Acceleration




Debt Settlement vs. Debt Management: What's the difference?

Debt management agencies and debt settlement companies both generally offer to help consumers eliminate unwanted or unmanageable debt, such as credit card or medical bills. Not only do they use different methods to do so, they can also have very different results. Here are some differences between debt management agencies and debt settlement companies, along with the pros and cons of each.

Services Offered

Most debt management agencies primarily focus on reducing interest rates and late charges to make repayments more affordable. Creditor payments are consolidated into one payment, and all debts are paid in full over the course of the program, which typically averages three to five years.

Debt settlement companies, on the other hand, require their clients to stop paying their bills for several months, since they work on the premise that creditors are more likely to settle a severely delinquent account in hopes of recovering some of their money. Instead, clients send payments to the settlement company, where the funds are held in an account. When enough money has been accumulated, the debt settlement company will approach creditors to negotiate a settlement for less than the amount that is owed.

Another difference is that debt management agencies can often help consumers from falling into debt in the future. Many debt management agencies are also non-profit credit counseling agencies, which offer financial education. Financial counselors can teach consumers how to create a spending plan, use credit properly, and improve their credit report and score.

Costs and Benefits

Typically, a debt management agency charges a fee for enrolling in a Debt Management Plan (DMP) – for example, a set-up fee of up to $50 and a monthly fee that is capped at $50, however these fees are waived for Accel members! Typically, debt settlement companies charge their clients in one of two ways: a flat fee, which is based on how much the settlement saves, or a percentage fee, typically ranging from 15 to 20 percent of the total debt. In addition, monthly fees that typically range from $20 to $100 a month are often charged to their clients.

In addition to fees, consumers who have had more than $600 forgiven through debt settlement are required to pay taxes, as it is seen as income. There are no such tax implications for consumers using a debt management program.

One stipulation of enrolling on a DMP is that clients are often required to close unsecured credit accounts that are included in the DMP. Closing several unsecured accounts in a short period may initially lower their credit score. However, because creditors are paid in full and on time each month, the client's score will increase throughout their time on the DMP, and may result in a higher score than when they started.

In addition, when a client enrolls in a DMP, their credit accounts may be flagged on their credit report. The credit counseling agency does not report this, but rather each creditor can report it at their discretion. However, this notation has no negative impact on a credit score and is removed when the client is no longer enrolled in a DMP.

Using a debt settlement company can have a negative impact on a credit score. As soon as clients are delinquent with their payments, creditors will report this to the credit bureau and the score will fall. Even after the debt has been settled, it is notated on the credit report that it was paid, but not as agreed, and will remain on the report for seven years.

While debt settlement can be beneficial for some consumers, particularly those that have enough money on hand to settle, it can also come with high fees and no guarantee that creditors will settle, resulting in an even worse situation. Debt Management Plans, through a reputable agency, can help consumers save money, preserve their credit rating and guide them to proper money management in the future.

Poll Reveals Consumers Confused Over Purpose of a Budget

A recent poll on the National Foundation for Credit Counseling (NFCC) website revealed that 57 percent of respondents misunderstand the purpose of a budget, viewing it as a restriction on their spending, when in fact, just the opposite is true. A budget actually provides the structure through which a person can be in charge of his or her spending, directing the dollars to their best use. Spending should be a reflection of a person's priorities, but without a plan, the priorities often get pushed aside in favor of the tyranny of the urgent.

The reluctance to construct a budget suggests that people may be afraid to face the financial facts, choosing instead to allow the most pressing need or want of the moment to make the decision for them. Instead, the NFCC reminds consumers that a spending plan includes the following benefits:

- Creates a thoughtful awareness of spending;
- Relieves financial stress;
- Increases financial security;
- Helps structure a plan for the future;
- Allows planning for large purchases;
- Assists in meeting financial goals;
- Frees up money to designate for savings;
- Uncovers money available to invest;
- Allows preparation for emergencies;
- Avoids late payments through scheduling timely payments;
- Finds hidden money for debt repayment, and
- Potentially raises the credit score.

Instead of being restrictive, a budget often creates more money due to smart spending choices. If financial freedom is the goal, a spending plan is the tool that starts the process. It's a shame that budgeting has a negative connotation. Everyone needs a spending plan, but when times are tough, a budget is even more critical. When every penny counts, it's important to count every penny.

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The first step to being in charge of your money is to track spending for at least one month. To get started, a free budget worksheet is available at www.accelservices.org/members/home.htm.

For professional help creating a budget, reach out to a certified Accel counselor at 877-33ACCEL (877-332-2235).

Purchasing a home for the first time? Accel can help!

Purchasing a home for the first time is exciting, but may also feel overwhelming. There are many considerations, such as how much you can really afford, not to mention complex paperwork to navigate. Let Accel help!

Accel counselors can discuss with you the requirements and responsibilities of home ownership. Our counselors are HUD-approved and will educate you on the home buying process. And it works! A recent study by HUD concluded that pre-purchase counseling helps borrowers make good decisions regarding future homeownership.

If you would like to speak to a housing expert, contact us at 877-33ACCEL or find out more about our services at *www.accelservices.org/members.*

What do credit union members think about Accel?

Credit union members have the opportunity to let us know the most important benefit they received from completing a financial assessment with an Accel counselor. Here is a comment from a member who recently spoke with an Accel counselor:

"My counselor helped me to see exactly where my money was going. This was very beneficial. He also helped me to find ways to cut back on my spending. Thanks to my counselor I was able to eliminate almost $300 in unnecessary spending from my monthly budget. This is AWESOME!"

As a member of First Energy Family Credit Union, you can take advantage of the *Accel* program, a **free** financial education and counseling program. To use this service, simply call 1-877-33ACCEL (332-2235) or visit them on the web at *www.accelservices.org*.

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