

Tricks for Settling Debts in Arizona

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During the free bankruptcy consultations I offer I will regularly meet people who only have one or two delinquent debts and are otherwise in pretty good shape financially. If the debt is significant a bankruptcy may still be the best way to go, but I also explore non-bankruptcy options with the client that may resolve the issue without having to resort to a bankruptcy filing.

Settling a debt is simply the process of resolving an outstanding debt, usually for an agreed upon amount that is less than what you actually owe. I typically only recommend trying to settle your debts if you have one or two creditors that are causing you problems. If you have a significant number of delinquent accounts it will likely be difficult to get all of them on board with a settlement, and without a total settlement of all your debts it doesn't do you much good and you should look to [bankruptcy](#).

Understanding the debt collection process as well as the court process here in Arizona can give you an advantage as you try and settle your debts and can save you thousands of dollars.

Understanding the Debt Collection Process

Once a payment is missed most [creditors](#) will start with a series of letters that are generally pleasant in tone inquiring as to why you have missed a payment. If payment is not made then collection efforts will graduate to [telephone calls](#) or even an in person visit. If the debt is secured by collateral, like a car, then [repossession](#) may occur after that. If the debt is an unsecured debt, like a credit card, the debt will likely be placed with a collection agency or a lawyer's office. It may even be sold to a debt buying company who will then start their own collection process. Finally, on some debts the creditor will hire an attorney to file a [lawsuit](#). Once a judgment is obtained from a lawsuit the creditor can then [garnish wages or bank accounts](#).

What is a Charge/Write Off?

Many people confuse a charge off or write off with the notion that the creditor is no longer going to try and collect on the debt. This is not correct. At any stage in the debt collection process a creditor can charge off the debt for tax and accounting purposes. This means that the debt is no longer considered an asset on the company's books, thereby reducing the creditor's taxable income. It does not mean that the creditor is now barred from continuing to try and collect on the debt or selling it to someone else who will. Just because a debt has been charged off does not mean you are out of the woods yet, but it can mean that you will be able to settle the debt for less than you might otherwise would have.

Approaching the Creditor

In attempting to settle a debt it is important to know two things (1) who you are dealing with. Are you talking to the creditor directly, a collection agency, a company that has purchased the debt, or a lawyer?

(2) How many days past due the account current is. In regards to knowing who you are dealing with, this is important because you are going to get different settlements depending who is on the other end of the phone. For example, if you are working directly with the creditor or a collection agency hired by the creditor they will likely want a higher settlement. This is because the debt is probably not that delinquent if the creditor is still working directly with it.

If you are working with a debt buying company, they likely purchased the debt for pennies on the dollar. This means that they will make a profit no matter what you pay. You will be able to offer a much lower settlement and be successful with a debt buying company as opposed to the creditor directly. Generally the more delinquent an account is the less it will be willing to take to settle the debt. If you owe \$5,000 on a credit card and are only 30 days late, it is highly unlikely they will accept anything but the full amount due. However, if you are 120 days or more past due on that same \$5,000 debt, they will be likely to settle for much less.

For many, receiving a letter from a lawyer's office can be very intimidating. However, if you understand what your case looks like from the lawyer's prospective, you will likely get a better settlement. A creditor's attorney will get the case and then send a demand letter. The attorney's goal is to settle the case as quickly as possible for as much money as possible. This is for one of two reasons: first, many collection attorneys work on a contingency basis. This means that they do not get paid unless they collect money from you. It is more profitable for the attorney to settle the case early than to push it to a [lawsuit](#). For example, if you owe \$5,000, the attorney would rather take a settlement now for \$2,500 rather than settling the debt after he has gone through the trouble of filing a lawsuit and involving the court.

What Should I Offer as a Settlement?

I will usually offer 30% of the principal amount due. Most creditors will add all kinds of fees, interest, penalties, etc. I push that aside and offer 30% of the principal amount knowing that they are going to counter that with a higher amount and knowing that the case will not settle based upon my first offer. That leads many people to ask that if I know my first offer will not be accepted, shouldn't we start very low? The problem with that is that while you want to start your negotiations low, you don't want to be so low that the creditor is not taking you seriously and as a result simply won't negotiate. If you owe \$5,000 and your first settlement offer is \$500, don't expect any response other than "no" from the creditor. Most debts can be settled in the 40% -70% range of what is owed. It is important to know that any settlement amount will likely be required to be paid in full within 30 days.

What if I Have Been Sued?

If you have been served with a lawsuit you may feel that all is lost. Actually, cases where a lawsuit has been filed are some of the easier cases to settle. In filing a lawsuit the goal of the creditor is to get a judgment. With a judgment comes the power to [garnish your wages or bank accounts](#). The problem - at least from the creditor's viewpoint - is that it takes time and money to get a judgment. You can use this to your advantage. You can offer to enter into a Stipulated Judgment in exchange for allowing you to make payments on a lesser amount. For example, if you are being sued for \$5,000, you could offer to pay the creditor \$2,500 over a period of 12 months. Along with this offer you could agree to enter into a

Stipulated Judgment for the full \$5,000, with the agreement that the creditor is not allowed to file the Stipulated Judgment with the court unless you fail to make the payments as agreed.

This gives the creditor what they are seeking - a judgment - without having to go through the time and expense of a court proceeding, and give you what you want, a lesser amount payable over time. The creditor has the added assurance of a judgment in their pocket if you don't follow through on your part of the deal.

The above information and techniques can help you settle your debts and may even help you avoid bankruptcy. As I write this article my office is about to launch a new service where I will assist in debt collection lawsuits, settlement negotiations, and even demand letters, all for a flat fee. I will post more about this on my website in the coming days.

I offer a free bankruptcy consultation where we can discuss your specific situation. I can be reached at (480) 420-4028 or via email at john@skibalaw.com .