

Debt Management

What it is: Debt management is a strategy or plan that helps someone handle and repay their debt more wisely. Sometimes an individual will work with a credit counselor to create a debt management plan that involves working with creditors to restructure debt and to help individuals manage payments more effectively.

How it works: Debt management plans are voluntary and many people will turn to a company for help when they don't know how to handle the debt themselves – or they have so much debt that they need help negotiating with creditors. A debt management plan will consolidate all debt through the credit counselor so participants pay just one payment per pay period.

Why it matters: With a debt management plan a credit counselor can help you work with creditors to negotiate lower overall monthly payments. This is usually done through increasing the time period over which you can repay a loan (for example, five years), or negotiating lower the interest rates. Although most credit counselors are non-profits, they may charge fees for their services that they take out of the payments you make to them and the services usually do not negotiate a reduction in the total amount owed. Credit counseling organizations can offer advice on budgeting, managing your debts, and managing your money. They usually offer free educational materials and workshops and an initial counseling session can typically last an hour, with an offer of follow-up sessions.

Who should care? : Credit counseling and debt management are very different from debt *settlement* companies. Many debt settlement companies will instruct you to stop making payments to your creditors. If you stop making payments, you may face collection efforts, late fees and penalty interest charges. Here is an important comparison list from Consumer Financial Protection Bureau.

| Credit counselors | Debt settlement companies |
|---|--|
| Usually non-profit organizations | For-profit companies or law firms |
| Advise you on managing your money and debts and help you budget your payments | Offer to arrange settlements of your debts with creditors or debt collectors |
| Reach up-front agreements with your creditors to ensure that the creditors will not pursue collection efforts or charge late fees | Often have no up-front agreements with creditors |
| Usually do not negotiate any reduction in the | Typically offer to pay off your debts with |

Credit counselors

amounts you owe - instead, they can lower your overall monthly payment

Do not advise you to stop paying your debt, but may help negotiate your monthly payments

Debt settlement companies

lump sum payments that are less than the full amounts you owe

Usually require that you stop paying your creditors to succeed in a debt settlement program

For more information

- Consumer Financial Protection Bureau at, www.consumerfinance.gov/debt-management
- Iowa State University Extension and Outreach website at www.extension.iastate.edu/humansciences/
- Iowa State University Extension and Outreach Money Tip\$ <http://blogs.extension.iastate.edu/moneytips/>