

Debt Settlement Companies OR Bankruptcy: Which to Choose?

Debt settlement companies are smart. They know your weakness. They know that for the majority of folks out there, filing for bankruptcy is the last thing in the world they would ever consider doing. Debt settlement companies understand all too well that there are people out there like my Dad who would rather cut off his left hand and go without food and water for a week than be branded “bankrupt.” For most, filing for bankruptcy is simply viewed as not an option. Debt settlement companies know this, and they play on your vulnerability. Debt settlement companies purport (strong emphasis on purport) to offer you an out that will be your salvation while at the same time relieving you of the need to file for bankruptcy. The problem is, debt settlement simply does not work.

In theory, debt settlement is supposed to work as follows: Rather than paying the full amount that you owe to your credit card companies, debt settlement companies, using their “savvy business skills” will negotiate with your credit card companies and get them to accept only one half of the amount you owe.

Now, let’s look at the disadvantages with debt settlement companies. First, debt settlement companies will claim that using their services will save your credit score. That simply is not true. Debt settlement companies might be telling you, or you might be telling yourself, that filing for bankruptcy will destroy your credit score whereas using the debt settlement route will avoid this huge blemish on your credit report. What’s the problem with this logic? Well...ah...it’s wrong. The majority of people when they are at the crossroad of bankruptcy vs. debt settlement have a credit score that is, well, how should I put this, pretty bad. Filing for bankruptcy at this point will not harm your credit score. If your credit score is below 600 there is not a whole lot left to harm. In fact, filing for bankruptcy will stop the bleeding and give you the opportunity to start to rehabilitate your credit score.

What about the people who are still hanging on, making their minimum monthly payments and have a credit score that is 600 or higher? Aren’t they better off choosing debt settlement to avoid bankruptcy? Well, that brings me to my next point; using a debt settlement company will destroy your credit score. One of the first things a debt settlement company will tell you is to stop paying your credit card companies and start making monthly payments to them instead. They will go on to explain that once they have accumulated 50% of your outstanding credit card debt they will then enter into negotiations with your credit card companies to settle your debt. For most people that typically means several years of payments to their debt settlement company. What’s the problem with this seemingly logic tactic? Well, within 2 to 3 months your credit score will be severely damaged. After 1 year, it will be completely destroyed. Credit card companies want timely payment from you every month and they can care less that you are working with a debt settlement company.

And here comes problem number three; debt settlement companies leave you exposed. If you think that credit card companies are going to sit idly by while you are making payments to your debt settlement company then, I hate to tell you, you are simply

mistaken. Credit card companies will eventually sue you, get judgments, and seek to garnish your wages, all while you are making payments to your debt settlement company. And what happens when you complain to your debt settlement company? After a whole bunch of nonsense and run around, your debt settlement company may have the temerity to suggest that you should file for bankruptcy. In fact, here comes the kicker, they might even encourage you to retain their services for the filing of your bankruptcy as well.

The remaining problem with working with a debt settlement company comes down to dollars and cents. They want a whole lot of money and they want it upfront. Moreover, the money is non-refundable, regardless of whether you successfully complete their payment program! Meaning, during those initial six to twelve months of payments, virtually all of that money is going into their pockets. Debt settlement companies typically want 15% of your credit card debt as their fee, plus some additional junk fees. For instance, if you have \$40,000 in credit card debt, expect to pay them at least \$6,000 for playing the middle man. Not to mention the fact that for most folks being put on a payment plan of anywhere between \$500-\$1000 per month for several years is next to impossible.

So, are there any benefits to using debt settlement companies? Does my article speak the truth or offer you a biased opinion of a bankruptcy lawyer? Are you wondering what sort of track record do debt settlement companies have? Read the following articles to see for yourself: [The New York Times article Peddling Relief, Firms Put Debtors in Deeper Hole](#) as well as [A Shocking Peek Inside the Seedy World of Debt Settlement Companies](#) by Avvo.