

## **Arizona Bankruptcy Attorney: Beware of Debt Settlement Companies**

**By Arizona Bankruptcy Attorney John Skiba**

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They are all over the radio and T.V. Companies that offer to help you get out of debt by entering into a debt settlement program. Many make claims that they can get your creditors to settle for pennies on the dollar and in the end you will be debt free. In theory I guess these programs may work, however the reality is that few are able to successfully settle their debts through a debt settlement program. To understand why I don't recommend these companies you need to understand how they operate and how they intend to settle your debts.

Underlying the entire debt settlement process is the notion that the credit card company you owe would rather take something than nothing. So, the debt settlement company tells you that if you pay them a payment each month that they will take that money and negotiate on your behalf with the credit card company. What they usually don't tell you is that what they will have to do is take your payment, deduct their fee, and then put the balance in a savings account and wait until enough money accumulates so that they can approach your credit card company with a settlement offer. Most credit card companies are not going to take anything less than 40-50% of what is owed. For instance, if you owe \$10,000 on a credit card and are paying the debt consolidation company \$500 per month, they would need you to make the monthly payment for 10 months or more before they could really even begin negotiating.

In the mean time, your creditors are not required to stop any collection efforts while this money is accumulating. Too often I have clients come into my office, tell me that they have paid a debt consolidation company thousands of dollars in fees only to have one of their small credit cards settled and now the larger ones are suing them. It usually comes as a complete surprise that the credit card company could sue them while they are working with the debt consolidation company. The credit card company is NOT barred from continuing to try and collect on the debt, even if you hire a debt settlement company to negotiate on your behalf. This means potential law suits, collection calls, demand letters, garnishments, etc. will continue. Further, your credit score continues to be damaged as the credit card companies continue to report you as late each month to the credit reporting bureaus.

While bankruptcy is not always the best option for those dealing with serious amounts of credit card debt, it does have many advantages over debt settlement. First, bankruptcy is a legal proceeding, meaning your creditors have no choice but to work with you within the bankruptcy process. Immediately upon filing bankruptcy the bankruptcy court issues an automatic stay order that stops all collection efforts against you. This means no surprise law suits, no garnishments, no phone calls, no letters, no nothing. Second, you will likely receive a complete discharge of your credit card debts – meaning that you will not have to pay anything towards those debts. In debt settlement you will have to pay anywhere from 30% to 75% of the amount owed; in bankruptcy you will likely pay 0%. If you are looking to get a fresh start, bankruptcy has clear advantages over debt settlement.

Finally, bankruptcy provides certainty that debt settlement can't. As bankruptcy is a legal process, it is pretty much spelled out what will happen and when it will happen in the Bankruptcy Code. In debt settlement you must rely on your credit card company to cooperate with you to reach a settlement. This is the same company that calls you night and day and has likely turned your offers in the past to make minimum payments. Bankruptcy has its downside, but if you are drowning in credit card debt bankruptcy has clear advantages over the uncertain world of debt settlement.

Bankruptcy attorney John Skiba offers a free bankruptcy consultation to discuss your specific situation. He can be reached at (480) 464-1111.