

# Settlements

*Is a settlement a good option?*

Settlements are a way to eliminate a debt by paying less than the full amount owed. This may seem like a good alternative when you can't afford to pay the debt, but you should look at the possible negative consequences before making a decision.

- Creditors will usually only settle the debt with debtors who are several months behind or in collections. By the time the settlement is offered, there will be substantial damage to your credit, and they may have added on a significant amount of fees and interest that the debt is much more than the original amount.
- Settlements usually require a lump sum or payment over a short period of time.
- Creditors may refuse to settle and may sue to collect what is owed.
- Debt settlement could result in a tax liability. Forgiven debt is considered taxable income by the IRS.
- Creditor calls may continue.
- A settlement is usually reported on your credit report and will reduce your credit score. This can make it very difficult to get credit in the future. Any credit that you get will be more expensive.
- Settling with one of many creditors doesn't make sense if you don't have a plan to deal with the other creditors. You may end up in



bankruptcy, and the money that you used to settle could have been used to pay expenses for the bankruptcy or debt that could not be discharged.

## If you decide to settle:

- Get the offer in writing before making a commitment. Do not make any payments before you have the written offer.
- Have a clear understanding of how the settlement will be reported on your credit report.
- Check with a credit counseling agency (like Navicore Solutions) to see if there are any other alternatives.
- You may want to consult an attorney.

## Debt Settlement Companies

- Settlement companies promise to negotiate settlements with creditors on your behalf.
- Settlement companies often make promises they can't keep. Only your creditor can offer a settlement on your account.
- Settlement companies can't stop your creditors from taking you to court and garnishing your wages or placing liens on your properties. Settlement companies have no prior arrangements with creditors.
- Settlement companies may charge substantial fees for their services, including a fee to establish an account with them in addition to a monthly service fee.
- The process of settling can take years while your credit continues to deteriorate.
- If settling is an option for you, you can negotiate directly and avoid the fees.

***You should look at the possible negative consequences before making a decision on debt settlements.***



An Educational Message from



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*Knowing the difference can  
make all the difference.*