



## Debt Consolidation Guide

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Welcome to Debt Reduction Services Incorporated Debt Consolidation Guide. This guide has been created in order to dispel some of the myths about what Debt Consolidation is and what it isn't. In every form of advertising you can find promises of a quick and easy fix to your debt problems. We've added a few that may be too good to be true. You may have already heard or seen these claims, or claims similar to them.

- Get out of debt...*fast!!!*
- Save up to 60% on your Debt Payments!
- Apply Now for our *EASY* Debt Consolidation Program!

When it comes to your financial future it is important to do your research and homework first before making any decisions on how you are going to proceed with the handling of your current debts. Knowing that there are no *quick* and *easy* solutions is important. A snap decision could have negative consequences for years to come.

As a general rule of thumb, if an advertisement says it is *quick*, *easy*, or *simple*, it probably isn't. If you see those claims it is important to get them confirmed. It is okay to ask the company to explain exactly what makes their service live up to those lofty claims.

### Introduction to Debt Consolidation

The definition of Debt Consolidation would be: The act of consolidating several debts and financial obligations into one. The simplest explanation of Debt Consolidation would be to describe it as turning several monthly payments into one payment per month.

There are many reasons as to why a person may want to consolidate their debt. These reasons range from wanting to secure a lower cumulative interest rate, to avoiding bankruptcy. There are two distinct types of Debt Consolidation; *With* or *Without* a loan.

**Debt Consolidation With a Loan:** A Debt Consolidation Loan is the act of taking out one loan to pay several smaller loans, preferably at a reduced interest rate from the rates of the smaller loans, since many Credit Cards have interest rates in the teens to high twenties in terms of percentage points. In some cases, due to the interest rates being lower, individuals may obtain a smaller monthly payment.

**Debt Consolidation Without a Loan:** Usually accomplished through a Debt Consolidation Plan, also known as a Debt Management Plan (DMP), offered by Credit Counseling Organizations. The primary focus of these plans is to obtain reduced interest rates on an individual's Credit Cards and other unsecured debt. Another common goal of Debt Consolidation is to lower the overall monthly payment in order to provide immediate relief to the individual. Lower payments can typically be obtained due to the interest rate reductions that many creditors provide.

The types of debt Credit Counselors may work with include, but are not limited to, Credit Cards, Collection Accounts, Personal Loans, Payday Loans and other unsecured debt.

A home loan or an automobile loan would be considered secured loans; therefore a Credit Counseling Agency would not be able to obtain reduced interest rates or payments due to the loans being secured with collateral.

## Alternatives to Debt Consolidation

There are essentially three alternatives to debt consolidation. Each comes with differing benefits to the consumer and provides different risk vs. reward scenarios.

**Debt Settlement or Debt Negotiation:** In this scenario you would stop paying your bills altogether. These may be the most prominent ads currently. The draw is that you can simply stop paying and save upwards of 60% or more on your debt. The reality is that by not paying your bills your credit rating becomes trashed. In some cases a Creditor can still sue for the unpaid amount. Another worrisome problem is that there have been unscrupulous Debt Settlement outfits that have defrauded their clientele.

**Bankruptcy:** Your credit score may take a heavy hit, but if you can file for a Chapter 7 Bankruptcy case, you may be able to get your unsecured debt cleared. This can help provide a fresh start and put you back on track to restoring your credit rating. In some instances, where an individual is truly unable to repay their debt, filing bankruptcy may be in an individual's best interest.

**Creating Your Own Payment Plan:** In many cases, by making personal sacrifices and budget adjustments, an individual may find themselves better off by developing their own payment plan. It is important to attempt to pay back more than the minimum monthly payments owed in order to get ahead. If the bills are already in arrears it may be difficult to overcome the late and over limit fees along with the higher interest rates. Creating your own payment plan works best when accounts are current.

**\*Debt Elimination (not a true alternative):** Watch out for this one. Although not a true alternative to Debt Consolidation we've decided to address it. Undoubtedly you've seen advertisements that claim they can easily erase your debt for a lump sum payment. Many of these ads are seen hidden in the corners of the internet and out of scrutiny. We recommend ignoring those ads and spam messages and seeking a safer, and working, alternative.

## When to Seek Help

Evaluating your financial situation regularly can save you time and money in the future. We recommend reviewing your finances at least once per month. This includes taking a look at your current income, your ability to pay your bills, and the amount you are able to place in savings or investments per month. This is also a good time for you to look at your financial goals and write down which short term (6 months or less) and long term (6 months or more) goals you want to accomplish and keep track of your progress in meeting them.

Ideally, if trouble does occur, an individual would be prepared financially due to taking a proactive approach. However, that is not always feasible as some hardships such as job loss, divorce or accidents happen without warning or notice, and can cause financial burdens.

Here are some signs that an individual may want to seek outside help.

- Using more and more of your income to pay off your debt
- Making only the minimum payments due on your accounts
- Credit Cards are near, at or over the spending limit
- Paying bills with money intended for other things
- Paying bills late
- Putting off medical or dental visits because of inability to pay
- Accounts have gone to collections
- Worrying about your finances and money in general

## Where to Turn?

When looking for help with your finances it is recommended that you start by researching a company's Better Business Bureau Report. This report will offer you a rating on the organizations services and handling of customer complaints. A clean record and positive rating may be a good indicator that you are looking in the right direction.

Does the company work with an accrediting organization? Do they have an outside entity that performs audits to ensure the quality of service being provided?

Is the company a *non profit*? This is especially important when researching Credit Counseling Organizations.

Finally, looking up consumer complaints online can provide you with others perspectives. While not everything we read or find on the internet is true, multiple negative complaints about a company can offer some insight as to how the company operates and if it is the right one for you.

## About Debt Reduction Services

We hope that this guide has provided you with the tools and knowledge needed to make a sound choice when it comes to seeking a Debt Consolidation service. We believe it is in everyone's best interest to develop and live a life free from the burdens of debt.

We are proud to be a federally recognized non profit Credit Counseling and Financial Education Organization since 1996. Our goal is to significantly improve the financial well-being of our clients, and assist them in achieving a better overall quality of life.

Our services include Credit Counseling in which the consultations are truly free, debt consolidation plans for those in need as well as Bankruptcy Counseling and Education Certificates.

Debt Reduction Services is committed to educating the general public, and in particular each of our clients, in order to help people learn to live a debt free life. Our intention is to offer the highest quality of instruction and Credit Counseling.

Debt Reduction Services is certified compliant by BVQI NA Inc. to the ISO 9001:2000 Quality Management System Standard in order to ensure the highest level of quality service to our clients. Our Credit Counselors are certified through The Center of Financial Certifications, an independent credentialing body recognized by the debt management industry and individual state regulators and creditors.