Title:
Credit Factors to Consider before Using a Debt Negotiation Company?

Word Count:
629

Summary:
A relatively new approach to debt resolution, debt settlement or debt negotiation is the process of negotiating with creditors to lower the amount that you owe, typically by as much as 50 to 60 percent.

Keywords:
Fast debt relief, Texas debt settlement, California debt settlement

Article Body:
A relatively new approach to debt resolution, debt settlement or debt negotiation is the process of negotiating with creditors to lower the amount that you owe, typically by as much as 50 to 60 percent. A settlement offer is only attractive to a creditor when a consumer is behind on their payments. The reason why this is the case is that statistically a past due debtor is far more likely to either 1) file bankruptcy; 2) never pay the creditor at all; or 3) cost so much money in any collection efforts that a settlement offer is more profitable for the creditor. The financial incentive of debt settlement is clear for the consumer: you are able to cut your balance in half and presumably eliminate interest altogether. The main downside is that since you have to be past due in order for a settlement to be reached your credit will most likely suffer.

• Debt Settlement and Consumers with Good Credit: The impact should be pretty significant, particularly in the short-term. If you have high balances, however, then even your positive credit history is being weighed down by the negative effect that the amount you owe is having on your credit. This being the case other factors that you should consider are 1) when you anticipate using your credit again and 2) what other options are available to you. If you're retired and not planning on getting another mortgage, then debt settlement is still probably your best option. If you're 30 years old and planning on buying a home in the next year or two, I'd probably reconsider. And by reconsider, I mean I'd reconsider debt settlement and getting a house. If you're buried in minimum payments, then the last thing that you should be thinking about is adding on more debt. If you have no real assets (equity in your home, for example), then debt settlement may be a suitable solution because you don't have any options at your disposal that don’t affect your credit negatively. On the other hand, if you have a lot of equity in your home, then it may be your best option to tap into it because the credit impact of debt settlement may cost you more in the long run if you try to refinance or buy another home.

• Debt Settlement and Consumers with Average Credit: As a result of debt settlement you will still take a sizable hit in the short-term, but it will be far easier for consumers with average credit to restore their score to where it was when they entered the program versus consumers with good credit. Keep in mind, if you’re the sort of consumer that has always made payments on time, but you’re still stuck with a mediocre credit score, then it’s probable that in the long-run debt settlement will help you by eliminating the debt that dragging down the amount owed component of your credit score. With some proactive rebuilding after completing your debt settlement program, you should be in a better position to obtain a loan than when you contacted your debt negotiation company.

• Debt Settlement and Consumers with Bad Credit: For those of us with bad credit (600 FICO score and below), the impact of debt settlement may still be negative in the short-term, but the credit impact will be so negligible that the savings from enrolling high interest credit cards will most likely overcome it. Moreover, if your accounts are already in collections and charged-off, then debt settlement will likely improve your credit score since you’d be paying off seriously past due accounts. If you fit in this boat, then debt settlement is an ideal fit because you save a lot of money while sacrificing much less from a credit standpoint.