

# Getting Out of Debt





Having trouble paying your bills? Are you worried about losing your home or your car? You're not alone. Many people face a financial crisis at some point in their lives. Here's what you need to know about getting out of debt.

## Self-Help

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### How can I get out of debt?

Start by making a budget, a plan for how you'll spend your money each month. It will help you see how you spend your money now and how you might spend money differently.

To make a budget:

- gather your bills (utilities, insurance, etc.) and pay stubs
- look at receipts to see what you typically spend on things like groceries, entertainment, transportation, clothing, and everyday expenses
- add up all of your paychecks and any other income, and subtract your expenses from that

When you're done, look for things in your budget you can change so you have more money left over each month. Your goal is to stop adding to your debt, and also to pay down the debt you already have, if you can. You can find information about budgeting and money management techniques online, at your public library, and in bookstores.

## What if I'm behind on my bills?

Don't wait. Call your creditors, which are the companies you owe money to. Do it before a debt collector gets involved. Tell them what's going on, and try to work out a new payment plan with lower payments you can manage.

## What if my debt has already gone to a debt collector?

You might want to talk to the collector at least once, even if you don't think you owe the debt or can't repay it immediately. That way you can confirm whether it's really your debt, and if it is, you can find out from the collector more information about it. In talking with a debt collector, be careful about sharing your personal or financial information, especially if you're not already familiar with the collector.

Also know the rules a debt collector must follow. For example, a debt collector has to tell you: how much money you owe, whom you owe the money to, and what to do if you don't think it's your debt. And if you tell the collector in writing that you do not believe this is your debt, the collector has to send you verification of the debt, like a copy of a bill for the amount you owe, in the mail. A debt collector also has rules on how it collects a debt. For example, a collector can't:

- contact you before 8 a.m. or after 9 p.m., unless you agree to it
- contact you at work if the collector is told you're not allowed to get calls there
- tell anyone else about your debt
- harass you or lie to you

If a debt is old, check your state law to find out if it is “time-barred.” When a debt is time-barred, a collector can no longer sue you and win to collect it. Under the law of some states, if you make a payment or provide written acknowledgement of your debt, the clock may start ticking again, so it’s important to check before you pay anything. Learn more about your rights and the rules collectors must follow at [ftc.gov/debtcollection](https://www.ftc.gov/debtcollection).

## What if I’m having trouble paying my mortgage?

If you’re behind on your mortgage, contact your lender immediately. Don’t wait, or a lender could foreclose on your house. Most lenders will work with you if they believe you’re acting in good faith and your situation is temporary.

Your lender might be willing to:

- lower or suspend your payments for a short time
- extend your repayment period to lower your monthly payments

Before you agree to a plan, find out about any extra fees or other consequences. If you can’t work out a plan with your lender, contact a non-profit housing counseling agency. You can reach a free, HUD-certified counselor at 888-995-HOPE (4673). You also can contact your local Department of Housing and Urban Development office ([hud.gov](https://www.hud.gov)) or the housing authority in your state, city, or county. You don’t need to pay a private company for these services. And be sure to learn the signs of a mortgage assistance relief scam and how to avoid them at [ftc.gov/mortgage](https://www.ftc.gov/mortgage).

## What if I'm having trouble paying my car debt?

Most car financing agreements say a lender can repossess your car any time you're in default and not making your car payments. They don't have to give you any notice. If your car is repossessed, you may have to pay the balance due on the loan, plus towing and storage costs, to get it back. If you can't, the lender might sell the car.

If you know you're going to default, you might be better off selling the car yourself and paying off the debt. You'll avoid the costs of repossession and a negative entry on your credit report.

## What if I'm having trouble paying my student loan debt?

If you have federal loans (government loans), the Department of Education has different programs that could help. Applying for these programs is free. You can find out more about your options at the U.S. Department of Education's [StudentAid.gov](https://studentaid.gov) or by contacting your federal student loan servicer. You also can find out more about how to get out of default.

With private student loans, you typically have fewer options, especially when it comes to loan forgiveness or cancellation. To explore your options, contact your loan servicer directly. If you don't know who your private student loan servicer is, look at a recent billing statement.

You don't have to pay for help with your student loans. A company can't do anything you can't do for yourself. Student loan debt relief companies that say they will reduce your monthly payment or get your loans forgiven can leave you worse off.

# Credit Counseling

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## What's a credit counseling agency?

A reputable credit counseling agency can give you advice on managing your money and debts, help you develop a budget, offer you free educational materials and workshops, and help you make a plan to repay your debt. Its counselors are certified and trained in credit issues, money and debt management, and budgeting.

Good credit counselors spend time discussing your entire financial situation with you before coming up with a personalized plan to solve your money problems. Your first counseling session will typically last an hour, with an offer of follow-up sessions. Good counselors won't promise to fix all your problems or ask you to pay a lot of money before doing anything.

## How do I find a credit counselor I can trust?

Most reputable credit counseling agencies are non-profits with low fees and offer services through local offices, online, or on the phone. Look for a credit counselor you can meet in person. You often can find non-profit credit counseling programs offered through:

- credit unions
- universities
- military bases
- U.S. Cooperative Extension Service branches  
([nifa.usda.gov/extension](http://nifa.usda.gov/extension))

Your financial institution or local consumer protection agency also may be able to refer you to a credit counselor.

## How do I check out a credit counseling agency?

Just because an organization is a non-profit doesn't guarantee its services are free or affordable, or that it's legitimate. Some credit counseling agencies charge high fees, which they might not tell you about.

A reputable credit counseling agency should send you free information about its services before you say anything about your situation. You can check out agencies you're considering with your state attorney general and local consumer protection agency. They can tell you if they have any complaints about them. Even if there are no complaints, it's not a guarantee that they're legitimate. Also ask your state attorney general ([naag.org](http://naag.org)) if a company is required to be licensed to work in your state and, if so, whether the companies you might do business with are.

The U.S. Trustee Program ([justice.gov/ust](http://justice.gov/ust)) keeps a list of credit counseling agencies approved to provide pre-bankruptcy counseling, but it doesn't endorse any particular agency on the list.

After you've done your background investigation, interview the final candidates. Choose an agency that:

- has credit counselors that are accredited or certified by an outside organization
- offers a range of services, including budget counseling, debt management classes, and free educational materials
- will give you a specific quote in writing for any one-time or monthly fees
- will help you even if you can't afford the fees or contributions

Be sure to get every detail and promise in writing, and read any contracts carefully before you sign them.



## What's a debt management plan?

After a credit counseling agency has thoroughly reviewed your financial situation, it might recommend that you enroll in a debt management plan to help repay your debts. Debt management plans are for “unsecured” debts like credit card or medical debts. They aren't for “secured” debts like houses or cars.

In a debt management plan, a credit counselor sees if you and the companies involved can agree on a plan for how you will repay the money you owe them. Once a plan is worked out, every month you deposit money into an account held by the credit counseling agency. The credit counselor uses the money to pay your bills according to an agreed payment schedule. You don't stop paying until your debt is repaid.

## Is a debt management plan a good idea?

Whether a debt management plan is a good idea depends on your situation. They don't help everyone. A good credit counselor will spend time reviewing your specific financial situation and then offer customized advice to help you manage your money. If a credit counselor says a debt management plan is your only option without doing these things first, find a different counselor.

If you and your counselor decide a debt management plan is best for your situation, it's a good idea to check with all your creditors to be sure they offer what the credit counselor describes to you.

A successful debt management plan requires you to make regular, timely payments, and can take 48 months or more to complete. You might have to agree not to apply for — or use — any more credit until the plan is finished.

## Other Debt Relief Services

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### What is debt settlement?

Debt settlement programs are different from debt management plans. Debt settlement programs are typically offered by for-profit companies to people with significant credit card debt. The companies negotiate with your creditors to let you to pay a “settlement,” or lump sum of money that’s less than what you owe to settle your debt. Meanwhile, you have to set aside a specific amount of money every month in a designated account until you have enough savings to pay off any settlement that is reached. The process can take years to complete.

### What does a debt settlement company have to tell me upfront?

Before you sign up for its services, the company must tell you:

- the fees and any conditions and terms of service
- how long it will take to get results
- the possible negative consequences of stopping payments to your creditors
- how much you must save in a dedicated account before the company will make an offer to each creditor on your behalf
- that the money you save in the account, plus interest, is yours, and you can withdraw it any time without penalty

## Is debt settlement a good idea?

Debt settlement can be risky. If a company can't get your creditors to agree to settle your debts, you could owe even more money in the end in late fees and interest. Even if a debt settlement company does get your creditors to agree, you still have to be able to make payments long enough to get them settled. You also have to watch out for dishonest debt settlement companies that make promises they can't keep, charge you a lot of money, and then do little or nothing to help you.

Debt settlement programs also might encourage you to stop sending payments directly to your creditors. They are required to tell you that it can have a negative impact on your credit report and other serious consequences like late fees and penalties that put you further in the hole. You also could get calls from your creditors or debt collectors, or be sued for repayment. Depending on your state's laws, if your creditors or their debt collectors win a lawsuit against you, they might be able to garnish your wages or bank account, or even put a lien on your home.

Depending on your financial condition, any savings you get from a debt settlement program could be considered taxable income.



## What are some signs I'm dealing with a debt relief scam?

Avoid any debt relief organization — whether it's offering credit counseling, debt settlement, or any other service — that:

- guarantees to settle all your debts or provide fast loan forgiveness
- tries to collect fees from you before it settles any of your debts or enters you into a debt management plan
- tries to enroll you in its program without first reviewing your financial situation
- advertises a “new government program”
- tells you to stop communicating with your creditors, but doesn't explain the serious consequences
- tells you it can stop all debt collection calls and lawsuits

Enter the name of the company with the word “complaints” into a search engine. Read what others have said about the companies you're considering. Also check out any company you're considering with your state Attorney General ([naag.org](https://naag.org)) and local consumer protection agency.

## Debt Consolidation Loans

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### What's a debt consolidation loan?

Another way some people lower their monthly payments on their debt is to consolidate it through a second mortgage or a home equity line of credit, or by taking out a personal debt consolidation loan from a bank or finance company.

### Are debt consolidation loans a good idea?

Some of these loans require you to put up your home as collateral. If you can't make the payments — or if your payments are late — you could lose your home. Most consolidation loans have costs. In addition to interest, you may have to pay “points,” with one point equal to one percent of the amount you borrow.

## Bankruptcy

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### What does filing for personal bankruptcy do?

People who file for personal bankruptcy receive a discharge — a court order that says they don't have to repay certain debts. Bankruptcy is generally considered your last option because of its long-term negative impact on your credit. Bankruptcy information (both the date of your filing and the later date of discharge) stays on your credit report for 10 years, and can make it difficult to get credit, buy a home, get life insurance, or get a job. Still, bankruptcy can offer a fresh start for someone who's gotten into financial trouble.

## What are the main types of personal bankruptcy?

The two main types of personal bankruptcy are Chapter 13 and Chapter 7. You file for them in federal bankruptcy court. Filing fees are several hundred dollars, and attorney fees are extra. For more information, visit the United States Courts ([uscourts.gov](https://uscourts.gov)).

Both types of bankruptcy may get rid of unsecured debts like credit card or medical debt and stop foreclosures, repossessions, garnishments and utility shut-offs, as well as debt collection activities. Both also provide exemptions that let you keep certain assets, though how much is exempt depends on your state.

## What's the difference between Chapter 13 and Chapter 7 bankruptcy?

Chapter 13 lets people with a steady income keep property, like a mortgaged house or a car, that they might otherwise lose through the bankruptcy process. In Chapter 13, the court approves a repayment plan that allows you to pay off your debts in three to five years, rather than give up any property. After you make all the payments under the plan, you receive a discharge of your debts.

Chapter 7 is known as straight bankruptcy. It involves liquidating all your assets that are not exempt. Exempt assets might include cars, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official, called a trustee, or turned over to your creditors.

## What debt won't be erased by filing for personal bankruptcy?

Filing for personal bankruptcy usually won't erase child support, alimony, fines, taxes, and most student loan obligations, unless you can prove undue hardship. And, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually doesn't allow you to keep property when your creditor has an unpaid mortgage or security lien on it.

## What do I need to do before I file for bankruptcy?

You have to get credit counseling from a government-approved organization up to six months before you file for any bankruptcy relief. You can find a state-by-state list of government-approved agencies at the U.S. Trustee Program ([justice.gov/ust](https://www.justice.gov/ust)), the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees.

Also, before you file a Chapter 7 bankruptcy case, you must satisfy a "means test" where you confirm that your income does not exceed a certain amount. The amount varies by state and is publicized by the U.S. Trustee Program.

## Credit Repair

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### **After I pay off my debt, is there anything I can do about my credit?**

No one can legally remove accurate negative information from your credit report — so don't believe anyone that tells you otherwise.

Only time can make accurate information go away. A credit bureau can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about an unpaid judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. The seven-year reporting period starts from the date the event took place. But there are steps you can take to repair your credit over time. Learn more at [ftc.gov/debt](https://ftc.gov/debt).











Federal Trade Commission

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