

# 5 Things to Know About...



## Debt Settlement

- 1** To enroll in debt settlement, you must first default on your debts. This can lead to penalty interest rates and other fees, which will cause your balance to grow further while you wait to see if debts can be settled.
- 2** You can expect to be in a debt settlement program for three to four years. Prospects for successful completion, however, are unclear: many creditors refuse to negotiate with debt settlement firms and may instead decide to pursue you for your debt.
- 3** Even if many of your debts are ultimately settled, the growth in balances and debt settlement fees may eat into any savings you realize. In addition, any unsettled debts put you at risk of being sued by your creditor.
- 4** Debt settlement may first seem attractive if you are desperately trying to find a way out of unmanageable debt, but harms stemming from defaulting on debts -- damaged credit; aggressive collection attempts from creditors (including costly lawsuits); potential tax liability; and continued growth of debt balances through default interest rates, late fees, and other charges -- may leave you even worse off.
- 5** Know the difference between for-profit debt settlement companies and nonprofit credit counseling programs that offer debt management plans. Unlike debt settlement, credit counselors get up-front agreements from creditors, giving you the certainty that you can emerge from a debt management plan debt free.