INF0 |
| Auto Loan | $\$ 15,000$ | Pay Minimum |  |

Note that the minimum payment is paid on other accounts until the lowest debt is paid off and the interest rate is not noted or considered to be a factor

## Pros \& Cons of the Snowball Method

While the snowball method provides you with much needed motivation, it does not take interest rates into account. As you focus on settling your smallest debt, the ones with the higher interest rates are piling up. Depending on how you view the situation and where your motivation lies, this is definitely something to think about.

## The Avalanche Method



Many prefer to alter the Snowball method to begin with the accounts that have the highest interest rates, ignoring the balances within this organizational scheme. Pay the minimum amount on all your debts, putting in any extra money towards the one that has the highest interest rate. Once that account is paid off, focus on the debt with the next highest rate.

## Avalanche Method Example

| Student Loan | $15 \%$ APR | \$300 Fixed (above minimum due) |  |
| :--- | :--- | :--- | :--- |
| Auto Loan | $12 \%$ APR | Pay Minimum |  |
| Credit Card2 | $10 \%$ APR | Pay Minimum |  |
| Credit Card1 | $7 \%$ APR | Pay Minimum |  |

Note that the interest is the most important factor, here, and balance is not considered.

## Pros \& Cons of the Avalanche Method

The important advantage of this method is that it does not let your interest pile up as quickly as the Snowball Method. Since you tackle the debt with the highest interest rate, you limit the interest payment, so the avalanche method is more efficient in saving money in the long run. However, using this method takes longer than the snowball method, making it feel tedious and difficult to follow through with.

## Which Debt Reduction Method Is Best For Me?

The Avalanche Method is perfect for you those who are not in need of additional motivation and a sense of moving forward quickly. With confidence, you can follow through with this the debt payment even though you may not see any results immediately.

There are many who will benefit more from the Snowball Method, even though it may seem counterproductive in comparison. The trouble is that debt reduction is more than a financial and mathematical system.

A large part of addressing debt resides within your own willpower and ability to stick to the plan. For many, it is the Snowball Method that makes it possible to repay debt. It takes some pressure off and provides a mental boost of confidence.

## Still Confused?

Consider mixing it up. Try alternating between both techniques. You can start with the lowest balance. Once that is paid off, focus on the debt with the highest interest. This way you save some money on interest while giving yourself the much needed mental boost!

# Debt Consolidation Loans 

Debt consolidation is the plan to consider when debt reduction is no longer a viable option. You'll need to answer a few more questions to find out if you are no longer a good candidate for debt reduction and must begin to look into another approach.

Debt Consolidation Candidate Assessment

## 1.

Are you frequently unable to meet minimum payments?

Have you borrowed money for basic amenities like food and gas?

## 2.

Are you consistently making late payments?

## Excluding car and house

 mortgages, do your debt payments exceed 25\% of your income every month?
## Evaluating Results

## INFO

If you answered yes to more than one of these questions, the harsh truth is that you are struggling with poor financial stability and overwhelming debt. You don't have the financial resources to pay off your debts and you need to start considering solutions and alternatives.

If you make late payments, you will not qualify for a low rate APR debt consolidation loan and will not be able to use this debt reduction method.

## Coping with Debt \& Seeking Solutions

The first thing is to locate the problem, as you have hopefully acknowledged by now that there is a problem. Accepting and coping are two different things. This is the part where you recognize that a significant change has to occur if you're going to get back on your feet.

If shopping, partying, video-gaming, or fine dining habits have only recently begun to exceed your income, you may be able to backtrack by re-establishing a more limiting budget and referring back to the basics. However, even discovering and addressing the source of the financial instability is not always going to be enough to get you back on the right track. This is where debt consolidation comes in.

## Credit Score

....mont behaviour a

## Unsecured Consolidation

Many banks only offer a loan if you have a good credit score. If you don't, you might have to approach another financial institution. The catch is a higher interest rate and you will not save much money than your current credit card interest rates.


## The Risks of Consolidation

Though it may feel like a miraculous solution, allowing you to pay off all of your debts over night, this is not how debt consolidation really works. Even as you eliminate your debts, you're creating new ones and facing new risks.


## The Risk of Higher Interest

This is a risk that may not seem apparent at first. The bank offers a loan, payable over a period of five years with a small monthly payment. Even though the five year time period allows you to make small monthly payments, it also means you'll have to pay a large sum of interest.


Home Equity Consolidation Loan
A home equity loan involves putting your house up as collateral. This makes it a secured loan. It is unlikely that a bank will give you a very large amount without collateral. An equity loan can come with a fixed or variable interest rate. Fixed rate would be better so your interest rate wouldn't increase over time.


## The Risk of Increased Debt

Studies suggest that almost $70 \%$ of people who take on a consolidation loan find themselves in a worse financial situation than they were in before. People often take the loan, pay off the debt and suddenly have new credit and new temptation. The temporary respite can trick people into believing that they can now afford that brand new television set or mobile phone.

If you can't limit your expenditures, then the debts will pile up again.


Pros \& Cons of Debt Consolidation Loans
Debt Consolidation involves taking out one loan to pay off all of your debts. The great advantage lies in convenience. Instead of paying several debts, you just have to make one monthly payment towards your consolidating loan. Choose a consolidation loan with a lower interest rate or a fixed interest rate, if possible. Consolidation loans can become more damaging to your financial situation over a long term period. There are a number of risks, options, and strategies to consider prior to taking out a debt consolidation loan.

## THE RISK OF DEBT CONSOLIDATION SCAMS



## The Risk of Losing Your Home

Putting your most important assets on the line is not usually a good idea, but many people find themselves doing so anyway. Banks won't loan a large sum without collateral, and sometimes, the only apparent option is to secure a mortgage against your home.

Equity loans also tend to come with low variable or fixed interest rates, making them that much more tempting. Don't take out an equity loan if you're not confident of being able to pay it off. This option is generally best for people who are certain that the financial problems are temporary and that a higher income is in the near future.

The Federal Trade Commission has uncovered several financial companies that are only looking to siphon money from people who are already deep in debt and scared about their situation. Victims of such scams end up with bigger and messier financial problems. Not all financial companies are a sham. Distinguish the real ones from the cons by arming yourself with knowledge and taking simple steps to avoid being conned:

1. Read agreements carefully.

## 3.

Ask creditors if they will work with the company.

Avoid companies making
5. great promises with little to back them up.

## CONSUMER CREDIT COUNSELING

Consumer credit counselors provide you with a Debt Management Program and experts who can guide you through a practical debt repayment structure. There are still risks, and you have to be well-informed before enrolling with this sort of program.

## How Does Credit Counseling Work?

Once enrolled with a credit counseling service, you'll be assigned to a counselor who will sit with you to discuss your financial situation. In this meeting, your debts will be analyzed and a practical budget for your expenses will be constructed around your individual needs.

## Debt Management Plans

A Debt Management Plan (DMP) will be developed in conjunction with the credit counselor and your creditors, all in an effort to help you pay off your debts in a practical and comfortable way. This should lower your minimum monthly payments through negotiations for lower interest rates. Once an agreement is reached, the plan is set into motion. All you have to do is send a monthly payment to the credit counseling service to divide among creditors.

Paying debt can take several months or even years, and you have to be prepared to follow your Debt Management Plan until the end. Credit counseling services also offer credit education services, giving you the skills to better manage your weekly and monthly budgets. It is tempting to skip this step, but you might be surprised at how much you can learn about credit and staying out of debt through a consumer credit counseling program.


## The Risks of Consumer Credit Counseling

## The Risk of Affected Credit

Consumer credit counseling services are going to be noted on your credit report. Banks may be reluctant to loan you money because of this. The fact that you used a counseling service reflects that you were unable to handle your finances by yourself.

## The Risk of Early Termination

## INFO

Debt Management Plans are usually designed for a period of two to six years during which you can be expected to pay off your entire debt. However, regular late payments can lead to early termination of your DMP.

## Consider the Cost

While most credit counseling services are advertised as "non-profit" agencies, the truth is that they will charge you a minimal fee for their service. This fee could be an upfront payment made in the beginning or a small amount deducted from monthly payments you make for your outstanding debt payments. Make sure these fees and deductions are discussed with you up front and you understand exactly what is being charged. Consider them carefully, confident that you know all of the details, before making your decision.

## Consider Your Own Availability \& Ability

Technically, there is nothing that a credit counselor can do for you that you cannot do for yourself, if you've got the time and understand what to do. The primary advantage of a consumer credit counseling service is that it is much easier to let someone else handle the details. This alone might make the service worth the time and cost involved for you. However, if you are comfortable with preparing a budget, negotiating with creditors and developing a sustainable debt payment plan, you may be able to save money by handling the situation on your own. Do your research and know what you're doing before you attempt this.

## DEBT <br> NEGOTIATION

Depending on your situation, it is entirely possible that you'll never be able to completely pay off all of your debts with your current income, without assistance. There is one last alternative to bankruptcy, for those still willing to fight it out. Debt negotiation is a drastic and aggressive approach, the last resort of those drowning in debt.

## How Does Debt Negotiation Work?

The Debt negotiation involves bargaining persistently with banks. You will be asking the banks to forgive a large portion of your debts in exchange for a settlement paid in either a lump sum payment or monthly payments. If all goes well, at the end of it you'll owe the banks half of what you did before or less in some cases. If the bargaining goes really well, you can even reduce the amount to less than half.

For example, if you owe \$10,000 to a bank on a credit card, you negotiahte with the bank to allow you to close the account for a one-time payment of $\$ 5,000$. In return for the one-time payment, the bank agrees to erase the remaining \$5,000.


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This is something that can be done with a debt negotiation company or on your own, though it may be much more difficult to attempt alone if you don't have the determination and patience to stick with it. Still, with the right information and a good amount of confidence, it can be done on your own.

## Pros \& Cons of Debt Negotiation

The very obvious and biggest advantage of debt negotiation is that it can considerably reduce your debts. With a good debt negotiation strategy, you can get the banks to forgive almost half of what you owe them or even more. Debt negotiation is considered the last resort and best solution for those who want to avoid bankruptcy.

Using the debt negotiation strategy, you can pay off your debts within two to four years. There is the small risk that one of your creditors may decide to pursue litigation if you can't pay the full amount of your debt. Debt negotiation is legal and gives you the right to hire an attorney if required.


The biggest problem with a debt negotiation strategy is that it will have a negative impact on your credit profile if you don't have bad credit already through missed or late payments. Instead of "Paid in Full," your credit report will be updated to "Settled." It could be several years before banks are willing to approve an unsecured loan for you again. The amount that the bank agrees to "forgive" from your debt is also considered taxable income. If the bank agrees to settle for $\$ 5,000$ on a total debt of $\$ 10,000$; the IRS would expect you to pay income tax on the remaining \$5,000.

While debt negotiation enables you to reduce your debt with a settlement program, this may not be a good option for those who don't have the resources to save for the settlement. Further, since you stop making monthly payments to the banks, you are bombarded with collection calls and late fees are added to your debt. However, a good debt negotiation company can handle the collection calls for you so you don't have to deal with them.

## THE ROLE OF THE DEBT NEGOTIATION COMPANY

The role of a professional debt negotiation company is to work out a reduced monthly payment for you. You make a monthly payment to the debt negotiation company and stop making payments to creditors. The money you send to the company is put into a savings account that you control.

The company bargains with your creditors for around five or six months. Eventually the creditors agree to settle for an amount that is much lower than what you originally owed, the only condition being that you make the payment within a short period of time (usually two or three months). You then make the payments from your settlement fund according to the terms of the settlement and just like that, the debt is settled and you are done with that creditor.

## Is a Debt Negotiation Company Right for Me?

Debt negotiation companies offer you expert negotiation services. All you have to do is worry about making your low monthly program payments, while someone in the company bargains with the bank on your behalf, making your life easier. The disadvantage is that you will have to pay a fee that may sometimes be too high for you to even consider. Several companies also charge a fee to use the savings account into which you will be depositing your monthly payments.

Debt negotiation is not applicable to everyone. You have to be in a considerably difficult financial position in order to convince the banks and credit card companies that the only way you can pay off your debts is by negotiating a settlement. While negotiating with your creditors, you will explain your financial situation. Any information you give will be cross-checked, so if the banks and credit card companies have any reason to believe you're not struggling as much as you say, they won't be willing to settle.

There are a few questions that will help you decide if this is the best option.

1. Do you have a very real and significant financial problem?
2. Do you owe over $\$ 25,000$ in unsecured debt?
3. Is the majority of your debt credit card debt?
4. Can you come up with the financial resources for a settlement?

Financial hardships involve losing your job, getting divorced, death in the family, serious sickness and medical bills, and any such significant challenges. If your credit card shows that you have been out shopping, eating at restaurants, or taking vacations, creditors won't believe that you are in financial trouble. Credit card companies and banks will usually only be willing to settle your account if you owe a total of $\$ 10,000$ or more in debts. You can't get your creditors to settle for $50 \%$ or less for small amounts.

## NEXT EXIT

## DESTREITEF

Debt negotiation companies usually base their fee off your enrolled debt amount. The fees can vary by state and are usually $18-25 \%$ of your debt. Compare this fee to the $\$ 1000$ s you can spend on interest and late fees when you only make the minimum payments on your credit cards and you can see that it makes a lot of financial sense to get professional help with your credit card debt.

If you are using a debt negotiation company, make sure that they are reliable and efficient. Several companies are known to make false promises for a large fee. Such companies may be unable to efficiently settle your account.

Check out http://www.bbb.org/ for accredited debt negotiation companies to help you.
National Debt Relief is A+ accredited with the BBB which you can view here https://www.nationaldebtrelief.com/accreditations/

Also look for a debt negotiation company that charges no upfront fees and only collects its fee when they have successfully reduced your credit card debt. This is also known as a contingency fee where the company only gets paid if they are successful.
You should also look for a debt negotiation company with a money-back guarantee in case you are ever unhappy with the process or for any other reason for that matter.

Debt negotiation is not for everyone and a company should not hold you hostage if you change your mind.

## INFO

National Debt Relief is a BBB accredited business based out of New York City that offers debt negotiation services in over 40 states. They have top rankings on independent consumer review sites and have 1000s of positive reviews from satisfied customers. Consumers experiencing a financial hardship can contact them for a free debt analysis with no obligation by calling 888-361-3505.

# How Can I Negotiate With Creditors on My Own? 



It is possible to negotiate with your creditors on your own and reach your own settlements. If you are in a financial hardship, you may have reached a point where you can no longer afford your monthly payments. It may not make sense to throw good money after bad anymore. Most of your payment would be going to interest and fees and it will be difficult to catch up.

Many consumers in this spot make a decision on their own to stop paying their creditors and save their funds for a settlement offer instead. Creditors have no reason to negotiate with you if you keep making your monthly payments - even if you are struggling to do so.

Getting the banks to agree to settle is not an easy task and typically takes a few months.

You'll have to call them and they'll usually forward you to someone in the delinquent accounts department. You'll have to explain that you are in a dire financial situation and won't be able to make your payments anymore.

Initially, the creditors won't agree to settling, but don't let this discourage you. As the months go by without a payment, they will become more receptive to your settlement offers. They are more likely to settle if they think you are on the verge of declaring bankruptcy, in which case they may not receive any of the money anyway.

You'll have to be disciplined and call them every couple weeks to let them know your financial situation has not improved and
you're thinking about bankruptcy.

If it all goes well, the banks will ultimately agree to settle for $50 \%$ of the original balance, or even less. You'll be given a time period of a few months to make the payment. Once you get the agreement in writing, then you can make the payment on your settlement and move on to the next one.

If this sounds like a lot of work, that's because it is. It takes time, energy and determination to keep in contact with your creditors and keep pushing for a settlement when they say no. That's why many people choose to have a reputable debt negotiation company do it for them.

## BANKRUPTCY

You've read through your options, researched them, perhaps even tried paying off your debts in one way or another, but nothing has worked for you so far. Your financial condition seems to be getting worse with time and nothing is working out for you.

## IS IT TIME TO <br> FILE FOR BANKRUPTCY?

The most unattractive issue with bankruptcy is that it could affect your credit report for up to ten years. Employers may be unwilling to hire you. Getting any kind of loan or buying or mortgaging a house or a car will be difficult. However, if you're in an irreversible financial hardship, bankruptcy may be your best option. The banks will be forced to cease and desist with their collection efforts. You don't have to pay your creditors anymore, and bankruptcy offers you a chance to start over again, with most of your debts erased depending on which type of bankruptcy protection you qualify for.

Ask yourself a few questions before you file for bankruptcy.

1. Is your monthly income lower than the state median for your family? 3. options are not practical for Have you determined that other you?

Is your debt to income ratio over $40 \%$ ?

## 4. Are you about to lose property?

 Have you had a lawsuit filed against you and/or received notice to appear in court due to an inability to pay your debt?If you answered yes to the above, you're already bankrupt. You will need to prove your eligibility for filing for bankruptcy, which should be the least of your difficulties during this time. If your monthly income is below the state median for the last six months, you automatically pass the test for bankruptcy eligibility.

Bankruptcy is a legal process and any decision relating to such should only be made after careful consultation with an attorney who practices bankruptcy law. National Debt Relief does not provide legal advice or consultation, and the information on bankruptcy contained in these materials is from publically available sources.

## Two Types of Bankruptcy

There are two different types of bankruptcy that you'll want to be familiar with. These require a means test to ensure that you have a legitimate claim to bankruptcy proceedings.


## CHAPTER 7

If your monthly income for a family of your size is less than the state median, you're eligible for Chapter 7 bankruptcy. This is also known as 'straight bankruptcy' or 'liquidation.' This is the easiest, quickest, and most common type of bankruptcy. Certain properties, like your house, vehicles, clothes, furniture, and certain appliances and tools are considered exempt properties. You can keep these. Any non-exempt properties; such as antiques and second cars or homes will be liquidated to pay off your debts.

Your secured debts may or may not be forgiven. If you have been behind on these payments, the court might allow your creditors to repossess property that used as collateral. Usually the procedures of Chapter 7 bankruptcy take three to six months. The cost for Chapter 7 bankruptcy varies, depending on if you hire a bankruptcy attorney to help you with the filing. It can run several hundred dollars to a few thousand dollars.


## CHAPTER 13

Also known as 'reorganization bankruptcy,' Chapter 13 proceedings allow you to keep your business and other assets, instead of liquidating. Chapter 13 does not erase all of your debts. Instead, you'll have to pay a certain portion of your debt over a period of three to five years.

You are only eligible to file for a Chapter 13 bankruptcy if you can prove to the court that you have disposable income after you've paid for your basic necessities and you can afford to pay off a certain portion of your debts. This also means that you will not be allowed to file for a Chapter 7 bankruptcy. Chapter 13 does not forgive secured debts or "priority debts" which include child support, alimony, and certain taxes. Under a stringent repayment plan, any money that you have left over from your expenses will be used for the unsecured debts.

## A Family in Financial Distress



Jane and Adam live in California with their two children. They have been served a notice to appear in court because they haven't been able to pay off their credit card debts. The monthly median income in California is $\$ 6,351$ for a family of four. Together, Jane and Adam have a monthly income of $\$ 8,700$. However, a quick calculation shows that their monthly expenses are usually around $\$ 9,500$. Should they consider filing for bankruptcy?

With their dire financial condition, the only way Jane and Adam can seek protection from the lawsuit filed against them is by filing for bankruptcy. Since the monthly
income for Jane and Adam is greater than the state median, they are not directly eligible for Chapter 7.

However, after a means test, it is discovered that Jane and Adam earn about \$800 less than they need to cover the expenses for the basic necessities of their family every month. There is no way this family will be able to pay off their debts, even if the court assigns them a six yearChapter 13 bankruptcy plan. Jane and Adam earn less than they need to cover their basic necessities. They will pass the test and will be eligible for a Chapter 7 bankruptcy filing.

## WHAT'S THE CATCH?

The most obvious downside of bankruptcy is that it can affect your credit profile for up to ten years. This has a negative impact on your chances of getting a decent job or finding anyone willing to sell you a house or car. Banks will be unwilling to give you a loan if they see that you have been unable to pay your debts in the past.

There are also several loans that are considered "non dischargeable," which you'll have to continue paying after bankruptcy. Non dischargeable debts include student loans, alimony, child support, taxes, government penalties or fines, and debts incurred due to fraud. Getting rid of most of your debts gives you a chance to start all over, with considerably lesser pressure for making ends meet and many see it as a fresh start, though it's worthwhile to know your options.

## FREQUENTLY ASKED QUESTIONS

## Q: How do I know if my debt situation has gotten out of control?

A: If you're reading this report, you probably already realize that you need to take drastic steps to tackle your debts. If you're still in doubt, take a closer look at other aspects of your life. A person drowning in debt typically has to deal with strained relationships and even health problems caused by excessive stress. If you have been struggling to make ends meet and have noticed a considerable increase in collection calls, it's time to accept that you are in a dire financial situation that needs to be dealt with immediately.

## Q: How do I control my credit card debts?

A: Dealing with huge credit card bills can be unpleasant and tiring. The best solution is to avoid using credit cards as much as possible. They should be used only as a last resort, and even then, stick to credit cards with a low interest rate. If you can afford to make the monthly payments on time, you'll spare yourself the additional late fees.

## Q: How do l access my credit report?

A: It is important to check your credit report at least once every year. Under the Fair Credit Reporting Act (FCRA), you can request your credit report through the government site, Annual Credit Report, http://www.annualcreditreport.com. The websites will ask you to fill out some basic information in order to access your report.

## Q: How do I calculate my Debt-to-Income Ratio?

A: Your Debt-to-Income Ratio is the percentage of your debt compared to your monthly income. First, make a list of your debt obligations. Include mortgages, car loans, child support, alimony, taxes, insurance, utility expenses, any housing expenses, and credit card debts. Divide this by your monthly income.

Example: Your monthly debt obligations total $\$ 5,000$. Your monthly income is $\$ 9,500$. Divide debt payments by monthly income (5000/9500). This gives you a ratio of 0.52 .

Multiply by 100 and you have $52 \%$ as your Debt-to-Income Ratio.

## Q: How does my Debt-to-Income Ratio affect me?

A: You don't have to worry about your financial situation if your Debt-to-Income ratio (DTI) is less than $36 \%$. If it is in between $38 \%$ and $40 \%$, it is at the upper limit. If your DTI is greater than $40 \%$, it's time to tighten your budget and look closely at your finances. Banks consider DTI before giving out a loan. They prefer a DTI less than $36 \%$, with almost $28 \%$ in mortgages. DTI is most importantly used to consider your eligibility for bankruptcy.

## Q: Can I choose the debts I want to pay through debt consolidation?

A: Yes; you are allowed to choose the debts you want to pay off through a debt consolidation program. Since you will pay a fee to enroll in such a program, your best option is to try and pay off all of your debts. You can leave out some if you wish to do so.

## Q: How are credit counseling and debt negotiation companies different?

A: Credit counseling services are used only for the purpose of debt consolidation. Such services provide you a counselor who will discuss your financial situation and design a budget plan for you. At the end of the service, you're provided with a course on credit education. Credit counseling services are non-profit organizations, though they may charge a small fee. Debt negotiation companies use a more aggressive approach to reduce your debt. These are for-profit organizations and charge a higher fee than credit counselors.

## Q: How do I find a good credit counseling service?

A: Look for local offices or find them on the internet. Check with your local consumer protection agency to make sure that their service is legitimate. It helps if you know someone who has used the service before and can get an honest opinion from them. Contact the counselors and ask them for free information about their services before paying any kind of fee.

## Q: Are Debt Negotiation Companies Legitimate?

A: The most reputable debt negotiation companies have been around for years and it is easy for fraudulent companies to make victims of uninformed debtors. Some companies use deceptive and abusive practices while negotiating with banks and credit card companies This can get you into legal problems. However, there are also several debt negotiation companies that do a good job of negotiating a settlement for you in a way that is completely
legal. It is important to thoroughly research a debt negotiation company before using its services.

## Q: Would my creditors file a lawsuit against me if I try to settle my debts?

A: It is important to understand that when creditors file a lawsuit, they are only trying to get you to pay. In cases of delinquent accounts, especially one in which you've missed several monthly payments, it is unlikely that your creditors will pursue legal action.

## Q: Will I be able to use my credit card after negotiating a settlement?

A: Because you have settled your debt and paid the credit card company only a fraction of what you originally owed them, it is unlikely that they will let you continue using their cards. Once you have settled your debts, you will be able to apply for new credit accounts a short time afterwards.

## Q: How Is A Means Test Carried Out?

A: A Statement of Current Monthly Income and Means Test Calculation is a document used to determine a person's monthly income and expenses. It is compared to the state median income. Usually, means tests are calculated based on the standard living expenses of a state, not the actual living expenses of the person filing for bankruptcy. A meeting with creditors, known as Meeting 341, is arranged to correctly determine the person's financial situation.

## Q: Can I file for bankruptcy without an attorney?

A: Yes; you are allowed to file for bankruptcy without an attorney. However, since a lay person isn't well versed with the nuances of the law, it is advised to use an attorney. Filing for bankruptcy is a delicate legal procedure and having an attorney will be helpful.

## Q: Will I have to go to court if I file for bankruptcy?

A: The 341 meeting with the creditors is held in court and anyone filing for bankruptcy is required to attend this meeting. The person filing for bankruptcy is questioned about his/her financial condition under oath and the court appoints a trustee for the case.

## Where to Go Next?

Visit the websites at the internet links below.

## Share Our Free Reports:

https://www.nationaldebtrelief.com/freereports/

## Free Budget Planner Worksheets:

https://www.nationaldebtrelief.com/free-budget-planner-worksheet/
Free Debt Calculator:
https://www.nationaldebtrelief.com/debt-calculator/
Free Debt Relief Quote:
https://www.nationaldebtrelief.com/apply/

## Free Bonus Resources:

https://www.nationaldebtrelief.com/freeresources/
40 Side Hustles For When You Need Extra Cash Fast:
https://www.nationaldebtrelief.com/40sidehustles/

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