

Title:

Credit Counseling Vs. Debt Settlement

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Summary:

Credit counseling or debt settlement? While naturally Franklin Debt Relief is inclined to argue on behalf of debt settlement over credit counseling,

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Article Body:

Credit counseling or debt settlement? While naturally Franklin Debt Relief is inclined to argue on behalf of debt settlement over credit counseling, we also recognize that it's impossible to declare which program is better because it depends on a number of variables that differ from individual to individual. The purpose of this article is break down which factors you should consider before choosing the appropriate option.

1. What can you afford? Credit counseling programs tend to be a lot more expensive than debt settlement programs. The reason is simple: credit counseling only produces results on the interest rates, whereas debt settlement is able to actually negotiate the amount you owe. Simply put, if you are in a true financial bind, then the clear choice for you should be debt settlement, and on a pure "money saved" basis, debt settlement will almost always be the answer. Although this is undoubtedly an important factor, it is not the only variable to consider before making a decision on which program is best for you.

2. What sort of credit impact can you tolerate? Some credit counselors out there will undoubtedly tout that their program doesn't affect your credit score negatively. This is a play on words. Sure, your score won't drop, but ask any lender what the impact is to your loan application. Let me save you some time ---it's devastating. That being said, debt settlement is no better for your credit, and lenders in general definitely do not like seeing debtors seeking outside help for their financial situation. On the flip side, they definitely do not like seeing the past due marks from enrolling in a settlement program. So let's consider this example: Four years ago, John decided to use credit counseling, and Mary decided to follow the debt settlement path. They both have the same income and expenses, and they both apply for a \$200,000 mortgage. Who

is more likely to get it---John, who is 1 year away from completing his credit counseling program, or Mary, who finished her debt settlement program 1 year and half ago and has since been rebuilding her credit? While this may vary from lender to lender, in general Mary would be considered the better loan applicant. What if John paid a lot per month and they both finished their respective programs in the same amount of time? By itself, the credit counseling program would be better for your credit, but when you factor in the fact that Mary would probably have more savings to contribute to a down payment, she'd still probably be considered the better loan applicant. Do I think this is fair? Not at all. It's ridiculous that lenders are so harsh on clients of credit counseling programs. Unfortunately, the system is flawed, but until there are adjustments made to correct it, debt settlement clients will be in a more favorable position to obtain new credit upon completion of their program.

3. Who do you owe? So you can save more money in debt settlement, but not always. If you owe a more aggressive creditor like Citibank, then it's possible that credit counseling or bankruptcy may be a better option for you. The reason: Citibank not only tends to settle for more on average, but they are also more likely to pursue legal action to collect a debt. Although under most circumstances debt settlement is still successful with these creditors, it is a much riskier undertaking when you're dealing with Citibank. If you cannot afford credit counseling and your debt is exclusively with Citibank, then unfortunately you're probably better off filing bankruptcy.

4. What is your personality type? I've read just about every article online regarding credit counseling versus debt settlement, and I'm amazed by how most finance authors eliminate the human element from this discussion. The bottom line: debt settlement is not for the faint-hearted. There is no guarantee that everything will work out completely as planned. Some settlements may be higher than estimated. Some settlements may be lower than estimated. You will inevitably get some creditor calls. This is the nature of the program, and you must be willing to accept some level of uncertainty before enrolling.

I organized the following 4 questions in this order on purpose. After all, if you can't afford credit counseling, then it's pretty much out of the picture as an option for you anyway. I don't mean to sound overly cynical, but we live in a material world and issues like having an anxious personality must be sacrificed when you don't have the money necessary to freely exercise this aspect of your character. On the flip side, if you have 100% Citibank debt, it would be foolish for you to choose debt settlement over credit counseling or bankruptcy just because you fancy yourself a risk-taker.

There are countless other variables that influence whether debt settlement or

credit counseling is appropriate for you (i.e. what state you live in, your income source, etc.). Your best bet is to discuss your individual situation with someone knowledgeable in these arenas.