

SECRETS ABOUT CREDIT COUNSELING AGENCIES

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From my experience, credit counseling companies, also known as debt consolidation companies, really can't offer much help to people. The ads sound great—if you owe over \$10,000 in credit card debts call us and we will help you reduce your debts. Then they show you a bunch of people they supposedly helped go from \$50,000 in credit card debts down to \$5,000 in debts. It all sounds really easy. You think they must have some secret negotiating strategy that makes the credit card companies listen to them and lower your debts and payments.

Here's the little secret they don't want you to know—legally, they don't have any more power to help negotiate your debts than you do. Every credit counseling company I've come across works basically the same way. They charge exorbitant fees of \$5,000 to \$9,000 up front. They make sure they get their money first. Once you have signed on they instruct you to immediately stop making payments on all your credit cards and bills and start paying them. After they have collected all their fees, then they tell you to put that "extra" money each month into an account. Once you built up several thousand dollars, they call the credit card companies and tell them you have a certain amount of money and you want to settle one account for pennies on the dollar. If that's successful, then they wait until you have several thousand dollars more in that account and then repeat the process.

Here are the 7 secrets credit counseling companies don't want you to know:

1. Credit counseling agencies are not your friend! They work on behalf of the credit card companies to pull as much money out of you as possible. The federal government has even shut some of them down because they were actually owned by the credit card companies!
2. Legally, neither the credit card companies nor the banks have any obligation to listen to them or decrease your debt down. Yes, you heard me right. The credit card companies do not have to listen to them. There is no law that says they must. Essentially, they are using the exact same "negotiating strategy" that you could use with the banks. Only they are charging a large fee of several thousand dollars, which is a multiple of how much an attorney charges to file bankruptcy for you. With bankruptcy the banks and credit card companies are legally obligated to follow the rules. There are certain things they can and cannot do once an attorney is involved.
3. A major problem with the kind of strategy used by debt settlement companies is if you stop making payments on your car, there's a good chance it will be repossessed

before you build up enough cash reserves to try and negotiate a lower amount. Most people I know simply can't afford to lose their car, especially if they need it to get to and from work.

4. There are tax ramifications for settling debts using that strategy. For example, if you owe \$20,000 on your credit card and the company settles for \$5,000, they will issue you a 1099 income form and you will end up paying taxes on the \$15,000 they "forgave " you. So now what you have done is jump out of the frying pan directly into the fire. Because you now owe the IRS taxes on all that debt the credit card companies forgave. Trust me when I say, I would much rather owe a credit card company money than the IRS. When you owe the IRS money, they want it and they want it now. When you file bankruptcy with an attorney you will not owe any taxes on the amount of debt that was forgiven.
5. Using a debt settlement or credit counseling company usually costs three to ten times as much as using an attorney to file for bankruptcy. It's fascinating to me that many of the ads used by these companies talk negatively about attorneys and how much they charge, but in the end the credit counseling companies often charge a multiple of how much the average attorney will charge you to file for bankruptcy and their results are often less than satisfying.
6. Even after you hire the credit counseling company you will still get all the harassing phone calls from creditors, you will still get the nasty letters, you can still lose your car, you can still lose your house, and you can still get sued by credit card

Debt settlement companies take a really long time to have any effect. Many of our clients come from credit counseling company after they've been with them for six months to two years. They are still getting creditor phone calls. Often they have only paid off one or two credit cards. They still owe thousands of dollars that the debt consolidation company was supposed to take care of, only now they have lost even more money because they paid the credit consolidation companies their fee of several thousand dollars up front.

Lawrence "D" Pew is Managing Attorney for the Pew Law Center, one of the leading bankruptcy and tax law firms in Arizona. They have worked with over 2,000 clients to help them file bankruptcy and eliminate over \$100 Million dollars in taxes and debt.

When founding the Pew Law Center, Mr. Pew's vision is of a premier, client oriented law firm that is designed to consistently exceed client expectations and achieve stellar legal representation. Mr. Pew's concern and compassion for his clients adds to the excellent service and standards at the Pew Law Center. He has worked tirelessly in order to produce fantastic results and outcomes for the firm's clients. Mr. Pew is a member of the State Bar of Arizona and the National Association of Consumer Bankruptcy

Attorneys (NACBA). He continually educates himself on the latest trends and developments in the areas of bankruptcy and tax to ensure the highest service possible for his clients. Given his diverse background and experience, Mr. Pew provides real world answers and practical solutions to complicated problems. Mr. Pew continues to practice law because of the difference he can make in people's lives, especially during their darkest most trying hours.

You can read his book: *Bankruptcy Secrets "They" Don't Want You to Know*

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