Debt Management Strategies Comparison Chart

Chapter 13.1: Strategies for Managing High Levels of Debt | PFL Academy

This comparison chart provides an overview of the four main strategies for managing high levels of debt. Use this chart to understand the key differences, advantages, disadvantages, and appropriate situations for each approach.

Strategy	Debt Management Plan (DMP)	Debt Consolidation	Debt Settlement	Bankruptcy
How It Works	A credit counseling agency works with creditors to create a structured repayment plan, often with reduced interest rates and waived fees. You make one monthly payment to the agency, which distributes funds to creditors.	Multiple debts are combined into a single loan or credit product with one monthly payment, potentially at a lower interest rate.	You (or a settlement company) negotiate with creditors to accept less than the full amount owed, typically in a lump-sum payment.	**Chapter 7:** Liquidates non-exempt assets to pay creditors; remaining eligible debts are discharged. **Chapter 13:** Creates a 3-5 year repayment plan while keeping assets.
Best For	• Credit card debt • Unsecured personal loans • Medical bills • Steady income but struggling with payments • Those needing interest rate reductions	• Multiple high-interest debts • Good credit score (for best rates) • Stable income • Those able to qualify for a lower rate • People wanting to simplify payments	• Significant unsecured debt • Unable to afford full payments • Credit score already damaged • Wanting to avoid bankruptcy • Able to save for lump-sum payments	• Overwhelming debt with no realistic payoff path • Behind on payments with collection actions • Facing wage garnishment or lawsuits • Need for immediate relief • Unable to benefit from other options

Strategy	Debt Management Plan (DMP)	Debt Consolidation	Debt Settlement	Bankruptcy
Pros	• Reduced interest rates (often) • Waived late fees and penalties (often) • Single monthly payment • Professional guidance • Typically less credit score impact than settlement/bankruptcy • Completed in 3-5 years	• Simplifies multiple payments into one • Potentially lower interest rate • Fixed repayment timeline • May improve credit score over time • End-date for becoming debt-free	• Reduces total amount owed • Faster debt resolution than full repayment • Avoids bankruptcy • Can settle individual debts selectively • Stops collection calls once settled	• Legally discharges eligible debts • Automatic stay stops collections immediately • Some assets are exempt from liquidation • Provides fresh financial start • Chapter 13 allows keeping assets while repaying
Cons	• Credit accounts usually closed • Not all creditors will participate • Monthly fee to counseling agency • Still repaying full principal • Must avoid new debt during plan	• May require collateral (for secured loans) • Could pay more interest over longer term • May have origination fees/closing costs • Requires discipline to avoid new debt • Need good credit for best rates	• Significant credit score damage • Forgiven debt may be taxable income • Creditors not obligated to settle • Late fees and interest accrue during process • Risk of being sued by creditors • Settlement companies may charge high fees	• Severe credit score impact (7-10 years on report) • Potential loss of assets in Chapter 7 • Not all debts dischargeable (student loans, etc.) • Public record of filing • May impact job or housing opportunities • Filing costs and potential attorney fees

Strategy	Debt Management Plan (DMP)	Debt Consolidation	Debt Settlement	Bankruptcy
Credit Impact	Moderate negative impact initially; positive impact as payments are made regularly and balances decrease. Accounts show as "enrolled in debt management" on credit report.	Temporary small negative impact from credit inquiry and new account; positive impact as payments are made on time and original debts are satisfied.	Significant negative impact. Accounts show as "settled" rather than "paid in full" on credit report. Impact lessens over time but remains for 7 years.	Severe impact. Chapter 7 stays on credit report for 10 years; Chapter 13 for 7 years. Makes obtaining new credit difficult and expensive initially.
Timeline	Typically 3-5 years to complete full repayment.	Varies based on loan terms; typically 2-7 years (personal loans) or 10-30 years (home equity loans).	Usually 2-4 years to settle all accounts, as debts are typically settled one at a time as funds become available.	**Chapter 7:** 3-6 months to complete discharge **Chapter 13:** 3-5 year repayment plan
Cautions	• Use only reputable non-profit credit counseling agencies • Check if all your creditors will participate • Understand any fees before enrolling • Missing DMP payments can result in program termination	• Secured loans (like home equity) put assets at risk • Balance transfers have time-limited promotional rates • Check for prepayment penalties • Beware of extending debt over much longer periods	• Many for-profit settlement companies charge high fees • Stopping payments leads to collection activities • Not all creditors will settle • Expect to pay taxes on forgiven debt over $600	• Bankruptcy should generally be a last resort • Required credit counseling before filing • Income limits apply for Chapter 7 eligibility • Can only file Chapter 7 once every 8 years

Important Considerations

- **Professional Guidance:** Consider consulting with a non-profit credit counselor, financial advisor, or bankruptcy attorney before making decisions.
- **Individual Circumstances:** The best strategy depends on your specific financial situation, types of debt, income stability, and long-term goals.
- **Watch for Scams:** Be wary of companies promising to "fix your debt problems" with little information about how they'll do it or charging large upfront fees.

- **Credit Recovery:** All strategies can be followed by consistent credit rebuilding practices to improve your financial situation over time.