SETTLE

Credit Card, Medical & Business Debt for <u>PENNIES</u> on the Dollar

A Guide to Negotiate and Settle Your Debt Fast, Conveniently, and Affordably Without the Hassles of Bankruptcy and Credit Counseling.

TABLE OF CONTENTS

By Victor N. Chevalier

Introduction

I know how tough it is being a debtor in these turbulent financial times. I wrote this book because of my own hardships with debt so that I could help others like you with their financial challenges. In writing this book, I'd like to acknowledge the people who worked arduously to help me proof and bring this book to fruition.

As I am not a lawyer or accountant, the content in this book is not providing any legal or accounting advice. But as a former bankruptcy filer and due to my present experience, I am highly qualified to help you. Based on my knowledge today, I would have NEVER chosen the ugly bankruptcy path. Luckily, in life after bankruptcy I had an 11-year career as an insurance broker assisting the insurance and financial planning needs of hundreds of clients. I later became a top executive of two of the country's largest *debt settlement* organizations, which collectively saved over $150 million in unsecured debts for thousands of clients. I also wrote two free debt management books – ***Debt Free At Last: A Superior Solution to Bankruptcy and Credit Counseling*** © and the one you are now reading, ***SETTLE Credit Card, Medical & Business Debt for PENNIES on the Dollar*** **©.** Whatever the cause or magnitude of your debt crisis, the goal of this book is to help you reclaim financial empowerment.

Every year, there is a plethora of economy hiccups that cause dooming debt to suck the life out of millions of Americans. At an alarming rate, financial hardships are burdening the working class with uncontrollable personal, medical, and business debts that many times, leave their victims with no other recourse but to file bankruptcy. However, I'm about to expose the SHOCKING history of how the financial industry and many HIDDEN, government-backed creditor conspiracies are keeping you in debt and I will unveil INSIDER SECRETS on powerful debt elimination strategies that can help you stop the "debt insanity" and level the playing field with your creditors and their hired guns, the dreadful debt collectors.

This book will teach you how to successfully settle unsecured problem debt for a small fraction of what you owe. Additionally, it will not only teach you techniques to LEGALLY STOP creditor harassment and make debt collectors pay YOU instead, but also a PROVEN debt elimination strategy that can help you PREVENT *bankruptcy, lawsuits, judgments, liens,* and *wage garnishments*, and improve your creditworthiness.

Please be aware that there may be changes to laws and policies cited in this book, which may affect some of the information given to you. Nevertheless, the facts about debt DO NOT change – they generally get worse! But this prescription to eradicate your debt ailment is likely to embark you on a life-changing journey!

Chapter 1: The Shocking History of Consumer Debt

Swallowed by the Devious Debt Trap

Are you being tormented by personal, medical, or business debt? Are angry debt collectors mercilessly ringing your phone? If so, you suffer from FINANCIAL SLAVERY, a condition that afflicts two thirds of our country. It is a financially and emotionally incapacitating condition created by GREEDY LENDERS, and it only worsens in a souring economy, such as the one suffered on a national level as of the writing of this book.

In September 15, 2008 Wall Street experienced the worst day in seven years when the *Dow Jones industrial* average lost more than 504 points. In the biggest drop since the stock market reopened after the 9/11 attacks, Investment bank Lehman Brothers, filed the largest bankruptcy in American history. To escape a similar fate, Merrill Lynch, the world's largest brokerage flocked to the arms of Bank of America on a $50 billion transaction bailout. Even more disturbing, American International Group (AIG), the world's largest insurer, barely escaped bankruptcy as their stock dropped almost 60 percent after losing over $20 BILLION!

The worst carnage since the mortgage-lending crisis, this financial shockwave obliterated $700 billion from Americans' investments, retirement plans, and government pension funds. The crisis, which as stated by Democratic presidential nominee Sen. Barack Obama was "the most serious financial crisis since the Great Depression" created massive layoffs and produced signs of increased unemployment in the near future. Complicating matters, on October 3rd, 2008, President George W. Bush and the US Congress approved an $850 BILLION bailout package to buy up the bad debts of other failing financial institutions. But the unprecedented government intervention came at a heavy price to us taxpayers who would have to pay the costs of a massive rescue plan designed to pull the US economy out of financial doom. Certainly, the overall ramifications of this crisis would jeopardize the financial welfare of many Americans! But this book is my personal campaign to help one million hard-working, tax-paying Americans, everyday people like you, families, and small business owners to overcome the CRIPPLING DEBT CRISIS.

In case you wonder about my credentials, I'm not a "Tony Robbins-style" motivational speaker, or do I hold a P.H.D. in economics; however I do share with you an intimacy with "debt." My first experience with debt started as a young married man recently enlisted in the military. Living on a fixed income, I constantly juggled a very tight budget to manage my family's basic living expenses. It didn't help that my ex wife, a homemaker and full-time student at the time, was also an ADDICT. Suffering from *Obsessive-Compulsive Disorder (OCD),* her feel-good drug of choice was CREDIT CARD SPENDING. She was a zombie-like SHOPA-HOLIC at the malls, frequently roaming department store aisles for the next big-high-red-tag-sale and fervently making impulsive credit card purchases for meaningless, trivial merchandise that was often stored away still affixed to a price tag.

One August afternoon, I made a shocking discovery that made me wonder if I was sleeping with the enemy. After reviewing our credit card statements, I unraveled her secretive infomercial, QVC, and HSN shopping spree. Item after item, I found numerous credit card transactions. The first month's statement revealed credit charges of a few hundred dollars, but by the sixth month the charges escalated to an alarming $2,200! Even any person who's not smarter than a fifth grader could easily see how her frivolous spending, spiraled our finances out of control. Left destitute, we exasperatedly rushed to bankruptcy court! To this day, I am amazed how, if credit card companies hadn't been so greedily irresponsible in fueling her credit card shopping addiction, we could have easily escaped bankruptcy. The other shocker is that despite having a household income not too distant from the poverty level, our bankruptcy discharged THIRTEEN CREDIT CARDS totaling over $30,000!

Vowing never to repeat our shameful bankruptcy ordeal, I embarked on a personal campaign to educate myself in financial planning. After an honorable military discharge, I began a career in the insurance industry. For the 10 next years I operated my own agency as an insurance broker and financial planner. Fortunately, this time around, I helped others build wealth through investing and asset protection. I later made a career move into the debt management field as a top executive of two of the country's largest *debt settlement* companies. As an expert debt negotiator, I've helped people settle their debts and achieve financial wellness. In other words, I know a thing or two about debt to help you overcome your debt affliction.

Personally, I've seen nothing more financially devastating than how creditors are brutally deceiving middle-class Americans into acquiring astronomical mounds of debt. Each year, companies like MASTERCARD, SEARS, and DISCOVER spend BILLIONS of dollars on radio, TV, print, and Internet ads to entice consumers with a wealth of undeniable credit card solicitations. But offers like "Pay NO INTEREST for six months" or "Get a LOW INTEREST balance transfer", are mere teaser rate ENTRAPMENTS. People who fall prey to these evasive marketing scams surprisingly discover that their low introductory rate jumped as high as 400% as soon as they miss a payment! As the following story illustrates, part of the reason people are bamboozled into so much debt is because we live in a culture replete with CREDIT JUNKIES:

One day, the incessant, junk mail bombardment of seemingly attractive credit card solicitations lured Joe into the creditors' spider web. One could hardly blame him for giving in to the irresistible temptation to charge on credit for a 52-inch plasma screen TV that he couldn't afford. Like many of us, Joe worked very hard to live the American dream, yet he also fell into the superficial dangerous cycle of “keeping up with the Jones.” Soon, he outdid his neighbors, buying a bigger swimming pool, a more expensive luxury car, and the latest in high-tech electronics. His use of credit fueled a dangerous materialistic drive that gradually descended him into a DEVIOUS DEBT TRAP!

As time progressed, Joe’s financial situation deteriorated. One day, his wife was struck with breast cancer, causing him to amass over $20,000 in medical bills. Forcing him to take several weeks off from work to provide her medical care, soon Joe’s bills were delinquent to the ire of creditors that were threatening to garnish his wages. The constant collection calls made him go insane with each ring of the phone causing his heart to palpitate out of his chest not knowing if it was a “friend” or “foe.” As a temporary fix, he decided not to answer the phone but this only intensified his state of uncertainty. “Where could he find the money to pay off his debt?” He anxiously pondered, “What would the debt collectors do next?” Ironically, even if he resumed the high-interest minimum payments, he was likely to spend the next FIFTEEN to TWENTY years or his life encaged in DEBTOR'S PRISON!

Before you assume that Joe’s foolish use of credit caused the state of his financial imprisonment, the true cause was his creditors! Each year, creditors persuade 144 MILLION Americans to charge $1.5 TRILLION on credit cards. On Visa cards alone, consumers spend $1 trillion dollars, that’s roughly the size of the Canadian economy! In sum, Joe should thank his creditors for making him a casualty of the $2.4 TRILLION CONSUMER DEBT EPIDEMIC.

If you’re like people in Joe’s predicament, you’ll have a difficult time escaping the woeful debt trap. It would be niece if you could hide your bills under the rug until they magically disappear, but doing NOTHING only heightens the problem! Eventually, impatient creditors will send big-bad-wolf debt collectors huffing and puffing until they empty out your pockets. And guess who else is working on the creditors’ side? The federal government! Instead of protecting you, new federal regulations are bound to bury you deeper in the hole, fostering HIGHER minimum payments and disqualifying you from discharging your debt through bankruptcy.

Bearing all of the above the complications, getting rid of your debt will seem like navigating through a booby-trapped labyrinth. No matter how careful you are, wherever you step is likely to blow you into smithereens! But before you decide to waive the white flag in a war with your creditors, the PRICELESS weaponry introduced in this book may lead you to VICTORY. This tale of financial empowerment chronicles the history of debt in America and reveals the creditor conspiracies that are perpetuating the consumer debt crisis. To help you in your crusade to get out of debt it will also reveal the SECRETS to legally stop the dreaded collection calls and AVOID bankruptcy, creditor lawsuits, *judgments, liens,* and *wage garnishments.* The key to abolish your debt within your budget for PENNIES on the dollar and attain FINANCIAL FREEDOM is up ahead so CONTINUE READING…

History of Usurious Lending

Debt has no prejudices or biases and it impacts people in all socioeconomic levels. In the United States, debt is more than a sickness – its EPIDEMIC is threatening the mental, financial, and physical welfare of millions of consumers. The root contributor of debt is "income interruption", primarily caused by divorce, unemployment, or a medical problem. The initial prescription to stop this vicious cancer is learning the HISTORY of USURIOUS LENDING...

Usury is a harmful lending practice that dates back about four thousand years where usurious lending was repeatedly prohibited, scorned, and condemned mainly on ethical and religious grounds. The prohibition of usury was based on the principle that charging interest was "taking advantage of a debtor." In biblical times, usury was defined as “lending at any amount of interest.” The most vocal critics of usury were the religions of Hinduism, Buddhism, Islam and Christianity that doctrinally forbade the practice of usury or “lending at high-interest.” Throughout history, major spiritual leaders denounced usury as evidenced in the following Christian and Islamic scriptures:

“Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of any thing that is lent upon usury”

- Deuteronomy 23:19

“God says, "Is one worthy of life that loans for usury? That person shall die and it shall be his own fault.”

- Ezekiel

“God condemns usury, and blesses charities. God dislikes every disbeliever, guilty. O you who believe, you shall observe God and refrain from all kinds of usury, if you are believers.”

- Al-Baqarah 2:276-280

The biblical prohibition of usury carried over to Western law, where usury was redefined as “lending money and charging the borrower at unreasonable or exorbitant interest rates.” Throughout the United States, usury existed since the colonial times, which made it illegal for a lender to charge interest rates in excess of 12%. But as usurious lending grew more pervasive, less restrictive usury laws started favoring financial institutions. While physical slavery is illegal, in present times, the practice of usury continues to systematically enslave millions of Americans, depriving them of their wealth, dignity, and self-worth. This poison has also chiefly contributed to these APPALLING consumer debt statistics:

- 92% of the U.S. family disposable income is spent on paying debts.

• By the mid-1990s, the credit card debt of Americans below the poverty level more than doubled.

• Over 70% of all marriages end up in divorce due to financial problems.

• 75% of all Americans are three paychecks away from bankruptcy and almost one out of every 100 households in the U.S will file bankruptcy.

The above statistics stem from over 50 years of the financial industry's willful oppression of consumers that has systematically enslaved TWO-THIRDS our country into financial bondage. While the financial institutions currently have the upper hand, this book will help you acquire the intelligence to break off the shackles to stop the DEBT INSANITY and regain control of your life!

Origin of the Consumer Debt Epidemic

Today the use of credit is so common that it's hard to envision how people in the 1800s managed to live without it. Rather than taking out loans, consumers saved money until they could pay in cash for a needed good or service. The only form of conventional lending was a loan that a business made to a farmer to support his farming needs. This loan was collateralized by a security interest. Basically, the farmer pledged his crops to the business as a payment guarantee and once the crops were harvested and sold, the loan was repaid to the business with interest. The charge card didn't exist until 1914 when Western Union, department stores, and oil companies began offering credit to consumers. However, this form of credit was for the exclusive purchase of a creditor's own goods and services and the balances had to be paid in full each month. Conventional lending didn't emerge until 1928 when National City Bank of New York offered consumer loans at a 12% interest rate. The loans turned out to be profitable in meeting New York State's usury cap and having a low rate of default. This lending trend paved the way for the HOME LOAN and led to the birth of the *Consumer Credit Movement.*

Originally, a fixed rate mortgage loan did not exist. To purchase a home a homebuyer had to save a 50% down payment and pay the mortgage balance over 5 years. But a major change happened in the 1930s during the *Great Depression*. Endeavoring to stimulate a broken economy, the U.S. government encouraged banks to issue low-interest mortgage loans to consumers. The mortgage lending continued after *World War II* with the introduction of the “fixed rate mortgage loan” the first government-backed veteran home loan. Seen as the nation’s longest-term lending instrument, the loan required homebuyers to make a 5% to 20% down payment on their mortgages. Additionally, they had to and finance their mortgages over 30-YEARS. As a result, incredibly, only TWO PERCENT of all mortgage loans are ever paid for. But no other lending instrument has financially enslaved more consumers than the “credit card!”

The first sign of the credit card occurred in 1950 when Frank McNamara introduced Diners Club, the first “general-purpose” charge card. The card gave businessmen a line of credit for making business-related expenses in select commercial establishments. In 1955, Diners Club created the first-ever, “plastic charge card.” In the same year emerged American Express and BankAmericard, the nation’s first “general-purpose” credit card. As the first true credit card, BankAmericard allowed credit balances to carry over from month to month. The card also formed the first wave of usurious revolving credit solicitations when BankAmericards were mass mailed to residents in Fresno, California. The mailings led to massive credit card payment defaults and low profits for Bank of America. Yet by the 1960’s, the credit card was the country’s SECOND LARGEST form of monetary exchange!

In 1966, a second wave of insidious credit card solicitations known as the *“Chicago Debacle,”* was started by a group of mid-western banks. The banking group’s mailing of millions of credit cards to Christmas shoppers started an avalanche of news reports. The media alleged credit issuers were mailing credit cards to convicted felons, toddlers, and dogs.” It also reported organized crime rings bought stolen credit cards from corrupt postal workers and housewives were being billed for thousands of dollars for credit purchases that they never received.

The spectacle also led to congressional hearings during which alarmed legislators demanded the immediate outlaw of credit card solicitations. But congressional intervention was futile against the relentless momentum of the credit card. By the following year, City Bank of New York began issuing the Everything Card, which later became MasterCard. By the 1990's BankAmericard, which later became Visa became the largest credit card in use with nearly 400 million cards in circulation. The exorbitant credit card profits surpassed $1 TRILLION!

Today credit card consumption is so pervasive that 76% of all U.S. households have one person owning at least one credit card. As soon as people enroll in college, armies of credit card issuers serenade them. At department stores, cash shoppers are offered discount incentives on their purchases if they sign up for a charge card. Throughout the nation, consumers are charging on credit for virtually any need including, food, gas, clothing, and even to make mortgage payments. But the phenomenal growth in credit card consumption is not attributed to precarious consumer spending. As you're about to learn, the real culprit is the DEREGULATION OF USURY LAWS...

The Deregulation of Usury Laws

Furthering their growth, credit card banks with national charters (I.e. VISA and MasterCard) crossed state lines to solicit more credit card customers. But a national expansion required them to adhere to state usury laws that set a maximum interest rate that a credit card company could charge a cardholder. Since most states had low usury ceilings, credit card operations suffered from small profit margins. By the 1970's, thirty-seven states had usury ceilings that restricted the availability of credit and limited the ability of lenders to extend credit to lower income borrowers. But in 1978, the Supreme Court ruling on the case of *Marquette National Bank of Minneapolis vs. First Omaha Service Corp ("Marquette")* significantly liberalized state usury caps. This legal precedent spawned the *Plastic Revolution."*

In *Marquette,* Marquette National Bank of Minneapolis, a Minnesota credit card issuer, sought to enjoin First of Omaha Service Corp., a competing nationally chartered credit card issuer based in Nebraska, from soliciting Minnesota residents for its BankAmericard. First Omaha's credit card offered no annual fee and an annual interest rate of 18% for the first $999.99 or 12% on charges over $1,000. Since Minnesota usury laws imposed a 12% interest rate cap, Minnesota banks were charging a $15 annual fee to make up for the low rate. In contrast, First of Omaha decided to attract Minnesota cardholders with a "no annual fee" credit card that charged the higher rate from their resident state.

In essence, the *Marquette* ruling supported the importation of First of Omaha's state interest rate to another state. The Supreme Court held that "a lender could charge the highest interest rate allowed in the lender's home state, regardless of a lower rate limitation in the customer's state of residence." For example, if you lived in New York, which had a 12% interest rate cap and applied for credit with a credit card company domiciled in South Dakota, which had a 25% interest rate cap, the credit card company could charge you the higher 25% rate.

In 1980, the *Marquette* precedent led to a landmark change that helped stabilize South Dakota's dwindling economy and awakened Citibank's victorious rise from the ashes. At the time, Citibank's credit card operation had lost more than $1 billion due to a 20% rate of inflation that exceeded the maximum 12% interest rate they were permitted to charge under New York's usury law. Supported by *Marquette,* Citibank sought to stop the bleeding, lobbying the state of South

Dakota to pass legislation that eliminated their historic interest rate cap. As result, Citibank's credit card operation moved to Sioux Falls, South Dakota creating thousands of jobs and strengthening South Dakota's economy. In exchange, South Dakota deregulated the state usury ceiling, allowing Citibank's national credit card processing center to issue more credit cards. The deregulation elevated Citibank's once fading credit card operation into the MOST PROFITABLE sector in banking history! Today the banking behemoth makes "nearly $30 BILLON in yearly profits.

South Dakota's debunking of state usury laws TURBO-CHARGED the growth of the credit card industry. Following Citibank, Chase, Manufacturer's Hanover, and Chemical Bank flocked to Delaware after that state also deregulated usury laws. Within two years, a total of ten credit card banks relocated to Delaware. Today, six of the top ten banks, representing the highest volume of credit card loans (43%), are still located in that state. The enormous success of usury law deregulation in South Dakota and Delaware swept on to Utah, the residency state of American Express, New Hampshire, the residency state of Providian, and Virginia, the residency state of Capital One. But the most extreme case was in Arizona, which established a "no interest rate cap." This gave Arizona's resident banks, Direct Merchants and Bank of America, a green light to gouge consumers with interest rates as high as THIRTY-SIX-PERCENT!

Inarguably, *Marquette* was the catalyst for today's national $2.3 trillion consumer debt epidemic. The countrywide elimination of state interest rate caps gave credit card issuers a license to operate as LEGAL LOAN SHARKS and provide low-income borrowers unprecedented access to usurious credit terms. According to the Federal Reserve's *Reserve Survey of Consumer Finances,* the percentage of households with at least one credit card climbed from thirty-eight percent in 1977 (one year before *Marquette*) to fifty-four percent in 1989.

Resulting from *Marquette,* credit card company profits pinnacled to new heights. Presently, MBNA not only earns one and a half time's McDonald's profits, but also, Citibank is more profitable than Microsoft and Wal-mart! A consumer's worst nightmare, *Marquette* also created insurmountable credit card payment defaults. Plus personal bankruptcies rose to record levels from less than one per thousand people annually in the early 1970s to almost five per thousand people ending in 1997. Nowadays it's hard to find a bankruptcy filer whose bankruptcy is unrelated to credit card debt.

Notorious Credit Card Schemes

Over the past twenty years, GREED-driven credit card companies have devised other devilish schemes to keep people in financial slavery. One of the worst consumer entrapments in history is the *Minimum Payment Scheme,* which started after the introduction of the credit card. Originally, credit card companies weren't profitable. They couldn't attract vulnerable low-income cardholders because they required a minimum payment of five percent of the original balance and more affluent cardholders paid their bills in full every month. But Andrew S. Kahr, a credit card industry analyst and founder of Providian developed a negative amortization scheme that revolutionized credit card spending.

> **"People believe what they want to believe"**
> *- Andrew S. Kahr*

To persuade cardholders to spend more each month, Kahr convinced credit card companies to decrease the standard 5% minimum payment to 2% while increasing the cardholder's credit line. The precedent soon sparked a BOOM in credit card consumption with15 million cardholders carrying their revolving credit balances over to the next month. This also caused "sixty-five percent" of all credit card accounts to make only the minimum payment. Consequently, the average U.S. household credit card debt rose to $7,300, and since the minimum payment covered roughly 90% of the interest charges, minimum payment cardholders only paid one-fiftieth of what they owed. Thus, the total credit card debt more than tripled from approximately $238 billion in 1990 to $755 billion in 2004!

The SECOND BIGGEST harm caused by credit card companies to cardholders resulted from the *Universal Default.* Another brainchild of Andrew S. Kahr, this classic bait-and-switch tactic allows a credit card company to legally increase your original interest rate. It's very unfair that just for missing one payment of if a consumer's balance goes up too high, or the consumer goes over the credit limit, the *Universal Default* triggers an interest rate hike as high as THIRTY-FIVE PERCENT! It's also sickening that because of the *Universal Default,* a credit card company can regularly check your credit report and, if they see a decline on your credit score or that you made a late payment to another creditor, your interest rate can go up without any notification!

The *Universal Default* is an immoral money extortion scheme, yet in this country it's an every day banking practice. I remember once asking a credit card company executive how he could justify increasing a good-paying customer's interest rate for having made just one late payment even if was to another creditor. He replied, "It's reasonable to raise a consumer's interest rate because of an increase to their credit risk." Of course he failed to mention how credit card companies like his have used the *Universal Default* technicality to suck consumers dry resulting in OVER $12 BILLION in annual banking revenue.

Credit card companies have also plundered consumers with abusive *fees*. In 1980, the credit card industry first rolled out the *annual fee.* Prior to this, cardholders were paying *annual fees* of not more than $20. But twenty years after the number of credit cards in the U.S. increased over 100%, *annual fees* increased as high as $89! Credit card companies continued their greedy schemes with the introduction of the *penalty fee.* The charging of *penalty fees* grew like wildfire after a 1996 Supreme Court decision called *Smiley vs. Citibank.* This decision lifted state restrictions on *penalty fees* including late fees, over-the-limit fees, and returned check fees. It's astonishing that *late fees* alone, which can be as high as $39, are now responsible for ONE-THIRD of all credit card industry profits, profits so enormous, that they topped $55 billion by 2005!

Credit card companies have done an excellent job hiding their horrific scams to keep you in the NEVER-ENDING debt cycle. They know that the less you know, the more they'll manage to keep you in the dark. But I'm exposing the enemy's weapons so you can have a fighting chance. The following chapter reveals an unlikely accomplice that's helping credit card companies sink you deeper in the abysmal DEBT TRAP…

Government Sinks Consumers Deeper In the Hole!

Throughout history, many religions considered it a SIN to lend money at today's usurious interest rates. From a theological standpoint, such lending was seen as "covetousness", the 10th sin in the *Ten Commandments* and was frowned upon as "greed", one of the *Seven Deadly Sins.* The Greek Philosopher, Cato once condemned usury as "a violation worthy of DEATH" because it produced "an inequality of wealth and destroyed the harmony between citizens of the state."

Imagine living in the Mosaic times, witnessing a banker stoned to death for having committed the crime of issuing credit to peasants at an exorbitant interest rate. Based on today's 18% average national interest, on a grand scale, the punishment would amount to BANKER GENOCIDE. But, instead of punishing them, bankers found guilty of this injurious predatory lending practice are rewarded with six to seven figure yearly bonuses. This stagecoach ROBBERY should be immediately outlawed! But why hasn't government done anything to stop it? As you're about to learn, assuming your elected officials in government will be on your side when you mostly need them is WISHFUL THINKING…

And what do you think of usury?
What do you think of murder?"
- Plato

Next to the tobacco industry no lobby group in Capitol Hill is more powerful than the banking industry. Repeatedly, the coffers of banks and credit card companies have muscled their way into Congress to defeat any bill that would require full disclosure of the harmful ramifications of a consumer's credit terms. Over the past twenty-five years, the absence of this much needed disclosure on credit card agreements has kept consumers in the dark from knowing how long they'll be slaves to their creditors. Plus consumers are easily fooled to get credit no matter how exaggerated the payment terms or their inability to repay a debt. The first time government attempted to pass a consumer disclosure bill warning consumers how much they will pay and how long they'll take to get out of debt was at the state level in October 2001 with the *California Credit Card Payment Warning Act.* But in 2002, lawyers for the almighty banking industry defeated this bill in the U.S. District Court. On October 17, 2005 Congress finally passed the *Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA),* a bill that required creditors to disclose the effect of the minimum payment to cardholders. But the true reasoning behind this bill was not to educate consumers. It was to help creditors mitigate the billions they were losing because of consumer payment defaults and eventual bankruptcy filings.

In respect to consumer disclosure, *BAPCPA* requires issuers of open-ended credit to post a minimum payment warning on consumer billing statements. On accounts requiring a minimum payment of less than four percent of the cardholder's balance the warning must state, "At an interest rate of seventeen percent, a balance of $1,000 would take eighty-eight months to repay if only the two percent minimum payment was made." Next to the warning a toll-free Federal Trade Commission phone number must be listed for borrowers to call for an estimate of the number of months it would take to pay off their balances in full. On cards that require minimum payments of more than four percent of the cardholder's total balance, the required warning must state, "A minimum payment rate of five percent, at seventeen percent interest, will take twenty-four months to pay off a balance of $300 in full." However, assuming that these requirements provide you with more protections may lead to devastating results.

Regrettably, a *BAPCPA* loophole lets creditors easily escape compliance to warn consumers. In lieu of posting the required toll-free Federal Trade Commission phone number on a billing statement for a customer to call to learn the actual number of months required to pay a balance in full if making only the minimum payment, creditors may post their own toll-free number. Unfortunately, this gives them the ability to skirt consumer disclosure requirements. Thus, in warning consumers, *BAPCPA* is a mere band-aid treatment that still leaves most people dumbfounded as to how their credit terms really work.

Another government regulation, the *Minimum Payment Rule,* has put a serious financial squeeze on consumers. Earlier we discussed the harmful ramification of the *Minimum Payment Scheme.* Seeming to fix this problem, in 2006, the U.S. Treasury Department's Office of the Comptroller of the Currency rolled out a *Minimum Payment Rule* requiring creditors to increase the standard minimum payment to THREE PERCENT. The objective is to help consumers pay less in interest and fees by paying at least one percent of the debt's principal balance.

Under the old minimum payment guidelines, a $30,000 debt at an annual interest rate of 18% would require you to make a minimum payment of $600 (2% of the balance). This would cause you to take 910 months paying $88,930.80 in interest charges. In comparison, under the new minimum guidelines, you would take only 345 months paying $29,798.97 in interest charges. The downside is that you'd have to make a $900 minimum payment (3% of the balance). How could most people afford to pay roughly one third more than the previous minimum payment they were struggling to make?

A shameful truth about the *Minimum Payment Rule* is that the federal government alerted creditors about an increase in minimum payments since 2003. This gave them a head start to fund their reserves for the expected payment defaults. Yet the media only alerted the public after the change took place in 2006. But creditors weren't too concerned about the public's ignorance. Truthfully, no one really cared about warning the public since just two months earlier the *Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA)* made it even more difficult for people to file bankruptcy.

Another irony is that the mandated minimum payment increase came at a time of financial despair when Hurricane Katrina, a mortgage loan crisis, unemployment, and steeper gas prices pummeled the economy. Sadly, before this change could bring any financial relief, many consumers were bound to suffer SHORT-TERM pain! To stay afloat, people with higher mortgage payments, low-income families, and overextended cardholders, would have to make serious lifestyle changes.

It's a travesty how government has passed laws that have helped creditors to further submerge you into debt. But, before you succumb to this doom and gloom, I'm happy to say that there is light at the end of the tunnel. You will find the first glimmer of hope in the next chapter, which will teach you how to defend yourself against the MONSTROUS debt collectors.

Chapter 2: How to Fight Abusive Debt Collection

Don't Fear the Vicious Debt Collectors

For a debtor, there's no greater fear than being harassed by a debt collector. Even if you're behind on your bills, you will soon learn why there's really nothing much to fear from them. The frightening collection industry that so many people love to hate originated in the 1960s during the student loan movement. After a wave of student loan payment delinquencies, the federal government began to outsource the collection of unpaid student loans to private businesses. These collectors were primarily mom-and-pop shops that worked out of their homes banging on phones to collect from "non-paying" debtors.

As banks got greedier, they took more risks issuing credit. As a result, more people eventually defaulted on their payment obligations causing creditors to lose billions of dollars. This forced the collection industry to become stronger, larger, and more aggressive. Today, the industry targets nearly one out of every two families and manages $743 billion in outstanding credit, mostly credit cards.

In lieu of collecting their own debts, creditors normally outsource delinquent accounts to a RUTHLESS ATTACK DOG, the debt collector. This is typically a third party collection agency or collection attorney that earns 15-50% of what they manage to collect! They are highly trained professionals in the merciless art of CREDITOR HARRASSMENT. Through their nasty guerilla collection tactics they will incessantly torment you and make your life very uncomfortable. Their strategies are so effective that, each year, the collection industry as a whole generates close to THREE BILLION in revenue!

Oddly, the collection industry's astounding success doesn't come from the ability to win judgments, swipe money from people's bank accounts, or repossess their properties. It originates from a depressing state of mind inherent in many debtors, called “FEAR OF THE UNKNOWN.” P.T. Barnum said it best when stating, “There’s a SUCKER born every minute” He was right! In the U.S., consumer ignorance is at an ALL-TIME-HIGH. Peoples’ lack of knowledge of the collection process allows debt collectors to blatantly spread paralyzing fear in the hearts of millions of gullible consumers. This stronghold is so devastating that debt collectors manage to sucker people into doing whatever they tell them to. I empathize with you as a victim of a vicious debt collector. Once in your shoes, I know of no greater fear than having to live day after day with the constant anxiety of not knowing “if” or “when” you may end up in court. The pulse-raising uncertainty alone has prematurely pushed many debtors into *bankruptcy* although, however, if you know what I know, you can pursue better options. To provide you with courage to confront the dreadful debt collectors, I’m going to arm you with the following incriminating FACTS:

FACT #1:

“SIXTY-SIX PERCENT of all accounts managed by collection agencies NEVER get collected.”

Imagine, there’s a 66% chance that a debt collector may never get a dime from you! These unfavorable odds plague the collection industry because of steep personnel turnover and huge operating costs to hire and train staff. Many debt collectors eventually quit or get fired for not meeting rigorous collection quotas. Additionally, to lower operating costs, creditors frequently outsource debt collection to lower-waged debt collectors in countries like India, Jamaica, and the Dominican Republic where collectors earn less than one-sixth of their U.S. counterparts.

FACT #2:

“The biggest collection threat is the VERBAL THREAT”

As unbelievable as it sounds, the STRONGEST weapon of a debt collector is the “VERBAL THREAT.’ Armed with a telephone, a debt collector can carry out a variety of verbal terror tactics, such as late night phone calls, using abusive language, threatening to put you in jail, take away your home, or garnish your wages, calling your work although your employer does not allow, or calling your neighbors to openly discuss the nature of your debt in an attempt to find you. Before you decide to sacrifice your first-born child to pay them, be aware that they’re all ILLEGAL threats. That’s why they seldom back their verbal threats in writing. So DON’T give in so easily to foolish debt collection demands. Remember, if a verbal threat is LEGITIMATE, a physical WRITTEN DEMAND ALWAYS follows it.

FACT #3:

“Debt collection is slimy, dirty work.”

Most debt collectors have to work within a tight-cubicle inside a heavily micro-managed boiler room, where they’re pressured to adhere to strict collection quotas. The tedious phone dialing they must do requires making about 20 phone calls per hour to reach 2 out of 6 debtors who agree to repay their debts. The job also has income hurdles normally paying minimum wage plus commission, which forces debt collectors to have to largely rely on the commission from the number of accounts they collect.

This unscrupulous nasty job also requires deceitful communication. Tragically, to earn a decent paycheck, even some of the nicest debt collectors compromise themselves by lying to people. For example, a debt collector will say that you will fix your credit by sending them money through a bank draft or wire transfer, or that you'll lose your home if you don't send in a payment. All of the uncompromising unnerving stresses of the job make many debt collectors live in constant fear of job stability.

FACT #4:

"The collection industry is highly regulated."

The collection industry is regulated by state and local laws as well as federal laws including, the *Fair Debt Collection Practices Act (FDCPA), Fair Credit Reporting Act (FCRA), Fair and Accurate Credit Transaction Act of 2003 (FACT Act), Financial Privacy Rule, the Gramm-Leach-Bliley Act (GLB), the Health Insurance Portability and Accountability Act (HIPAA), the Telephone Consumer Protection Act (TCPA),* and *Electronic Funds Transfer Act.* If a debt collector fails to abide by any of these laws, he/she could be sanctioned with STEEP fines! To test your knowledge about another MAJOR WEAKNESS that hurts debt collectors, please answer this multiple-choice question –

Unsecured debt collectors operate mainly like:

(A) Hungry hawks
(B) Growling Chihuahuas
(C) Boa constrictors

The correct answer is (B). Debt collectors the collection of unsecured debts, generally act like growling Chihuahuas, incessantly nipping at a debtor's heels with a bark that's much louder than their bite. After all, what can they bite when any collateral does not guarantee the debts they're trying to collect? They generally have no greater means of enforcement than to scare people with their menacing verbal threats. But, BEWARE of the "secured" debt collector - a finance company that could repossess your car, mortgage company that could foreclose your home, or landlord that could evict you into the streets once you miss a payment. On the other hand, an unsecured debt collector that handles LOW PRIORITY debts should be LAST on your mind to pay.

How to Report Unlawful Debt Collection

The *Fair Debt Collection Practices Act (FDCPA)* also protects you against creditor harassment. This federal law monitored by the Federal Trade Commission was passed in 1977 to protect consumers against illegal, deceptive, and abusive collection practices. The law requires you to be treated fairly and limits the conduct in collecting a debt. Pursuant to the *FDCPA,* debt collectors:

Cannot make violent threats, use obscene language, repeatedly harass you over the phone, or threaten to cause you bodily harm.

Cannot say you will be sued, have your property seized, or have your wages garnished, unless they intend to take action and it is legal to do so.

Can only contact people, such as your neighbors, to find out where you live, your phone number, and where you work.

Are prohibited from contacting third parties more than once and, in most cases, cannot say that you owe any money.

May not use false or misleading statements when attempting to collect a debt, such as falsely implying they are attorneys or government representatives, or alleging that you committed a crime or are going to jail.

Although debtors used to be incarcerated, today, no “debtor’s prison” exists! Being a delinquent debtor isn’t a crime. But under the *FDCPA,* if a debt collector threatens to put you in jail, you can sue them for this offense and may recover monetary damages for emotional distress and attorney's fees. In extreme cases, you could join a class action lawsuit and may recover damages up to $500,000, or one percent of the collection agency’s net worth, whichever is less.

You may also report offenders of the *FDCPA* to the Federal Trade Commission, State Attorney General, American Collectors Association, or local State Bar Association. At the Federal Trade Commission website (www.ftc.gov) there are class action lawsuits the agency filed, which resulted in civil penalties and large monetary awards against rogue collection agencies.

Below is a list of organizations that offer free consumer education and assistance for filing complaints against creditor harassment or questionable collection activities:

Consumer Action
17 Market St., Suite 310
San Francisco, CA 94103
Tel: 415-777-9635
www.consumer-action.org

Council of Better Business Bureaus
4200 Wilson Blvd, Suite 800
Arlington, VA 22203-1838
www.bbb.org

Federal Trade Commission
CRC-240, Washington, D.C. 20580
Tel: 877-382-4357
www.ftc.gov

National Association of Attorneys General
Tel: 202-326-6000
www.naag.org

National Association of Consumer Advocates
1730 Rhode Island Avenue NW, Ste 710
Washington, DC 20036
Tel: (202) 452-1989
www.naca.net

How to Legally STOP Collection Calls

The previous chapter armed you with many resources to fight debt collectors. I'm also going to give you a powerful tool that PERMANENTLY STOPS creditor harassment and ends the bothersome collection calls. It's called the *cease and desist letter.* Its purpose as outlined in the *Fair Debt Collections Practices Act, 15 U.S.C. 1692(c),* is "to force a third party collection agency to stop calling you at your home or workplace." The letter applies to "ALL third-party collection agencies and collection attorneys who collect two or more debts per year on behalf of the original creditor or debt owner." However, an original creditor is not required to adhere to the legal notification.

Upon receiving a *cease and desist letter,* a debt collector must IMMEDIATELY STOP ALL VERBAL COMMUNICATION with you. They can notify you ONLY about the actions they will take against you. Under no circumstance are they allowed to pick up the phone to call you, not even to say hello! Although they cannot talk to you, they may continue other collection activities, including filing suit to collect the unpaid debt.

Here's how to use the *cease and desist letter* to stop a debt collector dead in their tracks. The first step is to include in the letter a caption exerting your right under the *FDCPA* requesting that the third party debt collector CEASE and DESIST from calling you. Secondly, address the letter to the third party collection agency that is collecting the debt on behalf of the original creditor. The third step is to send out the letter via certified mail to a physical mailing address. Finally, ensure you get a return receipt, which will serve as proof that the debt collector physically received the letter and keep a copy for your personal records.

Sample *Cease and Desist* Letter

(Your Name)
(Your Address)
(City, State ZIP)

(Letter sent via Certified Mail with Return Receipt)

(Date)

Re: (Account #)

(Debt Collector Name)
(Address)
(City, State ZIP)

Pursuant to the *Fair Debt Collection Practices Act,* 15 U.S.C. Section 805, I am notifying you to immediately cease and desist from further communication with me regarding the above referenced debt. Failure to abide by this law will result in a complaint being filed against you with the Federal Trade Commission and the Attorney General in our mutual states, and the American Collectors Association or local State Bar Association.

I may also file suit against you for any future violations of this law, in which case, I may be entitled to actual damages, court costs, attorney's fees, and up to $1,000 in statutory damages. Furthermore, be advised that I will be recording future phone calls made by you in the event you fail to obey this law.

Sincerely,
(Your Name)

If, after receiving a *cease and desist* notification, the third-party debt collector continues harassing you, here's what you can do to stop them. Maintain a call log and document every call they make. Make sure you include the name of the debt collector and the date and time of the call. As soon as they call you, tell them that the phone conversation is being recorded. Finally, report them to the state Attorney General's office, Federal Trade Commission, and American Collectors Association or State Bar Association. Don't forget to keep copies of any received billing statements or collection letters, which may help you in the event you decide to file a creditor harassment lawsuit. You may be able to recover damages up to $1,000 per each *FDCPA* violation!

Chapter 3: Common Debt Management Options

Now that you know how to defend yourself against abusive debt collection, it's time to cover your options to get out of debt. Unfortunately, only a few solutions exist. The suitability of each one will depend on the severity of your debt and financial hardship. Learning the FACTS about the following debt management approaches will help you make an INFORMED DECISION on the best solution to your problem:

1. The *Minimum* Payment Approach
2. *Bankruptcy*
3. *Credit Counseling*
4. *Debt Consolidation*

The *Minimum Payment Approach*

Most people that live paycheck-to-paycheck practice the *Minimum Payment Approach.* But this extraordinarily DANGEROUS approach keeps people enslaved to their debt! For example, if you made a 2% minimum payment on the average household credit card debt of $7,300 at an interest rate of 16.75%, you'd spend 44 years paying back $23,373.90. Thus, you'd pay OVER THREE TIMES your original debt including $16,000 in interest payments (assuming you won't incur additional charges. That's why I call the *Minimum Payment Approach* the "NO WAY OUT APPROACH." Following this approach is insane and as you're about to see it often leads to BIGGER PROBLEMS:

Let's say that on your way to work, your car breaks down. Obviously, you'll need to repair it as soon as possible. The last thing on your mind would be to risk losing valuable work hours or get fired for not having reliable transportation. But since you live PAYCHECK-TO-PAYCHECK, where can you find money for the repair? As a solution, you decide to skip some credit card payments. Will the credit card company be sympathetic to your situation? No! Instead, as soon as you miss a payment, they immediately suspend your credit privileges and send their dreadful collection agents pounding on your door to demand that you pay the outstanding balance that you owe plus the late fees.

Most people in the above situation don't know where to turn. Yet, let's assume that in your case, a creditor offered you a "hardship plan." This one-time deal normally made to consumers with financial hardships can offer you temporary relief by deferring your minimum payment up to six months. But the downside of the hardship plan is that it'll bury you deeper in debt. The lesson learned is that if you follow the *Minimum Payment Approach*, you will succumb to a cycle of never-ending debt. Following the rules imposed by creditors easily causes you to repay THREE to FIVE TIMES your original debt!

Bankruptcy

If you have massive debt, *bankruptcy* may be a great solution. But, due to recent *bankruptcy* reform, by following this approach, you will likely not attain a "fresh start." In the past, to help debtors avoid *bankruptcy,* creditors normally referred them to credit counselors. The idea was for a credit counselor to help the troubled debtor avoid or delay a *bankruptcy* so that the creditor could recover more of the debt. But *credit counseling* didn't help creditors much to stop the hemorrhaging of billions of dollars that creditors were losing each year due to unpaid consumer debts. By 1998, new *bankruptcy* filings escalated by "more than 300% to 1.4 million!" This record increase caused the financial industry to repair a "flawed" *bankruptcy* system despite the main culprit being predatory lending. Yet, creditors argued for *bankruptcy* reform claiming stricter requirements were needed to stop people from misusing bankruptcy as an easy way out of their financial obligations.

After eight years and over $100 million dollars of creditor lobbying, on October 17, 2005, the *Bankruptcy Abuse Prevention and Consumer Protection Act (BAPCPA)* was passed. Despite the deceptively titled latter part of the name, *BAPCPA* is remotely a "Consumer Protection Act." The pro-bank law was designed to reap BILLIONS OF DOLLARS in yearly profits for creditors while disqualifying most consumers from *Chapter 7 bankruptcy*.

70% of all U.S. bankruptcies used to be filed under the preferred *bankruptcy* method, *Chapter 7,* which allows debtors to discharge most of their debts. But under the new law, you may be forced to file *Chapter 13,* which requires you to participate in a court-ordered repayment plan. Plus, you'd have to pay back a portion of your debt not for three years as the old law specified, but up to FIVE YEARS under the new court mandated budget requirements.

Most *bankruptcy* filers won't qualify for *Chapter 7* because of the rules of the IRS *Allowable Expense Schedule,* which is used by the courts to determine your monthly budget and what type of bankruptcy you can file. If your income is above the median income of your resident state and you can afford to pay back 25% or at least $100 per month toward unsecured debts (E.g., credit cards), the new *bankruptcy* rules will require you to file *Chapter 13 bankruptcy,* also known as the *"wage earner repayment plan."* Like it or not, if you demonstrate that you make enough income, this will cause you to pay back a portion of your debt!

To assess whether you qualify for *Chapter 7,* the first step is to measure your current monthly income with the median income and size of your family based on the state you reside in. But the courts, unfairly, won't consider your "current monthly income" as your actual income at the time that you file. Instead, they will apply your average disposable income, which is calculated over the last six months before you file. As an example, if in your former job, you annual income was $100,000 but you started a new job two months ago based on a $60,000 annual income, your current monthly income would still be estimated at $100,000! And, unbelievably, the higher income calculation will automatically disqualify you for *Chapter 7!*

The next step to determine if you qualify for *Chapter 7* is to subtract from your disposable income your *IRS Allowable Expenses*. Remember, these expenses can be lower than your actual expenses. They must also be subtracted from your average income during the six months before you file, rather than your actual monthly earnings. Again, the courts can unfairly base your monthly payment on a much larger disposable income than what you can actually afford. Ironically, before this new requirement, two out of three *Chapter 13* filers had already failed to discharge their debts because they didn't have the means to continue the court-ordered payments. All in all, more stringent rules cause more *Chapter 13* cases to fail! Miss just one court-ordered payment and your case will be thrown out of court! Additionally, in order to qualify for *Chapter 7* you must:

- Reside or have a domicile, place of business, or property in the U.S. or its municipality.
- Not have been granted a *Chapter 7* discharge within the last 6 years or completed a *Chapter 13 bankruptcy* plan.
- Never had a bankruptcy dismissed for cause within the last 180 days.
- Not be fundamentally granted unfair debtor relief under *Chapter 7*
- Pass the *Means Test*

The purpose of the *Means Test* is to see if you will have enough disposable income after subtracting certain allowable expenses to make the payments required for a *Chapter 13* plan. Under the *Means Test,* your income must not be less than or equal to the prescribed median income in your household. To find out if you will pass the *Means Test,* calculate your current monthly income and subtract from it both of the following:

a. IRS Allowable Expenses excluding transportation, food, and clothing. (Note: the allowable expense limits may be lower than the cost of living in your area.)

b. The monthly payments required for secured and priority debts (E.g., child support; alimony; taxes.)

After subtracting the above expenses, if your total monthly disposable income is less than $100, you passed the *Means Test* and can do a *Chapter 7* filing.

Another issue is that the *bankruptcy* court will unfairly base your personal property higher than fair market value, which may cause you to lose your property. Under the old law, the value of exempt personal property was based at the maximum it could sell for. But now any "exempt property" you are entitled to keep must be valued at replacement cost (the cost to replace the property from a retail vendor based on its actual age and condition). Otherwise, if valued higher, it may have to be sold by the *bankruptcy* trustee.

The new law has also complicated the work of *bankruptcy* attorneys, who are now required to validate the accuracy of all the information provided to them. Because of this, they are personally liable for any inaccuracies, omissions, or misrepresentations made by their clients. Due to these added burdens, you can expect to pay as much as 50% MORE in attorney fees!

Making the *bankruptcy* landscape gloomier, you're also required to attend a *credit counseling* course during the 180-day period before filing *bankruptcy.* First, you must pay for and complete a course with an approved *credit counseling* agency by the United States Trustee's Office. (Note: approved agencies can be found at the U.S. Trustee's website www.usdoj.gov/ust.) The purpose of the course is to give you financial management education and offer you a *debt management plan (DMP).* Although you're not required to accept the *DMP,* before you're eligible to file *bankruptcy,* you must submit to the court a certificate of completion regarding the 6-month *credit counseling* course. Second, before the *bankruptcy* can be discharged, you must pay for and complete a SECOND *credit counseling* course! This basically positions credit counselors as a second line of defense for creditors in keeping debtors away from *bankruptcy* court.

Unconscionably, the new *bankruptcy* law strips you of MORE rights, providing LESSER protection. For example, you can no longer stop or prevent an eviction, driver's license suspension, or delay a child support proceeding. A creditor can now pursue collection of your debt without court permission and can garnish your wages, repossess your property, or offset your tax refund. The length of time to qualify for a second *Chapter 7 bankruptcy* discharge was extended from SIX to EIGHT YEARS. A big shock for single mothers is that the repayment of credit card debt is prioritized over unpaid child support! In addition, a *bankruptcy* will remain on your credit report and may cause you to be turned down for credit for TEN years. Plus, it lingers an embarrassing public record for TWENTY years, possibly causing you to be denied federal and state jobs, security clearances, professional licensing, and insurance benefits! Considering all of the above consequences, you should ONLY consider *bankruptcy* as A LAST RESORT!

Credit Counseling

The most widely used debt management approach is *credit counseling,* a.k.a. *consumer credit counseling (CCC)*. The first *credit counseling* agency, was organized by Harry Fuller in 1951 [known as the *National Foundation for Credit Counseling (NFCC)*] and in 1993, a second organization was founded, the *Association of Independent Consumer Credit Counseling Agencies (AICCCA).*

Both organizations were established for charitable and educational purposes to teach consumers financial literacy and help them better manage their finances. However, the overall concept of *"credit counseling"* was originally conceptualized by the financial industry as a measure to deter consumers from filing *bankruptcy.*

Not to be confused with *debt consolidation, credit counseling* helps a consumer to lower their debt by lowering the debt interest rate and minimum payment. In the modus operandi of a *credit counseling* program you will meet with a credit counselor whose goal is to analyze your financial situation and determine if you qualify for a *debt management plan ("DMP").* Once you enroll in the *DMP,* the credit counselor will negotiate a special payment arrangement with your creditors, which reduces the interest rate of your debt. Then an agreement will be reached, that allows you to make a single monthly payment to the credit counselor who, in turn, disburses the reduced minimum payment to each creditor. Although in theory *credit counseling* sounds great, in practice can be a FINANCIAL DISASTER.

Credit counseling has also been marred by countless abuses to consumers by unethical credit counselors. An example was the legendary Ameridebt that was shut down in 2005 by the Federal Trade Commission for "operating as a "for-profit company." Ameridebt was alleged to have "deceived consumers into paying them about $170 million in hidden fees." Unbelievably, "MORE THAN 8,000 CONSUMER COMPLAINTS" have been filed with the Federal Trade Commission against unscrupulous credit counselors like Ameridebt. Some of the complaints included "indiscriminately enrolling consumers in a *DMP* without regard to their financial situation, failing to pay creditors in a timely fashion or at all, further impairing consumers' credit scores, charging high or hidden fees, making consumers unable to opt out of voluntary contributions, and making false promises to lower interest rates or minimum payments by unrealistic amounts and then not delivering results." Some organizations also misrepresented that creditors would accept their payment proposals although not all creditors, such as American Express, accept *DMPs.*

Another BIG PROBLEM with credit counselors despite claiming to be non-profit saviors is that many operate as debt collectors in sheep's clothing. Collecting FIVE BILLION dollars on behalf of creditors each year makes them the LARGEST collection agents in the industry! For every dollar they collect, creditors pay them a commission known as a *"fair share.* In the past, the *fair share* compensation was 15% or $15 for every $100 collected. But through the years, creditors have dropped the *fair share* commissions by an average of 8%.

Sadly, in a scheme to offset the *fair share* loss, many credit counselors have opted to trick consumers into INVOLUNTARILY or UNKNOWINGLY paying them a charitable monthly fee known as a *voluntary contribution.* Even today this is a rampant practice although their non-profit services must be made available to the public regardless of a consumer's ability to pay. So don't be fooled by the term "non-profit", which is just a way of filing taxes for profit-mongering credit counselors. Looking at their mutual business relationship with creditors clearly indicates that there's no incentive to help you get out of debt quickly when dealing with a *DMP.*

Credit counseling is also a TERRIBLE CHOICE if you're concerned about hurting your credit. Although the pioneer of the credit score, Fair Isaac Corporation alleges "participation in a *DMP* has no negative effect on the *FICO* (credit) score." life after enrolling in a *DMP* causes people greater difficulty when qualifying for credit. This happens because, as soon as you enroll in *credit counseling,* the major credit reporting agencies will report on your consumer credit file your participation in a *"debt management plan (DMP*)." Plus, since your accounts will be paid at less than their contractual obligation, your payments may be reported as "adjusted" since they won't be made "as agreed" but at a "reduced" interest rate." (E.g., if the creditor agrees to adjust your minimum payment from $400 to $350, the $50 difference will appear on your credit report "in arrears!") All of these derogatory factors could seriously impair your credit standing!

Despite the wonders purported by the media, another serious flaw of *credit counseling* is the HIGH DROPOUT RATE. According to a 1991 article titled *"Pushed off the Financial Cliff"* based on a national survey on 1,300 *credit counseling* agencies conducted by Consumer Reports, the consumer watchdog group discovered a shocking "79% *DMP* dropout rate!" But it hardly surprises me that 79 out of 100 enrolled people never graduate. A buddy of mine in the *credit counseling* industry once confessed that, "MORE THAN HALF of the people who enroll in *credit counseling* drop out within a year!" The main reason is that *credit counselors* usually set up consumers with unbearable monthly payments similar to the following scenario, which can be DISASTROUS:

Let's say a credit counselor sets you up on a *DMP* with a $450 monthly payment. Since it's only $50 more than your old minimum payment, you feel you can make the payment. But you overlooked a harsh reality – you live PAYCHECK to PAYCHECK! After the first three months, your payments are on time. But on the fourth month, your son breaks his leg and is rushed to the emergency room. Not having medical insurance, the hospital slaps you with a $2,500 medical bill! Luckily, they offered you a payment arrangement. Since it requires an $800 deposit, to cover it, you decide to skip the next two *DMP* payments. But when you're ready to resume the payments, you learn the *credit counseling* program cancelled you for violating your agreement in missing two consecutive monthly payments! Ironically, if they hadn't canceled you, you'd still be at risk of being kicked out of the *DMP* because you'd have to continue making a higher monthly payment than the minimum payment you had difficulty making in the first place.

Far too many people drop out rate of *credit counseling* because the only benefit they received was a minor interest rate reduction. Accounts approved by a *DMP* normally require a minimum interest rate of 18% and the benefit is an average rate reduction of 6%. This is generally not enough to unbury an income-challenged consumer from a mountain of high-interest debt. Since it barely scratches the surface, nearly half of the people that have enrolled in *credit counseling* dropped out within a year and the few that graduated spent 5 to 7 years repaying ONE AND A HALF to TWO TIMES their original debts! Unless you want to be part of these crazy statistics, my advice is that you avoid *credit counseling* and double your minimum payment.

Debt Consolidation

The third debt management option we'll discuss is *debt consolidation.* This is the practice of consolidating debt into a loan for the benefit of a lower interest rate and monthly payment. The preferred *debt consolidation* method is a home equity loan, which allows a lender to use the borrower's property as collateral to guarantee repayment of the loan. Mortgage companies plaster ads for home equity loans on billboards and newspapers throughout the nation offering the benefit to consumers of low-interest rates to consolidate high-interest debts, fund college tuition, or fund home improvements. The home equity loan market is a GOLD MINE! According to the Federal Reserve, "in 1997 Americans borrowed $268 billion in home equity loans." That is nearly 50% more than in 1992, and, by 2004, the borrowing jumped to $826 BILLION!"

Despite the popularity of home equity loans, they have been a popular approach by predatory lenders. A favorite scheme has been the use of the SUB PRIME LOAN, which has steeper interest rates and fees than a traditional mortgage loan. A classic predatory, sub prime lender was Capital City Mortgage Corporation, which according to a 1998 complaint filed by the Federal Trade Commission, "violated numerous federal laws giving home equity loans to minority, elderly, and low-income borrowers at interest rates as high as 20-24%." It's appalling that after foreclosing on borrowers' homes, the lender went to auctions to buy back their homes under their noses for far less than the homes' appraised values.

Another abusive lending instrument prevalent in home equity lending is the ADJUSTABLE RATE MORTGAGE (ARM) loan, which also entices borrowers with a low interest rate and monthly payment that ultimately increases due to the loan's variable interest rate. A more injurious lending instrument is the REVERSE INTEREST LOAN, which has a loan repayment that doesn't even cover principal or interest. Consumers have also been stung by a crippling predatory lending practice called INSURANCE PACKING. Mortgage brokers and lenders use this scam to trick people into buying unnecessary credit insurance, or other insurance products, that eventually balloon the mortgage balance.

Finally, the BIGGEST scam of all is LOAN FLIPPING. Here's where a greedy mortgage broker will trick you into repeatedly refinancing your loan so that each time you take out a new loan, they earn extra points and fees. The multitude of home equity lending scams has been so extreme that in 2007, it contributed to a national mortgage-lending crisis. By 2008, this crisis affected 30% of the mortgage market; the *Mortgage Bankers Association* reported that, "1.1 million homes were in foreclosure" by the first quarter of 2008! In closing, the approach of getting a home equity loan to consolidate debt is a VERY RISKY move!

Another problem with the *debt consolidation* approach is the qualification process. First of all, not everyone owns property or has equity on their property. Also, few people meet the necessary credit qualifications. Mortgage lenders generally require a combined credit score of 640 or better and a *debt-to-income ratio* under 40%. Additionally, if your *debt-to-income ratio* is above 30%, you'll have to pay higher points and fees. The fourth qualification is having a low *debt-to-credit ratio,* which is almost unheard for most debtors. In your case, your account balances may already be 50% above their credit limits, which would require you to pay down your balances below 30% before qualifying for a home equity loan.

If you meet all of the above requirements, obviously a low-interest home equity loan is a better choice than to try to consolidate your debt through a credit card balance transfer. But it could also lead to more debt and credit problems. According to a survey by the *Consumer Bankers Association,* “within a year, 70% of the people who shifted their credit card balances to home equity loans were again running up credit card debt.” This is caused by a dangerous scheme called EQUITY STRIPPING. Also referred to as “asset based lending”, lenders use this practice to trick people to get home equity loans up to 150% above the equity on their properties. They are so greedy that they do this without any consideration of a person’s ability to repay the loans. People also fall for this scam by being attracted to more spending money beyond what they originally needed to consolidate their debts. But the scenario below explains why leveraging your equity in exchange for bigger loan can sink you DEEPER IN THE HOLE:

Let’s say that you apply for a home equity loan to consolidate $30,000 worth of credit card debt. Since your total equity is $50,000, the mortgage company approves you up to $50,000 and you give in to the temptation taking out a $50,000 loan. After paying off the $30,000 credit card debt, you decide to splurge the remaining $20,000 on a trip to Tahiti and a beautiful diamond ring for your wife’s 10th wedding anniversary. What just happened? Instead of sticking to the plan to consolidate your debt, you senselessly took a GIANT LEAP backward and catapulted your debt load to a WHOPPING 40% increase!

Eight months later, your wife is uneventfully laid off from work, which causes a 35% drop in your household income. Now you can’t pay your mortgage! Since you depleted your equity, refinancing is out of the question. You’re destined for FORECLOSURE. If you’re lucky, the mortgage company might let you off the hook by allowing you to do a short sale so you won't hurt your credit as much as a foreclosure or filing *bankruptcy.* In either case, prepare to be HOMELESS.

It's unbelievable how people lose their homes because of the nonsensical, practically IDIOTIC approach of getting a "secured" home equity loan. If you need to get rid of unsecured debt, my strongest advice is that you NEVER TRADE AN UNSECURED DEBT FOR A SECURED DEBT!

Chapter 4: *Debt Settlement*

The History of *Debt Settlement*

It's time to discuss the last debt management option – the real meat and potatoes of this book – *debt settlement.* This incredible debt reduction procedure has been known as a powerful bankruptcy alternative because of its FAST and AGGRESSIVE results. *Debt settlement* began in the late 1980s when bank deregulation led to an economic recession that caused banks to lose billions of dollars. To curb the huge losses being caused by unpaid consumer debts and personal bankruptcies, banks established internal debt settlement departments. By negotiating a reduction of the balances of consumer debts, they hoped to recover the funds they ordinarily would have lost if the debtors resorted to *bankruptcy.* By the 1990s, the dotcom burst sparked a growth of *debt settlement* companies. This continued in the late 2000s after another downturn in the economy caused by Hurricane Katrina, a federal minimum payment increase, a mortgage lending crisis, and stricter bankruptcy requirements.

Especially in a depressed economy, *debt settlement* has been instrumental in helping people with financial challenges to negotiate with creditors the payoff of their unsecured debts through a reduced lump-sum payment, or an occasional short-term installment. As a secondary benefit, *debt settlement* has helped debtors to fight creditor harassment.

Debt settlement is commonly referred to as *"debt negotiation,"* but both terms vary slightly. A debt settlement is "a mutual agreement between a debtor and his creditor to settle an unpaid debt for a reduced payoff" while *debt negotiation* is "the process through which two parties (the debtor and creditor) reach an actual settlement."

People generally confuse *debt settlement* with *credit counseling.* But there are MAJOR differences. *Debt settlement* clients generally DO NOT make regular monthly payments to creditors. Instead, they save up a lump sum to bring finality to a debt via an actual settlement. Another contrast is that *debt settlement* reduces a debt at a GREATER SAVINGS and in LESS TIME than *credit counseling* since it reduces both the debt's interest rate and principal by as much as 70%. The average debt reduction is 50%. Because of the drastic savings, *debt settlement* clients are generally debt-free in 12-36-months compared to *credit counseling* clients who may take 5 to 7 years! Plus, unlike *credit counseling*, most *debt settlement* programs also negotiate medical and business debt in addition to credit card and other unsecured debt.

Am I a *Debt Settlement* Candidate?

Despite *debt settlement* being an incredibly powerful debt reduction procedure, unfortunately, not everyone qualifies. To determine if you're an ideal *debt settlement* candidate, first you must have a steady source of income. The second general requirement is having a minimum debt of $10,000 although some debt settlement programs accept minimum debts of $5,000. Thirdly, all of your debt must be "unsecured." This means you cannot have accounts that are collateralized or guaranteed against personal property or assets that can be legally seized or attached by a creditor in the event of "non-payment" of a debt. Acceptable unsecured accounts include:

- Credit cards (most common account)
- Finance company accounts
- Gas cards
- Department store cards
- Bank signature loans and unsecured credit lines
- Credit Union accounts (non cross-collateralized)
- Medical bills
- Collection accounts

- Property foreclosure sales deficiency balances
- Vehicle repossession sales deficiency balances
- Judgments
- Business accounts (E.g., judgments; equipment leases; vendor contracts).

In addition to the above prerequisites, you must have a LEGITIMATE FINANCIAL HARDSHIP. The three general financial hardships are:

1. JOB LOSS
2. DIVORCE (or separation)
3. MEDICAL PROBLEMS

Job loss, the number one cause of *bankruptcy,* is the most common financial hardship. Next are medical problems, such as an illness or unpaid medical bills, which cause about one-half million Americans to file *bankruptcy* each year. In California alone, medical problems contribute to over 50% of all personal bankruptcies. Often, medical problems create an inability to work and are the genesis for unemployment. Last but not least is a divorce or separation, which causes 1 of every 100 U.S. households to file *bankruptcy.* Fortunately, if you met all of the above requirements, you're an ideal *debt settlement* candidate!

How *Debt Settlement* Works

The following example explains the productive results a typical *debt settlement* program. First a debt negotiator is assigned to manage your case and negotiate directly with your creditors. His goal is to reach a satisfactory settlement of your debt by getting creditors to accept a reduction of 30-70% of the entire debt balance. Depending on your debt and financial situation, a different negotiation strategy may be applied and some creditors may not be contacted for several months. In the meantime, to help you prevent creditor harassment, *cease and* *desist letters* will be prepared and sent to any third-party debt collector to stop the bothersome collection calls. Per the *Fair Debt Collection Practices Act (FDCPA),* upon receiving this legal notification, the third-party debt collector working on behalf of your creditor MUST STOP CALLING you at your home and place of work. Otherwise, you may sue them and if successful, recover monetary damages up to $1,000 PER VIOLATION!

During the negotiation process, the debt negotiator will apply an important rule of thumb:

"THE GREATER THE HARDSHIP, THE GREATER THE SETTLEMENT"

Incredibly, the severity of your financial hardship helps maximize your savings outcome. Thus it is important that you jog your memory and take chronological inventory of any event that contributed to your financial problem. You must also clearly explain to the enrollment counselor the nature of your financial hardship that, on a case-by-case basis, will be conveyed to each creditor.

Creditors want to know the exact reason(s) why you had or are having difficulty repaying your debt. Whether there was a death or illness in the family, or unemployment, thoroughly explain how it affected you. To validate your hardship, some creditors may also want to review your income, expenses, credit history, and personal credit factors like your *debt-to-income ratio* and *debt-to-credit ratio.* During the debt negotiation process, you must also follow TWO IMPORTANT RULES:

RULE #1: DON'T TALK TO ANY CREDITOR

RULE #2: SAVE YOUR MONEY FOR SETTLEMENTS

Debt collectors will use intimidating techniques to force you to give in to outrageous collection demands. Their goal is to use anything that you say against you to collect the debt. So it is vital that you follow RULE #1 and KEEP

YOUR MOUTH SHUT. Silence is your best defense while talking may jeopardize the negotiation process and hurt your chances of getting a good settlement. So ensure the professional debt negotiator does ALL OF THE TALKING! You must also follow RULE #2 religiously and save the settlement funds instructed by the program. Everything will be based on your budget, and this time, YOU are the one on the driver's seat properly setting the pace to get out of debt.

The following assumes you enrolled in the *debt settlement* program a combined debt of $30,000 spread over six different credit cards. Your initial benefit will be a LOWER monthly payment. This will help you FINALLY stop the insanity of the endless minimum payments. Instead of making a general $900 minimum payment (roughly 3% of the $30,000 debt based on new minimum payment requirements), you only need to save $458 each month.

For your protection, your funds will be safeguarded in a secure, FDIC-insured savings account that is in your care, custody, and control. This savings account will soon build up the estimated funds needed for you to reach an average 40% settlement on your accounts. It also includes a 15% flat fee of the total enrolled debt. The convenience of a lower monthly payment will also allow you to use the $442 that you're freeing up each month for living expenses, emergency funds, or to put more food on the table.

To ensure the program's success, your job is to save the settlement funds. The faster you can save, the sooner you will reach financial freedom. You may also increase your monthly savings at any time, or periodically send in money from extra work hours or a yearly tax refund. This will expedite the build-up of your settlement funds and allow you to complete the program much quicker. On the other hand, if you miss a payment due to another financial setback, unlike *credit counseling* or a *Chapter 13 bankruptcy* debt reorganization plan, you won't be kicked out of the program. As long you stay committed to reaching a debt-free life, the program will work with you to stay on course.

As your settlement funds accumulate, estimate each of your accounts to be settled every six to eight months. Once the desired lump sum is accumulated the debt negotiator will begin making settlement offers. Creditors will also know that they're dealing with a PROFESSIONAL and the sensitivity of your financial hardship will motivate them to ACT NOW! They will also recognize that the longer the debt remains unpaid, the greater their risk of collecting any money, especially if you file for *bankruptcy.* In lieu of these unwanted ramifications, the debt negotiator will propose a mutual solution to ensure that both your creditors get paid and you reach a SUPERIOR NET SAVINGS on the outstanding debt balance.

Although some initial settlement offers are declined, eventually one of your creditors agrees to cancel part of a debt accepting a reduced amount as "PAYMENT IN FULL." This is called a *"settlement agreement."* The *settlement agreement* translates into a BIG savings for you! Incredibly, to close out a $6,875 balance, the creditor agreed to a 40% FINAL PAYOFF. All you need to do is pay them $2,750 and the debt will be out of your life for good! For your protection, the debt negotiator will also request that the creditor provide the *settlement agreement* in WRITING with the agreed upon settlement terms.

Since, in the past six months, you were depositing $458 per month into your savings account, you have the required funds to complete the proposed debt settlement. So, you agree to the transaction and $2,750 is immediately delivered to the creditor. Remarkably, you just achieved your FIRST settlement! You saved $4,125 from a $6,875 debt! Plus you brought down a $30,000 debt load to $25,875! The whole process will then be repeated until the five remaining accounts are also settled for a DEFINED and CLOSED amount! Nothing could give you greater peace of mind than completing your expeditious journey to being DEBT-FREE!

Effectively Settle Your *Charge-off* Accounts

For the *debt settlement* approach to work, the first requirement is a financial hardship. If you're paying your bills on time, no hardship in the world, no matter how extreme, can convince any creditor to agree reach a settlement. That is why, consistent with your financial hardship, your debt must be in "collection" status. Yet this shouldn't scare you because *debt settlement* is amazingly effective in settling collection accounts.

There's also a very good chance that once your debt is delinquent, the original creditor or the collection agency assigned to collect the debt may threaten to have the debt "charged off." The idea of a *charge-off* threat is to make you give a higher priority to settling your debt. Upon getting this news, debtors mistakenly look for a way to repay their debts out of fear they'll ruin their credit. Or, they carelessly assume that they no longer owe any money. But, what a *charge-off* really means is that the original creditor threw in the towel to recover any money. Nevertheless, the debt will still be 100% LEGALLY VALID – so don't assume you'll be in the clear!

A *charge-off,* also referred to as a *write-off,* is an accounting term for a debt that was "written off" by the original creditor as "non-collectible". In layman terms, it's basically a way for creditors to get a tax deduction. Under the IRS rule, *Specific Charge-Off Method,* the Internal Revenue Service allows creditors to convert an outstanding debt from a business asset to a "non-performing account" that can then be declared as a "business loss" on their corporate tax returns. Under federal guidelines, a *charge off* must occur no later than the 180th day following the date the debt became "past due." To get the tax deduction, the original creditor must file a *Profit & Loss ("P & L") Statement* with the Internal Revenue Service. Under the *"Loss"* section of the *P & L Statement,* they must list the charged off account with the remainder of the year's bad debts as a "business expense." They will be given seven years to try to collect the debt and whatever is collected must then be declared as “business income” based on the year of collection.

Now that you know the meaning of a *charge-off,* I will also explain why from a *debt settlement* standpoint, a debt pending *charge-off* status is WONDERFUL NEWS. First of all, collecting on a charged off receivable is no easy task. Many debtors simply avoid repaying their *charge-off* accounts as in the case of *deadbeat-debtors.* Each year, this rapidly growing movement of vehement *bankruptcy* dodgers, gamble on the odds of not repaying their debts, often playing “catch-me-if-you-can” with the debt collectors.

Deadbeat debtors are known to use stealth-like tactics to conceal themselves from a debt collector’s radar, such as maintaining an unpublished phone number, or moving from one location to the next without a forwarding-address. The prevalence of these evasive maneuvers has made the job of debt collection more difficult, costly, and time-consuming. It has also contributed to the substantial losses in debt charge offs that creditors experience each year. In 2005 the sale of *charge-off* accounts, about 70% consisting of credit card debt, totaled $110 billion!

WARNING: *I highly recommend NOT assuming the dangerous role of a deadbeat debtor. Debt collectors are very good at finding your whereabouts and this bothersome, irking practice will surely intensify collection activity!*

On another note, the *charge-off* stage signifies tremendous benefits for you. A post *charge-off* benefit is that your debt’s balance won’t continue accruing interest charges and late fees. If the creditor decides to continue assessing charges, they must report the collection account as income. Plus, they will lose any intended tax benefit.

A second post *charge-off* benefit is that instead of collecting your debt, the original creditor is likely to bundle it with thousands of other *charge-off* accounts into a junk debt portfolio that is sold to a debt buyer who becomes the legal assignee of the debt. An "active" debt buyer will directly collect on the debt. A "passive" debt buyer, typically the biggest debt purchaser in the market, will outsource to collection agencies or law firms that must abide by the *FDCPA.* Estimates show that debt buyers annually purchase over $100 billion dollars in charged off credit card debt. That adds up to millions of *charge-offs* per year that original creditors give up on due to a variety of collection difficulties!

Unbelievably, a recent *charge-off* account could be sold for ELEVEN to SIXTEEN CENTS on the dollar. Yet OUTRAGEOUSLY, a debt buyer can pay $550 to $800 for your $5,000 *charge-off* account and still demand that you pay them the entire $5,000 balance! The positive aspect to this is that as your debt ages and remains uncollected it continues to depreciate! Ultimately, the debt may be resold in the secondary debt market until it's worth only a fraction of a penny!

The beauty of the *charge-off* phenomenon is that it pressures creditors and debt buyers to race against the clock to collect a debt. Pre *charge-off,* a collecting creditor can reap a greater profit than if they sell off your debt to a debt buyer. And post *charge-off,* in lieu of your debt depreciating and assuming the conventional risks of collecting, a debt buyer can expediently settle your debt and nearly triple their investment.

A Powerful Business Bankruptcy Alternative

Another positive aspect of *debt settlement* is its effective elimination of small business debt. In fact, in various regards, *debt settlement* is a superior alternative to *Chapter 11 bankruptcy.* For a small business, seeking shelter through *Chapter 11* may be a sound choice; for example, on two separate occasions, it helped billionaire businessman Donald Trump restructure the repayment of considerable business debt. First, in 1992, Trump filed *Chapter 11* to protect his Atlantic City Casinos after defaulting on a $1 billion debt. The outcome allowed him to manage his debt and regain control of his properties. Then, in 2004, Trump re-filed *Chapter 11* to both protect U.S. Trump Hotels & Casino Resorts and restructure $1.8 billion in corporate debt. As with Trump, choosing the *Chapter 11 bankruptcy* route may help you repay creditors and save your business, but it may also come at a terrible cost.

A problem in pursuing *Chapter 11* is that it places you at the mercy of a federal *bankruptcy* court that will control how much business debt you must repay. The court will also appoint a *bankruptcy* trustee to supervise the reorganization of your debt repayments. This may take up to FIVE YEARS! Depending on your financial hardship, the court may grant you complete or partial relief from all of your business debt. However, in exchange, you may have to liquidate business property and assets to repay creditors. In contrast, the *debt settlement* approach offers you the benefits without the inconveniences of *Chapter 11*.

Similar to *Chapter 11, debt settlement* helps you stop "worrying about going out of business" and maintain focus on "running your business." The procedure helps you resolve pestilent past-due accounts, *judgments,* breach of vendor contracts, business lease defaults, and a variety of other business debts. It helps you prevent lawsuits, *liens,* and the seizure of business assets. Opposite *Chapter 11, debt settlement* works within your pace, NOT the bankruptcy courts'. It allows you to achieve a speedier resolution of business debt WITHOUT the long-term credit damage caused by *Chapter 11.* It helps you avoid the expense of hiring a bankruptcy attorney. It also helps you resolve cash flow problems. But, to get a better appreciation of the benefits, consider the following business success story:

My friend Neil is an accountant and Social Economics professor. He is a well-respected business professional in his community. Over the past twenty-four years, businesses have trusted his accounting practice with important tax matters. He has also incorporated hundreds of businesses and taught many financial planning seminars. I've had the pleasure of knowing Neil not only as a business client, but also as a personal friend. Seasoned in the game of life, he has inspired many people. A physically fit man in his early sixties, he has survived not one, but TWO bouts with cancer! Yet, even Neil was once incapable to defend himself against a paralyzing fight that relied on the survival of his business.

One day, Neil gave me a late night phone call. He had just arrived home from venting frustrations over financial matters at a local pub. Distraught and slightly incoherent, he apologized for calling so late. Then his SHOCKING revelation came… Neil the accountant was going BANKRUPT! Six months ago, he lost three key business accounts causing his company's receivables to drop over 40%. After the substantial business loss he couldn't pay various creditors and was $68,000 in the hole! Although his business was "insolvent," the last thing on his mind was having a business bankruptcy ruin his reputation. In the years I've known Neil, he never asked anyone for any favors, but this time he was desperately pleading for my help. Assuming I was a credit counselor, he was skeptical that I could help him. Fortunately for Neil, I had just what the doctor ordered. After explaining to him the powerful *debt settlement* procedure, he was anxiously determined to give it a try.

Neil started the *debt settlement* program with a total debt of $60,000 and was scheduled to finish the program in 36 months. Remarkably, only fourteen months later, over half his accounts were already settled and he was on pace to complete the program in 24 months! This was possible because every business has its ups and downs. But being a resilient business owner, Neil's fall only made him stronger! Eventually, he regained more business accounts, and as soon as he was back in the black, he saved more money to quickly settle his debt. The next time Neil called he was joyful. He was nearing the end of the program and was about to refinance his mortgage. But there was a minor problem. We needed to settle his only remaining account for the refinancing to be approved. Since settlement funds were available, the debt was settled in 45 days.

The moral of the story is that a financial hardship can strike any kind of business, even an accounting practice! But if you're resourceful and you never give up, you can climb your way out of the hole. In Neil's' case, he used the *debt settlement* approach to save his business and liquidate a $68,000 business debt. He also saved $32,000 and was free of his debt in only 22 months! Plus he restored his credit and refinanced his mortgage. Now that's a business success story!

How *Debt Settlement* Improves Your Credit

A common question asked by people in considering the *debt settlement* approach is "How does it affect my credit?" Truthfully, any debt management approach could hurt your credit in some way, some worse than others. In the case of the *debt settlement* approach, your credit will get WORSE before it gets BETTER. Not making the minimum payments, you will be in breach of your credit agreement and your debt will be reported to the credit reporting agencies as "late", "past-due" "in collection", or in *"charge-off"* status. Of course, this wouldn't be nearly as bad as a *bankruptcy* or *credit counseling* enrollment, which alerts lenders that you needed professional help to manage your debt. Also, ask yourself the following question: "If your priority is to terminate your troubling debt, do you care so much right now about saving your credit?" It wouldn't be too wise to have good credit to be able to acquire MORE of the debt that you're fighting to eliminate.

If you're still concerned about not hurting your credit, let me give you a serious reality check. In this country, credit is a necessary evil. People strive for good credit to make big purchases, such as buying homes, cars, furniture, and electronics. Then they end up using credit for just about any need – to buy gas, groceries, and refill medical prescriptions. The worse case I've seen is people using the "Rob Peter to pay Paul" approach by using credit cards to pay their mortgages. As soon as their credit dries up, they're the first rushing in line to bankruptcy court. Good credit is desirable, but it also perpetuates debt and can hammer the last nail on your coffin! If you're seriously in debt, take my advice. Forget about your credit for now and be more concerned about climbing down that heaping mountain of debt. Worry about having good credit later.

Fortunately, good news about your credit is up ahead for you as a *debt settlement* graduate. To explain how, I first need to clarify a big falsehood. Over the years, creditors have spread propaganda to brainwash you to believe "you'll have good credit as long as you pay your bills on time." That's HOGWASH! It's only a ploy to make you a FAITHFUL BANK SERVANT. The truth is that "making timely payments" is NOT the only prescription for GOLDEN CREDIT because it only contributes to 35% of your *FICO* score.

FICO is the acronym for Fair Isaac Corporation, which provides the credit score model. The *FICO* score is calculated from statistic data from the credit reporting agencies, *Equifax, TransUnion,* and *Experian. FICO* scores predict if a person will default on a loan or other credit obligations and are the major factor used by most lenders in granting credit to a consumer.

Although many of the components of the *FICO* score are secretive, the major categories are:

- Timeliness of payments – 35%
- Length of credit history – 15%
- Debt-to credit ratio – 30%
- Application for new credit / credit obtained – 10%

- Mix of credit (such as credit cards and retail accounts) – 10%

Besides the *FICO* score, there are other important pieces to the credit puzzle. A lender will also evaluate a host of other credit factors, such as your household income and possibly the most significant factor of all, your *DEBT-TO-CREDIT RATIO.* This formula represents the proportion of your credit account balances to their actual credit limits. Composing ONE THIRD of your credit score, the debt-to-credit ratio can SIGNIFICANTLY impact your credit score.

You can calculate your *debt-to-credit ratio* by dividing the current balances of your revolving lines of credit (E.g., credit cards) by their credit limits. If your *debt-to-credit ratio* is below 30%, you're in good shape since you use less than 30% of your available credit. However, like most debtors your *debt-to-credit ratio* may be as high as 50% to 70%, which can reduce your credit score by as much as 50 points! Imagine if you maxed out your credit limit. Your *debt-to-credit ratio* would be so high that UNLESS you can find a way to quickly pay down your debt, you'll continue to have terrible credit. But *debt settlement* offers you hope! Short of *bankruptcy,* it is the fastest solution to pay off your debt, leading to an improved *debt-to-credit ratio* and overall creditworthiness.

Debt settlement also improves an equally important credit factor, the *DEBT-TO-INCOME RATIO,* which measures the percentage of your income that is applied to all of your debt payments. Lenders use this tool to see if you owe too much. For credit eligibility, as a rule of thumb the lower your *debt-to-income ratio,* the better your credit opportunities. To calculate your *debt-to-income ratio,* simply add up your monthly debt including credit card, student loan, mortgage (rent), or other revolving debt payments. Then divide the total by your total monthly take-home pay (including alimony or child support) and multiply by 100.

Example:

Monthly Debt Payments:	$1,750
Monthly Take-home Income:	(÷) $3,200
DTI ratio =	55%

Debt-to-income ratio:

- ✓ 30% or Less = Excellent credit
- ✓ 36% or Less = Manageable debt load
- ✓ Over 40% = Financial distress

According to lenders, if your *debt-to-income ratio* is under 30%, you qualify for the best interest rates. Under 40%, you have a manageable debt load. But over 40%, you're walking on thin ice! Creditors normally refer people in this frail financial state to credit counselors. If you have a lot of debt, it wouldn't surprise me if your *debt-to-income ratio* were above 50%. This major sign of financial distress shows you're in the DANGER ZONE! Lenders will see that you owe more money than you can reasonably afford to pay. Even with a fabulous credit score, you're still a HIGH credit risk.

On a positive note, you can turn the tables around with *debt settlement.* This excellent debt elimination solution can help you produce FASTER credit improvement results than *credit counseling, bankruptcy,* not paying your debt at all, or the time it would take for negative information to be removed from your credit report. And the sooner you can settle you debt, the sooner you will have a POSITIVE *debt-to-income ratio* and improve your credit!

Lastly, upon settling your debt, I recommend that you review your credit report within 45 to 60 days to verify the creditor reported the settlement. I make this suggestion because credit-reporting agencies are notorious for listing inaccurate information on consumers' credit reports. Statistically, 79% of all credit reports contain some type of error, inaccuracy, or omission. By reviewing your credit report, you will ensure that a settled account was paid and that a "zero" balance is reported. As a result, both your *debt-to-credit ratio* and *debt-to-income ratio* will be brought in good standing and your credit will be on the road to greener pastures.

You can get a free annual credit report by calling 877-322-8228 or sending a complete *Annual Credit Report Request Form* to: Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281. Or you can get an instant report at www.annualcreditreport.com or download the Annual Credit Report Request Form at www.annualcreditreport.com/cra/requestformfinal.pdf.

You can also purchase a report from the following credit reporting agencies:

- *Equifax:* Tel: 800-685-1111 Web: www.equifax.com
- *Experian:* Tel: 888-Experian Web: www.experian.com
- *TransUnion:* Tel: 800-916-8800 Web: www.transunion.com

The law also entitles you to obtain a free credit report any time a company denies your application for credit, insurance, or employment (you must ask for your credit report within 60 days of receiving the notification), once a year if you're unemployed and plan to look for a job within 60 days, if you're on welfare, or if your report is inaccurate because of fraud, including identity theft.

Chapter 5: Overcoming the Legal Concerns

Another general concern about joining a *debt settlement* program is the possibility of a creditor lawsuit. Although I can't guarantee you won't get sued if you don't honor your credit agreement, I can reassure you that in terms of resolving lawsuits*, debt settlement* is a CALCULATED RISK worth-the-taking! First of all, you can't be sent to debtor's prison for not repaying a debt! The legal system only gives creditors more remedies to enforce debt collection. Second, you can fight a lawsuit by applying various simple *judgment*-prevention strategies. A lawsuit can be delayed by filing a *response* or by requesting a *continuance* with the court, which can delay the court hearing 30 to 90 days. If the lawsuit is for a valid debt you cannot repay, it may be POINTLESS to appear in court or you'd volunteer information about your income or assets a creditor can come after. Why make their job easier? Third, even after becoming *judgments,* many lawsuits go UNCOLLECTED; creditors often fail to investigate the financial state of a debtor that has no ability to repay a debt.

To continue reducing your fears, let me explain the mechanics of a creditor lawsuit. A lawsuit is composed of two court documents known as the *summons* and *complaint.* The *summons* names the *plaintiff* (creditor) that sues the *defendant* (debtor) also referred to as the *respondent.* The *summons* requests that the *defendant* respond at a future court hearing to resolve the *complaint.* The *complaint* is the document accompanying the *summons,* which states both the *plaintiff's* allegations against the *defendant* and a specific demand for monetary damages. This may include the balance of the outstanding debt plus attorney fees and court costs.

Assuming you're served with a lawsuit, you will generally receive a certified WRITTEN DEMAND requesting that you "remit full payment of the debt within thirty days or LEGAL ACTION will be taken." If you fail to respond, the creditor will pay a County Sheriff or process server to serve you the lawsuit in person. (Note: It is illegal for the creditor to make any false threat, so don't believe anything unless it is in writing). After the date of physical receipt of the lawsuit, depending on your state of residence, you may have twenty to thirty-days to file a *response.* This is the court document acknowledging and/or challenging the allegations stated in the lawsuit. If you don't respond or miss the court appearance, a *default judgment* will be automatically awarded to the creditor. A *judgment* will also be ruled in favor of the creditor if the court determines the alleged debt is "valid." Afterwards, the creditor can pursue a variety of legal channels to collect the debt, including a *wage garnishment, property lien,* or *bank levy.*

The *Wage Garnishment*

A *wage garnishment* is the most common legal collection maneuver. It allows a creditor to collect full or partial payment of a *judgment* by seizing a portion of your wages. To start a *garnishment order* the creditor must first apply with the court for a *writ of execution.* Then they must serve an *earning's withholding order* to your employer who depending on your state of residence, may be required to withhold 10% to 25% of your net earnings. The employer must then remit the withholdings to a County Sheriff who forwards them to the creditor. The *wage garnishment* will normally be effective 10 calendar days after service and stay active until the *judgment* is satisfied, or until you quit or are terminated from your employment.

Wage garnishments also involve a variety of legal complications. To serve you a *wage garnishment,* a creditor must know where you work and have established that you're a "physical employee" of the company where the *garnishment order* is being served. But if you have an extreme financial hardship, you can petition the court to reduce or defer the *garnishment order.* Plus the *garnishment order* will terminate if you quit your job or are fired making it difficult for the creditor to locate your new employment in order to serve a new *garnishment order.*

In some cases, sympathetic employers have unwillingly complied with *garnishment orders* by denying that a *garnishee* was their "employee" and paying him/her under the table. Additionally, a *garnishment order* for unpaid child support, spousal support, or taxes, must be paid before a creditor's *garnishment order.* Plus subsequent *garnishment orders* from other creditors must be deferred until the existing creditor's *garnishment order* is satisfied. All of these factors cause creditors to incur additional legal expenses and force them to take longer to, if ever, receive payment! Compounding the problem, if you're self-employed, you are garnishment-EXEMPT, also referred to as "bullet-proof." You may also be garnishment-exempt if you live in any of the following states:

- South Carolina (100% of wages are exempt.)
- Texas (100% of wages are exempt.)
- Florida (100% of wages are exempt if head of household.)
- Pennsylvania (100% of wages are exempt if head of household.)
- North Carolina (Garnishment only applies for government services/taxes.)
- District of Columbia (All government employees are exempt.)

Most states adhere to Federal law, which states a *wage garnishment* cannot exceed 25% of the disposable earnings. But in the following states, creditors also face garnishment restrictions:

- Missouri (Garnishment may not exceed 10% if head of household or 25% if single without dependents.)
- New Jersey (Garnishment may not exceed 10% of gross salary; monies may not be withheld if disposable weekly earnings are less than $154.50 per week or $309 every 2 weeks.)

● New York (Creditor can only withhold 10% of gross income, or federal maximum, whichever is LESS.)

● South Dakota (Creditor can withhold 20% of disposable earnings for 60-day period.)

● Tennessee (Federal law applies, however debtor can seek a garnishment relief by filing a “slow pay” motion supported by affidavit of existing debt.)

● Virgin Islands (Garnishment may not exceed 10% of disposable income.)

● West Virginia (Garnishment may not exceed 20% of disposable income or 30 times the federal minimum hourly rate, whichever is less.)

The *Property Lien*

The second legal collection tool is a *property lien.* A *judgment creditor* will use this procedure to convert your property into a security interest. Upon the sale of your property, they can collect from the sales profit to satisfy the *judgment.* Being a homeowner, this sounds like a scary threat. But pursuing a *property lien* can be very cumbersome.

To start a *property lien,* a creditor must file an *abstract of judgment* with the County Recorder’s office in the county where they believe your property is located. Secondly, they must determine if the property has sufficient equity or there may not be enough assets to liquidate to satisfy the *judgment.* The MAJOR problem in doing a *property lien* is that a creditor can’t force you to sell your property. If you voluntarily sell your property, the first and second mortgage lien and any lien for unpaid taxes must be paid ahead of a *property lien*.

The *Bank Levy*

The final legal debt collection tool is a *bank levy.* This allows a creditor to confiscate money from your bank account to satisfy the *judgment* amount, plus any interest earned. But executing a *bank levy* is very difficult! First, a creditor must know the financial institution where you bank and serve a *writ of execution* at the actual branch where you started your deposit account. Within 10 days of receiving the *writ of execution,* your bank must remit any withholdings to a County Sheriff to forward them to the creditor.

A *bank levy* would also entitle the creditor to a "one-time" withholding. That's why MOST *bank levies* rarely succeed in withholding entire *judgment* amounts. Plus, as soon as one's bank account is levied, most people immediately close their account to prevent creditors from enacting further withholdings. This also forces creditors to go back to square one in restarting the garnishment process.

In the case of a joint bank account, another problem is that a bank may not honor the *bank levy*. If the joint bank account holder files a third party claim against the *bank levy,* the bank would provide a *garnishee's memorandum* to the County Sheriff setting forth a legal reason for their failure to deliver the money. Then the creditor would need to post a bond and file an *undertaking* to pursue the levied funds. In light of the above obstacles, *bank levies* are virtually non-existent.

As a *debt settlement* client the GREATEST NEWS in the event you are served a lawsuit is that the odds are in your favor. In my experience working with some of the country's top *debt settlement* organizations, a creditor ever sued unbelievably, LESS THAN 5% of their clients. In fact, most of the lawsuits NEVER became *judgments,* serving as mere SCARE TACTICS to force a debt settlement out of court.

Creditor lawsuits are very uncommon because they involve countless legal hurdles, time constraints, costs, and unpredictable outcomes. Creditors must also adhere to state and federal collection laws. Furthermore, many times the legal costs alone outweigh the value of the debts being collected. Because of the many legal challenges, settling a debt generally makes more sense for a creditor than assuming a risky lawsuit. Lawsuits don't offer guarantees, but a debt settlement a debt GUARANTEES creditors an IMMEDIATE cash payment!

Chapter 6: See the Proof!

To remove any skepticism, I'm about to provide you with irrefutable proof that *debt settlement* really works. Working as a debt negotiator, I relentlessly grabbed the bull by the horns and directly confronted some of the toughest and nastiest creditors, debt collectors, and collection attorneys in the country! My aggressive negotiations have helped my clients slash debts from as low as $500 to as high as $20,000 by roughly 50%!

The *debt settlement* phenomenon has made many nightmares end and even more dreams come true. Across the country, people have ended financial slavery, stopped creditor harassment, avoided bankruptcy, and enjoyed more stress-free lives. Small business owners saved their businesses. Parents funded their kids' college tuitions. And middle-aged couples funded their nest eggs for retirement. I can continue talking about the many success stories, but don't just take my word for it. Below, for your unequivocal satisfaction, I've included some great *debt settlement* examples:

Settlement Examples

Example (A): **Balance: $2,067.10 / 34% Settlement: $696.00**

GE Money Bank
OH3-4233
950 Forrer Blvd.
Kettering, OH 45420

Fax to ([redacted]) [redacted]
Attn: [redacted]

07/19/2007

[redacted]
Houston, TX 77022-2035

RE: XXXX XXXX XXXX 2322
HOME DESIGN/GEMB

Dear [redacted]:

The current balance on the above referenced account as of 07/19/2007, including finance charges and late fees due, is $2,067.10.

Pursuant to the recent telephone conversation regarding the above referenced account, you are advised that if we receive and can post $696.00 no later than 08/02/2007, this account will be considered settled.

GE Money Bank
PO Box 960061
Orlando, FL 32896-0061

If you have already paid the agreed upon settlement or paid through an alternate payment method, disregard the above payment instructions. If you have any questions concerning this account, please contact (800) 399-5166.

Your account is issued by GE Money Bank - Member FDIC.

Sincerely,

Collections Department

Note: This letter is an attempt to collect a debt and any information obtained will be used for that purpose.

Example (B): **Balance: $5,684.59 / 39% Settlement: $2,273.60**

MAY. 7. 2007 3:03PM WASHINGTON MUTUAL CARD SERVICES. NO. 8506 P. 2/2

P.O. Box 99604
Arlington, TX 76096-9604

Washington Mutual

May 7, 2007

C/O [redacted]
San Diego, CA [redacted]

RE: [redacted]
Washington Mutual Bank
Washington Mutual Visa
Account Number ending in: 8887
Balance: $5684.59 as of 05/07/07

Dear [redacted],

We appreciate your client's willingness to settle their account. This letter confirms the settlement arrangement we agreed to on 05/07/07.

- Your client agrees to pay at least $2273.60 by 05/31/07 to settle the account.
- We agree to forgive the remaining balance on this account after the payment posts and clears. We will submit a request to the credit bureaus to update your client's credit profile.*

If you have not already done so, there are several convenient ways to make the payment:

- Call us at **1-800-825-5885** to use our convenient Pay-By-Phone service.
- Visit our website at www.providian.com OR www.wamucards.com to make an online payment.**
- Mail the check or money order, payable to Washington Mutual, to:

Payment Processing Center
1100 East Arbrook Blvd
Arlington, TX 76014-3341

We must receive the payment by 05/31/07. If you are mailing the payment, please allow 7 to 10 days for the payment to reach us. If you have already arranged for payment using our pay-by-phone service, we will process the payment on the dates agreed to when your arrangement was booked. The payment will post to your clients' account by the due date above.

Please keep in mind, if we don't receive at least $2273.60 by 05/31/07 or if the payment does not clear, collection efforts will resume on the full balance due.

If you have any questions, please call us at **1-800-825-5885**. We are available between 5:00 a.m. and 2:00 p.m. Monday through Friday Pacific Time. Completing this arrangement is an important step on the road to financial health.

Sincerely,

Washington Mutual

When we discharge $600 or more in principal on any account, we are required to file a Form 1099-C with the Internal Revenue Service and we will provide your client with a copy of the form.
* Please allow up to 60 days for the credit bureaus to update their records and for the monthly billing statement to reflect a zero balance.
**A fee of up to $14.95 may apply if you choose expedited same-day on-line payments through our website.

ATTSIE1100106

Example (C): **Lawsuit requesting damages of $7,650.30**

STEVEN W. PITE (CA SBN 157537)
DAVID E. MCALLISTER (CA SBN 185831)
DANIEL R. GAMEZ (CA SBN 222578)
PITE DUNCAN, LLP
525 E. Main Street
P.O. Box 12289
El Cajon, CA 92022-2289
Telephone: (619) 590-1300
Facsimile: (619) 590-1385

Attorneys for Plaintiff FIRST FUTURE CREDIT UNION

SUPERIOR COURT OF CALIFORNIA

COUNTY OF SAN DIEGO - NORTH COUNTY

FIRST FUTURE CREDIT UNION, Plaintiff, vs. [redacted], an individual; and DOES 1 through 10, inclusive Defendant.	Case No. 37-2007-[redacted] **COMPLAINT FOR BREACH OF CONTRACT AND COMMON COUNTS** Limited Jurisdiction [Amount ~~Demanded~~ Under $25,000.00] Damages: $7,650.30 @ 16.90% interest

Plaintiff FIRST FUTURE CREDIT UNION (hereinafter "Plaintiff"), alleges as follows:

1. Plaintiff is, and at all times herein mentioned was, authorized to do business as a credit union in, and doing business as a credit union in, San Diego County, State of California.

2. Plaintiff is informed and believes and thereon alleges that Defendant [redacted] (hereinafter referred to as "Defendant") is and at all times herein mentioned was, an individual residing in the County of San Diego, State of California.

3. Plaintiff is ignorant of the true names and capacities of defendants sued herein as Does 1 through 10, inclusive, and therefore sues these defendants by such fictitious names. Plaintiff will amend this complaint to allege their true names and capacities when ascertained. Plaintiff is informed and believes and thereon alleges that each of these fictitiously-named defendants is responsible in some manner for the occurrences herein alleged, and that Plaintiff's damages as herein alleged were proximately caused by such defendants.

-1-

COMPLAINT 1047264.wpd

Example (C): **50% out of court settlement of total debt**

PITE
DUNCAN
LLP

San Diego

Steven W. Pite CA/NV/WA
John D. Duncan CA/WA
Peter J. Salmon CA/ID/UT/WA
David E. McAllister AZ/CA/HI/OR/WA

Michelle A. Mierzwa CA
Rochelle L. Stanford AZ/CA/OR
Linda J. Patterson CA/WA
Josephine E. Piranio AK/AZ/CA/NY
William F. McDonald CA/OR
Laurel I. Handley AZ/CA/ID/NV
Daniel R. Gamez CA/TX
Claire A. Mock CA
Jennifer Jackson AZ/CA
Eddie R. Jimenez CA/NV/TX
Adam B. Arnold CA
Jason A. Rose NV/TX
Daniel L. Hembree CA/WA
Theron S. Covey CA
Susan L. Petit AK/CA/WA
Melissa L. Carter TX

Mailing Address
P.O. Box 12289
El Cajon, CA
92022-2289

Overnight Delivery
525 E. Main Street
El Cajon, CA 92020

Contact Nos.
Ph.: (619) 590-1300
Fax: (619) 590-1385

Orange County

Steven J. Melmet CA

Robert M. Ruben CA
Bruce J. Qnilligan CA
Douglas M. Borthwick AR/AZ/CA/OH/NV/UT
Kerry W. Franich CA
Theresa M. Hardjadinata CA

1820 E. First St., Ste. 420
Santa Ana, CA 92705
Ph: (714) 285-2633
Fax: (714) 285-2663

June 22, 2007

VIA U.S. MAIL AND
FACSIMILE ([redacted]

[redacted]
San Diego, CA [redacted]

Re: <u>First Future Credit Union v. Falcon, Francisco</u>
Loan No.: [redacted]
Case No.: 372007[redacted]
Our File No.: [redacted]

Dear Mr. [redacted]:

Thank you for your letter dated June 12, 2007, which was transmitted to our firm via facsimile on June 19, 2007, advising us of your client's offer to tender fifty percent (50%) of the outstanding balance on his above-referenced delinquent loan in exchange for a dismissal of the complaint against him and full satisfaction of his loan obligation.

Please be advised that First Future Credit Union's ("FFCU") acceptance of your client's settlement offer to pay fifty percent (50%) of his outstanding loan balance is contingent upon the following conditions:

1. Defendant's full payment of the attorneys' fees and costs incurred by our client to collect on the delinquent account;
2. A partial payment of fifty percent of the below settlement sum being transmitted to our firm in certified funds on or before July 9, 2007; and
3. A payment of the remaining settlement sum being transmitted to our firm in certified funds on or before July 23, 2007.

Principal Loan Balance of $7,650.30 (.50 x $7,650.30 = $3,825.15	$3,825.15
Interest at 16.90% per annum (3.54 per diem) from 01/25/07, date of default - 07/23/07 (3.54 x 178 days = $633.66) (.50 x $633.66 = $316.83	$316.83
Attorneys Fees and Costs	<u>$1,582.74</u>
Settlement Sum Total	**$5,724.72**

This is an attempt to collect a debt by a debt collector, and any information obtained will be used for that purpose.

Attorneys licensed to practice in Alaska, Arizona, California, Hawaii
Idaho, Nevada, New York, Oregon, Texas, Utah and Washington
See above or visit www.piteduncan.com re individual attorney admissions.

Debt Settlement Comparison Chart

The chart below indicates how *debt settlement* is superior to other debt management options:

	Bankruptcy (Chapter 7) (Chapter 13)	Debt Consolidation Loan	Credit Counseling Program	Debt Settlement Program
Fights creditor harassment	✓		✓	✓
Average term: 36 months				✓
Reduces interest rates and fees	✓			✓
Reduces principal balance	✓			✓
Reported to credit bureaus	✓	✓	✓	
Can improve credit in 3 years				✓
Can hurt credit over 7 years	✓		✓	
Can reduce debt up to 70%	✓			✓
Lower than minimum payments	✓	✓		✓
Accepts business debt				✓
Accepts medical debt	✓			✓

Finding the Right Service

Here are some pointers to help you find the right *debt settlement* company. There are good and bad ones out there thus, exercising caution will help you find a company with a good reputation and history of delivering on its promise. Talk is cheap, so ALWAYS question any claim that sounds too good to be true. DON'T believe any promise unless it's put it in writing! Also, AVOID companies with unfavorable or unresolved complaints. A good source to research a company's history of complaints is the *Better Business Bureau*, local *Chamber of Commerce, Rip Off Report* (www.ripoffreport.com), or *Netcheck Commerce Bureau* (www.netcheck.net).

Troubleshooting your debt is a sensitive matter. Thus, finding a complete *debt settlement* company that has LEGITIMATE financial advisors and a good service track record is PARAMOUNT to achieving SUPERIOR results. Just about any *debt settlement* company can brag over the phone about how great their services are. But there are many new players in the *debt settlement* industry that function as "retailers" by outsourcing debt negotiation and customer service work to third-party back-end service providers. As a result, this diminishes the quality of service. Equally unsatisfactory are the *debt settlement* companies that hire untrained salespeople with no experience in debt management or personal budgeting. Thus, it is best that you find a company with knowledgeable financial advisors who understand your financial situation and customize for you a program that fits your budget.

To gauge a company's performance, request to see recent settlement examples similar to the ones shown in *Chapter 6.* Also, identify if the company has experience working with your type of creditor accounts, and ask for stats on their settlement averages. (Note: a good settlement average is below 50% of the total debt.) Furthermore, look for a company that can successfully negotiate the following unsecured debts:

- Credit cards
- Gas cards
- Finance company accounts
- Department store cards
- Bank signature loans
- Medical and dental bills
- Collection accounts
- Foreclosure and repossession deficiency balances
- Lawsuits; arbitration claims, and judgments

If you're self-employed, you should hire a *debt settlement* company that is experienced in negotiating business debt. This helps you avoid the stigma of a *Chapter 11 bankruptcy* and allows you to resolve business cash flow problems, vendor lawsuits, liens, and the seizure of business assets. Plus it can tailor for you a convenient debt repayment plan, allowing your business to conveniently and affordably eliminate a variety of business debts, including past-due small business accounts, trade disputes and obligations, business judgments, breaches of contract, and lease disputes. Finally, you should find a *debt settlement* company that specializes in negotiating medical debt, including, hospital, doctor, and dental bills, past due medical accounts, medical collection and *charge-off* accounts, disputed medical bills, and medical judgments.

Earn Money Getting Out of Debt

Aside from the countless benefits included in this book, I can gladly refer you to a good *debt settlement* company and give you a SPECIAL BONUS. Are you ready for the GOLDEN CARROT? I'm going to give you an exclusive opportunity to EARN MONEY while getting out of debt! First, jot down my email address: vnchevalier@yahoo.com, and LISTEN CLOSELY…

I'm going to refer you to one of the nation's leading national *debt settlement* companies that can provide you with immediate assistance to stop creditor harassment, and give you the most powerful solution to become debt-free! This company has helped many clients safely eliminate personal, medical, and business debts. Their professional debt negotiators, who have over 20-year's combined experience, can give you proof of the superior savings their clients have achieved. Their *debt settlement* program can also help you improve your credit standing and offers a BEST PRICE GUARANTEE. Additionally, you will benefit from their unique *Referral Program* that PAYS you for your referrals!

Let me explain why "now" is the time to prosper in the *debt settlement* market and make money from your referrals. In the United States, over 60 million Americans are being crushed by debt. 92% of the U.S. families' disposable incomes are spent in paying debts to creditors. America is besieged by a $2.3-trillion consumer debt epidemic with 144 million Americans carrying $1.5 trillion in credit card debt, alone! Over 70% of all marriages end up in divorce due to a financial problem. 75% of all Americans are three paychecks away from bankruptcy, and almost one out of every 100 U.S. households file bankruptcy.

At the time this book was released the consumer debt crisis was at its peak. At the expense of Americans, the greed and ineptitude on Wall Street and in Washington created the greatest financial crisis since the Great Depression! Some of the country's largest financial institutions folded, and to the detriment of the common citizen, Congress and the President created a plan to bailout other troubled financial institutions with a price tag of over $700 billion of taxpayer dollars. The inevitable consequence may be more unemployment, medical care problems, matrimonial conflicts, foreclosures, and personal and business bankruptcies, not to exclude the added creditor harassment and depression, disharmony, and anxiety in the American household. Yet your participation in the solution can throw a lifeline to many people that are drowning in debt.

This moneymaking opportunity allows you to help people with financial hardships to achieve a debt-free lifestyle. Your referrals will also benefit from a BEST PRICE GUARANTEE that ensures them to save the most money. To qualify, your referral must have a minimum combined total of unsecured personal, medical, or business debt of $5,000.

How the Referral Opportunity works…

To start making money today, refer friends, relatives, and small business owners that have at least $5,000 in unsecured debt. Your referral will receive a FREE confidential, no-obligation consultation. When they become a *debt settlement* client, you'll receive a $125 Referral Bonus, and there's NO REFERRAL LIMIT!

Example: *Refer 2 customers = $250 Referral Bonus*
Refer 5 customers = $625 Referral Bonus
Refer 10 customers = $1,250 Referral Bonus

In addition to the above benefits, if you're also having mortgage loan challenges and want to avoid foreclosure, I will gladly refer you to a company that can effectively help you with mortgage mediation. These experienced mortgage mediation specialists can help you avoid foreclosure or *bankruptcy* by making arrangements with your mortgage company.

Mortgage companies are in the business of making money by selling property. They don't like holding onto property that doesn't sell and want to mitigate their losses. Even if you received a *Notice of Default,* have 1st, 2nd, and 3rd mortgage deeds on your property, can't refinance due to bad credit, are 4-6 payments behind on your mortgage, or there's ZERO or little equity on your property, it's not too late! There are still a variety of options, such as refinancing, negotiating a forbearance or repayment plan, or selling your home.

In closing, NEVER GIVE UP – you have a great opportunity to settle your debt! Again, if you need help getting out of debt, don't forget to email me at vnchevalier@yahoo.com for a referral to a company that will give you a no-pressure, no-obligation consultation that will inform you about your rights and possible solutions.

Frequently Asked Questions

Q: Is *debt settlement* LEGAL?

A: *Debt settlement* has been legally practiced in the U.S. over the past 25 years. The legal procedure does not encourage people to stop paying their creditors. It merely levels the playing field by allowing you to repay what you realistically can, based on your financial hardship. Although *debt settlement* companies are generally not law firms, they have working relationships with creditors, collection agencies, and collection attorneys throughout the country.

Q: What does *debt settlement* do to my credit?

A: In the initial stage of a *debt settlement* program, your credit declines. But once your debt is "settled", it's reported to the major credit-reporting agencies as a "PAID" credit item. This improves two very important credit factors, your debt-to-income ratio and your debt-to-credit ratio, which compose 1/3 of your credit score.

Q: How is a *debt settlement* company paid?

A: Some *debt settlement* companies charge an upfront administrative fee plus an additional fee based on the savings they achieve, while others charge a flat fee based on the total debt amount enrolled in the program.

Q: Can I still use my credit cards?

A: Your credit privileges will be suspended. However, for emergency purposes, you're generally allowed to keep out of the program a credit card with a low balance.

Q: Can creditors sue me?

A: Any creditor can sue to recover their money. But lawsuits are a rare exception with unsecured debts since these debts are not guaranteed against any collateral that creditors can seize or attach. Lawsuits are also costly and time-consuming, and can't guarantee the recovery of any money. In most cases, a lawsuit can be prevented through an out-of-court settlement.

Q: Can creditors garnish my wages?

A: YES. However, it's illegal in some states AND if you're self-employed. Reaching an out-of-court settlement can normally prevent a wage garnishment.

Q: Can I settle my own debt?

A: You can negotiate on your own, but you're no expert. In the end you may find that you only wasted countless hours of fruitless effort. But an experienced debt negotiator can save you the aggravation and achieve for you maximum results.

Q: Can I hire an attorney to settle my debt?

A: Hiring an attorney involves paying attorney fees and court costs. In most cases, it only buys you time. You may end up repaying the debt plus steep attorney fees that often range from $250 to $350 per hour!

Q: Should I file bankruptcy?

A: You should AVOID bankruptcy at all costs. It will destroy your credit and future employment opportunities for many years. Because of the new law, you may not be able to discharge all of your debt. Plus you may have to forfeit personal property and assets to repay creditors.

Q: Do I have to pay any taxes on the savings?

A: You will need to report to the Internal Revenue Service the forgiven or canceled portion of your debt exceeding $600 as taxable income *(IRS Form 980).* The forgiving creditor must also provide you with a *1099-C* tax form. However, the IRS does not require you to report the forgiven debt if you were insolvent at the time the creditor forgave the debt. Being “insolvent” means the amount of your debts was greater than your assets. However, under IRS rules “you cannot exclude any amount of canceled debt that is more than the amount by which you are insolvent.” *(IRS Publication 525)* For example, if you owe a $20,000 debt and own $8,000 in assets, you cannot exclude more than $12,000 of forgiven debt from your income tax. Any forgiven debt over $12,000 on the same year must be reported as taxable income. You should ultimately consult with your tax advisor to determine your status of insolvency.