

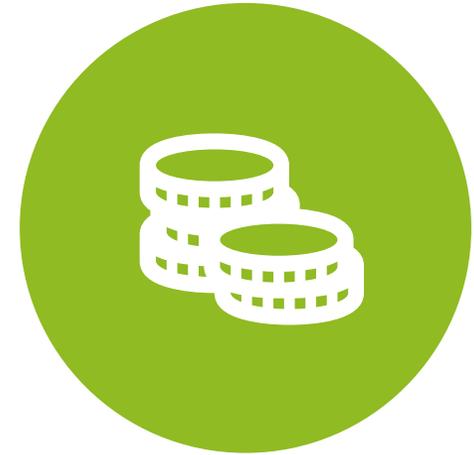
Debt Repayment Strategies & Dealing with Collections



Today's Topic



OPTIONS FOR DEALING
WITH DEBT,



DEBT COLLECTIONS

Finances in Changing Times

- Organize
- Assess
- Maintain Contact
- Track





Income

Sources (employment, savings, side work)

Substitutions (Food program, free internet/cable offers)

Government programs (Unemployment, stimulus money)



Expenses

High priority (housing related, medications/medical, basic food),

Student loans, auto loans, legal obligations,

Credit cards, cell phones, Old collection accounts (medical bills, utility, cable, turned off cell phones, etc.)



Spending

Review past spending.

- Do I need this service/item?
- Is there a substitution that can save me money?
- Is this a flexible expense that can be reduced?

Organize and Assess

Track Credit Reports

- View your credit report for free: www.annualcreditreport.com
- Typically, free once every 12 months
- Currently free weekly (through April 2022)

One note – During times of **natural disasters**, creditors can use the designation NDC (natural disaster comment code) or DPC (deferred payment code) to indicate someone missed a payment due to extenuating circumstances.

Know the Options When it Pertains to Debt

- Work with the creditor,
- Develop a personal repayment plan,
- Find help through a credit counseling agency,
- Understand bankruptcy, and
- Rights when dealing with collection accounts.

Working with the Creditor

- Make contact BEFORE the account is behind.
- Could a payment date change resolve payment issues?
- Call the number on your statement. *Scams*
- Explain the situation and any plans for:
 - Making partial payments for a period of time,
 - Putting payments on hold,
 - How long this situation may last (it may be indefinite).
- Keep records of the conversations:
 - Date and time,
 - Name of person handling the call,
 - Any payment arrangements that were agreed upon.
- Request documentation of any payment modification agreements.

GETTING STARTED

Debt action plan

Picking a strategy to repay your debt can help you start reducing it and make progress toward achieving your goals.

It can be difficult to make a dent in your debt if you only pay the minimum balance every month. If you have money left over in your budget to pay more than the minimum, there are two basic strategies on how to best apply it.

You can either pay your debts from smallest to largest or focus on repaying the ones with the highest interest rate first. One strategy isn't better than the other—they each have pluses and minuses to consider.

Choose the strategy that helps motivate you the most, so you feel encouraged to keep paying down the debt.

What to do

- Pick a repayment method that works best for you.
- List your debts in order based on the interest rate or the overall size of the debt.

Highest interest versus lowest balance



Start reducing your debt by making a Debt action plan

1. Review the pros and cons of each strategy for paying down debt.
2. List your top three debts, sorted based on the strategy you chose—either by smallest total dollar amount or highest interest rate.

	PAY SMALLEST DEBT FIRST 	PAY HIGHEST INTEREST RATE FIRST 																
Description	After you've made all your minimum payments, increase your payment on the smallest debt. After it's paid off, add that extra amount to your minimum payment on the next smallest debt.	After you've made all your minimum payments, increase your payment on the debt that has the highest interest rate. After it's paid off, add that extra amount to your minimum payment on the next highest-rate debt.																
Pro	If you have many small debts, you might see progress quickly by reducing the number of debts you owe.	By paying off the debts that charge you the highest interest and fees first, you save money overall.																
Con	If the interest rate and fees are high on your larger debts and you pay the smaller ones first, you might pay more in total over the length of the debt.	You might not feel like you're making progress very quickly, especially if the first debt is large.																
	<input type="checkbox"/> I'll pay down the smallest debt first, in this order:	<input type="checkbox"/> I'll pay down the debt with the highest interest rate first, in this order:																
	<table border="1"> <thead> <tr> <th>DEBT</th> <th>AMOUNT</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>\$</td> </tr> <tr> <td>2.</td> <td>\$</td> </tr> <tr> <td>3.</td> <td>\$</td> </tr> </tbody> </table>	DEBT	AMOUNT	1.	\$	2.	\$	3.	\$	<table border="1"> <thead> <tr> <th>DEBT</th> <th>INTEREST RATE</th> </tr> </thead> <tbody> <tr> <td>1.</td> <td>%</td> </tr> <tr> <td>2.</td> <td>%</td> </tr> <tr> <td>3.</td> <td>%</td> </tr> </tbody> </table>	DEBT	INTEREST RATE	1.	%	2.	%	3.	%
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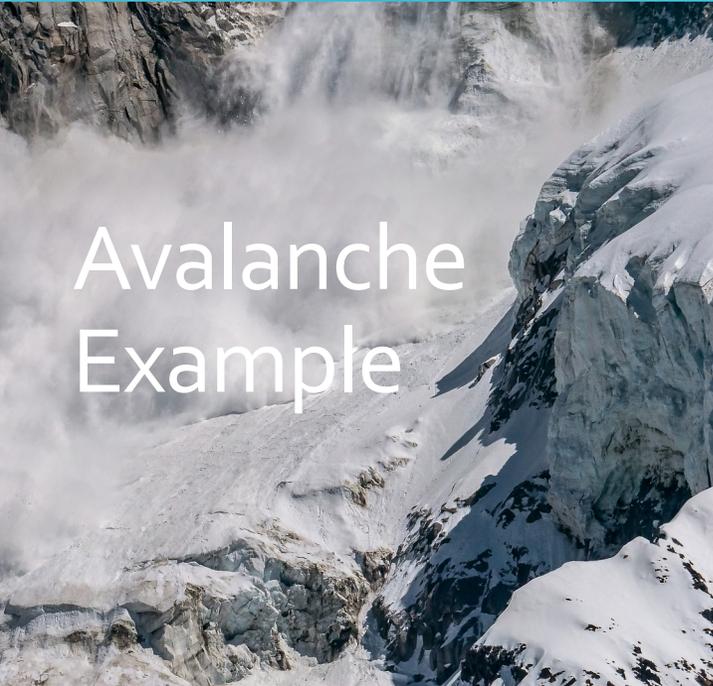
Snowball Example



Creditor	Interest rate	Balance	Minimum payment	Snowball payment
A	12.9%	\$3,500	\$87.50	\$87.50
B	11.9%	\$1,500	\$37.50	\$92.50
C	22.9%	\$4,800	\$120.00	\$120.00
		Total payments	\$245.00	\$300.00

After the account with the lowest balance is paid, \$92.50 is reallocated to credit A. Creditor A's new monthly payment will be \$180. The total amount sent does not change – it remains at \$300.

Creditor	Interest rate	Balance	Minimum payment	Snowball payment
A	12.9%	\$3,500	\$87.50	\$180.00
C	22.9%	\$4,800	\$120.00	\$120.00
		Total payments	\$245.00	\$300.00

A photograph of a snowy mountain slope with a large avalanche of snow and rocks cascading down. The text "Avalanche Example" is overlaid in white on the left side of the image.

Avalanche Example

Creditor	Interest rate	Balance	Minimum payment	Snowball payment
A	12.9%	\$3,500	\$87.50	\$87.50
B	11.9%	\$1,500	\$37.50	\$37.50
C	22.9%	\$4,800	\$120.00	\$175.00
		Total payments	\$245.00	\$300.00

After the account with the highest interest rate is paid, \$175 is reallocated to creditor A. The total amount sent to creditors does not change – it remains at \$300.00.

Creditor	Interest rate	Balance	Minimum payment	Snowball payment
A	12.9%	\$3,500	\$87.50	\$262.50
B	11.9%	\$1,500	\$37.50	\$37.50
		Total payments	\$245.00	\$300.00

Debt Management & Debt Settlement

Debt Management

- A structured plan, through a credit counseling agency, that allows you to fully repay unsecured debt to your creditors, via one monthly payment, with reduced interest rates and waived fees.
- Typically, three to five years (maximum of 60 months).
- One-time fee for account set-up plus a nominal, monthly fee for managing the accounts.
- Accounts are paid in full through the plan.
- Credit score may take a slight initial dip as accounts are closed.
- However, making **on-time consistent payments** and reducing the debt, typically increases the score over time.

Debt Settlement

- An arrangement in which creditors accept an amount less than the total balance owed and agree to forgive the remaining amount.
- Time varies, depending upon current account standing and other factors.
- People can settle debts on their own.
- Debt will reflect as settlement on credit report.
- Really only appropriate option for accounts that are already several months past due or in collections.
- Very damaging for credit score.
- Forgiven amounts over \$600 are considered unearned, taxable income.

Bankruptcy

Chapter 7

- A proceeding in which a consumer's nonexempt assets are managed by a trustee and liquidated to the extent necessary to repay creditors for outstanding debt. If there are no assets, debts are erased with no repayment.
- Secured and unsecured. Excludes debts such as child support, alimony, student loans (some exceptions), taxes, fraud, wrongful death. Consult an attorney for more specific information.

Chapter 13

- A proceeding in which consumers agree to a payment plan to their creditors that involves a large percentage (sometimes all) of their disposable income. The plan is administered, on their behalf, by a trustee.
- Secured and unsecured. Excludes debts such as child support, alimony, student loans (some exceptions), taxes, fraud, wrongful death. However, in a 13, these debts may be included in a payment plan. Consult an attorney for more specific information.



Debt Collectors and Collections



Creditor – The original company, person or service that loaned you money or extended you credit.



In house – Refers to the original creditors attempt to collect unpaid accounts.



Charged off - The account has been determined, by the original organization, as uncollectible.



Collection agency – Third party organization that purchases or contracts with the original creditor to collect debts that creditor has deemed uncollectible.

Collection Terms

Collections and Credit Reports

- Collection accounts remain on a credit report for seven and a half years from the date the account became delinquent (late) **with the original creditor**.
- Under the Fair Credit Reporting Act this time **cannot** be extended by:
 - Making a payment on the account, or
 - Acknowledging that you owe the debt.



When Can a Creditor Sue to Collect a Debt?

- In Washington State there are three statutes of limitations that apply to when a creditor may sue to collect a debt.
 - Written contracts – six years.
 - Oral contracts – three years.
 - Promissory notes – six years.
- This time can be extended by:
 - Making a payment on the account,
 - Acknowledging that you owe the debt, or
 - Agreeing to make payments on the account when it is near the statute of limitations.

Court Proceedings

A creditor may seek a judgment against you if you do not pay.

A judgment is a formal decision by the court stating whether or not you owe a debt.

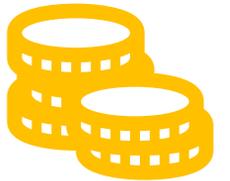
Judgments provide the creditor with other options for enforcing repayment. These include:

- Garnishing wages (taking money from your paycheck),
- Seizing a bank account, or
- Placing a lien against real property.



Collections and Repayment

1. Create a list of **all** outstanding debt and be sure to note the date of the first delinquency with the ORIGINAL creditor.
2. Prioritize all debts – list the dates items will come off the credit report.
3. Save and prepare to repay the debt. Save up to offer a settlement if that is the most realistic option.
4. Contact the creditor – negotiate the payoff – focus on the end amount paid, **not making payments**. Start negotiations at 25% of the debt and work UP from there.
5. Request written receipts for payment and follow up to make sure information reflects accurately on the credit report.



Paying Collections

- Avoid paying if:
 - They fail to provide verification of the debt.
 - The demand payment by Western Union.
 - They demand payment by check over the phone.
 - You do not owe the debt.
 - If you are not sure you owe the debt.



Fair Debt Collection Practices Act

- This law covers actions by third party collections agencies—not by the original creditor.
- The law outlines consumers' rights to dispute overdue bills placed with collection agencies.
- It also stops debt collectors from using unfair, abusive, or deceptive practices to collect overdue bills.

FDCPA Debt Notification

- Notification of a debt **must** include
 - Amount of debt
 - Name of original creditor
 - Disclosure stating that you have 30 days to dispute the debt and
- If you dispute the debt, they must send you verification of the debt's validity.

When a Collector Contacts You

- Under the Fair Debt Collection Practices Act you have the right to:
 - Ask for verification that you really owe the debt.
 - Request that collection agency does not contact you. You can send a letter requesting they “cease and desist” all communication with you.
 - While this option will stop the calls, the collector may feel like their only remaining option to get you to pay is filing a lawsuit in court.
 - Ask for payment arrangements. The collector does not have to accept an arrangement.

Anytime you correspond with collection agencies, send mail Certified Mail/Return Receipt Requested!



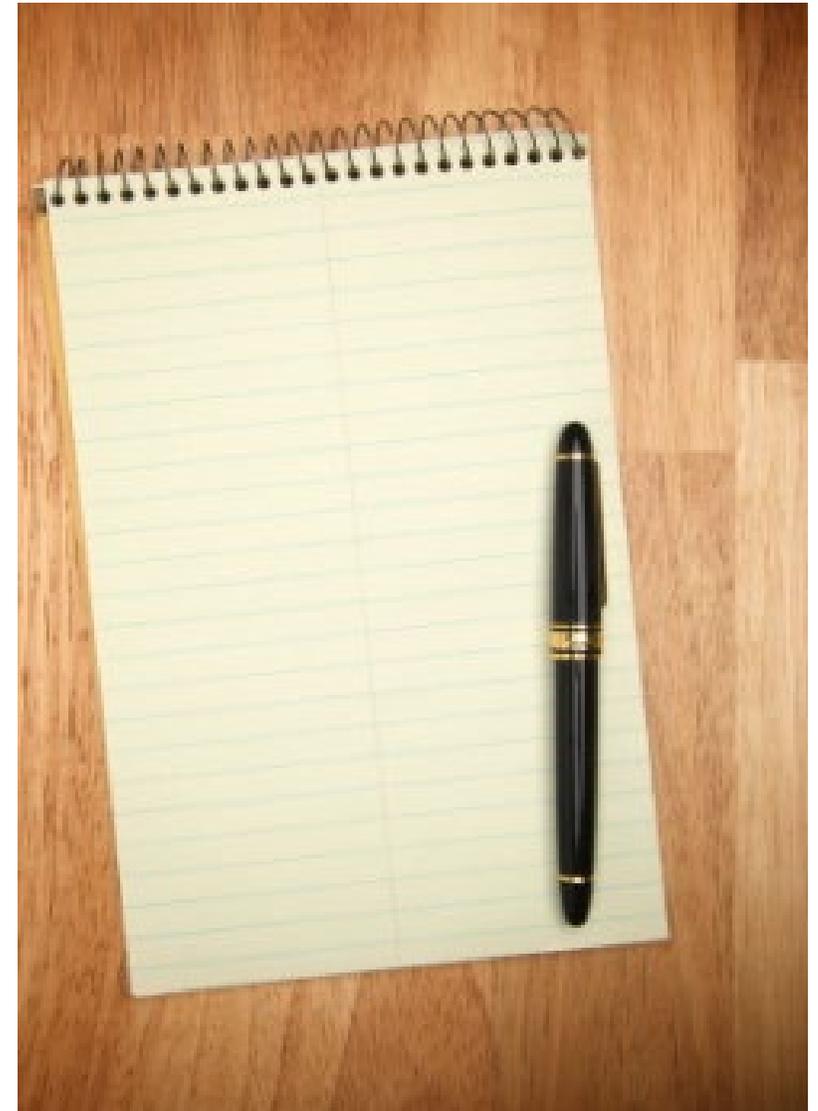
Handling Collection Calls

DOCUMENT

- Every call and keep every letter. Include:
 - Name of collection agency/attorney,
 - Date of contact,
 - Time of contact,
 - Telephone number the person is calling from (if you can get it),
 - Name of the individual you are talking to, and
 - Summary of the discussion or voicemail.

Avoid

- Admitting that the debt is yours (statutes).
- Arguing with the debt collector.



Illegal Collection Practices

- Communicating with a third party to discuss the debt
- Inappropriate communications with the debtor
 - This includes calling outside the hours of 8 a.m. to 9 p.m.
- Harassment or abuse such as threatening bodily harm or using profane language
- Making false or misleading statements such as threatening criminal action when it is not a possibility



How to Handle FDCPA Violations

Report any problems you have with a debt collector to:

- the [Federal Trade Commission](#)
 - the [Consumer Financial Protection Bureau](#)
 - The [Washington State Attorney General's Office](#)
- Provide any proof you have such as papers, mailings or tape recordings (if legal in your area).
 - Keep copies of everything you send.



Dealing with Debt Collections

- Understand your own finances.
- Prioritize bills and debt.
- Review available repayment or payment pausing options.
- Know rights when it comes to debt collection.
- Know who to contact if something goes wrong.



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