

# ESCAPE DEBT TODAY

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for FREE HELP



**cesi**  
DEBT SOLUTIONS

Turn Things Around. Turn to Us.



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### About CESI Debt Solutions

CESI is a non-profit organization for consumers in search of financial independence and freedom from debt.

We offer a wide range of services from debt management to credit counseling to financial education, and we're dedicated to helping people turn their situation around. CESI has an "A+" ranking with the Better Business Bureau and is one of the highest rated credit counseling agencies in the country.

You don't have to face debt alone. Turn to us. Our counselors are certified by top debt counseling agencies and have helped more than 41,000 clients turn things around.

CESI may be able to help you escape debt today.  
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### About This Book

*Escape Debt Today* contains selections from CESI's larger curriculum of financial education materials. For more information, visit <http://www.cesidebtsolutions.org/CESI/curriculum>.

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## Signs of financial distress



To say that credit and debt issues are a large problem in today's society would be an understatement. With the rising cost of everything from houses, cars, and education, to food, utilities and gas, it is no wonder that things spiral out of control for many individuals and families. There can come a time when it becomes impossible to maintain your lifestyle and you are faced with a limited number of options. These options range from severely restricting your expenses and changing your spending habits, to opting for a debt settlement or debt management plan, or as a last resort, declaring bankruptcy. Before you are forced to make such a big decision, it is important to pay attention to the warning signs that give you an indication that all is not well and that you might be heading towards a financial crisis. These warning signs include:

1. Belief that it will go away - One of the factors leading to a financial meltdown is when you mistakenly believe that ignoring a problem means that it will disappear. There are many reasons that lead one to believe this. It could be a fear of telling your partner the truth about your money problems because of the fear of looking bad or even jeopardizing the relationship as a result. For some, it might just be a denial that there is a problem, or an inability to curb their spending habits. For these people, budgeting has never been a priority. Whatever the reason, hiding the bills and ignoring the calls from your creditors are never a good idea. The problem will not go away on its own or without work and sacrifice on your part.
2. Recurring feelings of anxiety or sleep disturbances - Waking up in the middle of the night or losing sleep because you are worried about your financial situation is another sure sign that things are going wrong. Stress is a common contributor to anxiety or difficulty sleeping. Worrying constantly about money is indicative that you may need professional help to see you through the tough times and guide you towards a more secure future.
3. Credit card overload – Using a credit card is never the issue. It's how and when you use it that can cause problems to occur. If you find yourself paying for your groceries and daily expenses with your card, if you can barely make the minimum monthly amounts, if your monthly income just about meets your monthly debt amount, if you max out on your credit card limit every month, or if you find yourself using your card like cash – you have a problem. Using one credit card to pay for another or having your cards frozen are glaring signs that things are going downhill financially and that you need help immediately.
4. Needing more cash – You find yourself borrowing from friends and family regularly. You start looking for a second job or taking on more overtime at work to make ends meet. You request cash advances from your employer on a regular basis. These are all signs that you may be heading for a money management crisis.

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5. No insurance – You do not have the spare cash to pay for your health insurance or life insurance. Thinking and hoping that you won't get sick and require medical treatment is foolhardy and a single medical emergency or illness could tip you or your family into financial despair.

6. Loan problems – If you are behind on mortgage payments, education loans or car loans, things could be getting out of hand. Don't give into the temptation to use your home equity line of credit to make purchases or take out a second mortgage when you can ill afford one. Defaulting on even one monthly payment could lead to foreclosure or repossession.

7. No savings – If you live from paycheck to paycheck and have no savings or emergency funds, it might be time to rethink your budget. Even if you can only save a small amount every month – do it. It will prove to be useful one day. There are a number of unplanned situations that could crop up and leave you struggling to make ends meet. A nest egg or emergency fund could help tide you over in tough times.

If one or all of the situations above apply to you, it might be time to get professional help as soon as possible. There are other options besides bankruptcy and a credit counselor would be the best person to guide you to the correct solution for your individual situation.

## How to handle your debt



- Begin immediately. If you have debts and bills due, it is imperative to prioritize them. Don't wait for a financial crisis to occur to start getting your act together. It might be too late by then. Dealing with your debts effectively and keeping to a budget will help you from reaching a point of no return.

- In order to prioritize your debts, you need to list out the interest rates, other fees, any balances, and minimum monthly payments for each and every debt you have. This is also the time to take note of the applicable terms and conditions on your loans and credit cards.

- Determine your strategy for money and debt management. If you have reached a point where you are living comfortably, your goal should be to pay off your debts as quickly as possible. If you are working hard to make ends meet, the main priority is to cover the basic necessities and minimize the potential of any future financial problems.

- To pay off your debts, always begin with the one with the highest interest rate and work yourself down to the one with the lowest. Pay the monthly minimum on all other debts and pay off as much as you possibly can each month on the first debt with the

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highest interest rate. Proceed in this way to pay off your debts, moving on to the debt with the next highest interest rate and so on till you are debt free.

- Safeguard your home. The highest priority debt is your mortgage payment if you own a home. Though it may vary from state to state, lenders may begin foreclosure proceedings after just one missed payment or 30 days. If you are renting, you could be evicted even after just one missed payment. This will only lead to further stress and a negative mark on your credit report.

- Do not ignore your utility bills. Power, water, and other utility companies are often more lenient regarding late or default payments and are often accommodating enough to negotiate a new plan. But, consistently missed payments will sooner or later result in shutting down of the service and more hardship.

- Save money on transportation costs. Car-pool or use public transportation if possible. If not, keep your car loan payments up to date as lenders will repossess your car easily, often without notice. Pay your insurance premiums as well.

- Pay child support and alimony on time. Failure to do so could result in severe consequences!

- Pay all your taxes, such as property taxes and income taxes. Avoiding these could result in criminal proceedings.

- Pay your student loans especially in regards to government backed student loans. The penalties for default on student loans can be steep. In addition, laws have been passed that make it virtually impossible to discharge student loan debt through avenues

such as a bankruptcy.

- Pay your medical bills. Though looked at more leniently than other loans, they still remain a priority for repayment and can be reported as delinquent if sent to collection.

## WHAT OPTIONS ARE AVAILABLE TO ME IF I NEED HELP?

### Debt Management



If you need to manage or reduce your existing debts, you could look into a Debt Management Plan (DMP) offered through a Credit Counseling Agency. With a DMP, you make consistent monthly payments and tackle debt such as utility and medical bills in collection status, credit card bills and other unsecured debts. A good Debt Management Program will normally include credit counseling, debt consolidation and / or debt settlement.

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It all begins with a counseling session with a certified credit counselor who will take into account all your existing bills and debts and take into consideration your financial track record as well as your monthly income. You will also be educated in how to save money, to budget effectively and prevent future debt. You will then be offered the option of either debt management or debt settlement.

A DMP may reduce your monthly payments by consolidating unsecured debts into a single manageable payment that is then dispersed to your creditors. Signing up for a DMP may also result in a waiver of late and over-limit fees and a lower rate of interest (but this could vary from case to case). In this way, you can pay off your debt in a less stressful and more structured manner, and often in a shorter time frame than you would be able to achieve on your own.

Before you opt for a DMP, always check that the credit counseling agency is accredited, certified and nonprofit. Examine all the options available to you and do not get tricked by “additional” fees such as admission, application or consultation fees.

The obvious advantage of a DMP is the opportunity to get lower monthly payments and interest rates as well as a possible waiver of fees. These features can add up to considerable savings over time. For your future protection, however, you still need to pay close attention. Make sure your creditors have agreed to any changes and get everything in writing to avoid future claims. There is also no guarantee that your creditors will agree to lower your payments or waive any charges and fees.

If you do not feel confident about handling your own finances effectively, it could be a huge relief to hand things over to your credit

counselor. A professional is also more likely to successfully negotiate with and convince your creditors to lower your rates and agree to any change in the repayment plan. Conversely, if you are hesitant about handing over control of your finances to a third party, this option may not be best suited for you.

A DMP, when put into practice early on and followed closely, can be an effective solution to handling all your unsecured debts and prevent bankruptcy. This will free up more money and allow you to concentrate on your secured debts such as mortgages and student loans.

Debt management is definitely not for everyone. Some might prefer to handle their own finances and some might not even be eligible for such a plan but for many, a DMP is a well planned, structured way to get out of debt.

## Debt settlement

Debt settlement is a process where a settlement negotiator will work out an agreement for you with your creditors in order to help you pay any delinquent payments or unpaid bills. These debt settlement programs can help you significantly lessen your terms of payment. Depending on the persuasion skills of your settlement negotiator or yourself, you might be able to benefit from lower balances and a reduction in harassing calls from your creditors (once you are enrolled in a debt settlement program). Debt settlement may also be appropriate if your original creditor has charged-off your debts and sold this debt to a collection agency. And while there is no guarantee that the collector will agree to settle, larger collection agencies are normally more open to negotiation.

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Debt settlement is best suited for credit card debts, though there are also programs available for other types of debt. Debt settlement programs prove the most successful for people who have a fairly good credit history and who have managed to make payments consistently in the past. If you have too many default payments on your credit history or have a low credit score, it may be more difficult for you to get accepted in to a debt settlement program.

The outcome of a debt settlement program differs from case to case. Some have reduced their debt to as much as 75 percent while others might manage only 30 percent, so don't expect miracles. You will also need to be patient as paying off your creditors can take anywhere from two to five years.

There are several benefits to joining a debt settlement program. It will allow you to pay less than the full amount due and still satisfy your debt (be sure to get all agreements and transactions in writing though). Your credit report will no longer indicate a delinquent payment and collection calls and legal action may be stopped as a result. But in many cases, your credit report might show a settled debt rather than one paid in full which can have a significant impact on your credit report. This forgiven debt will then be reported to the IRS as taxable income. In the event that you have not recorded the details of your agreement/negotiation in writing, it is possible for the collection agency to still sell your debt to another agency and show your status as delinquent. Debt settlement agencies can often charge substantial fees. These could be up front or taken from your final settlement to your creditors, ultimately leaving you with less savings than you anticipated.

## Bankruptcy



Declaring bankruptcy is never an easy choice to make. It can have long term consequences on your credit, your self image and even your relationships. On the other hand, it may reduce your stress and anxiety in relation to your mounting debts and prevent you from losing your assets. Often regarded as a last resort, this is one debt management process that cannot be taken lightly.

Declaring bankruptcy should only be done after weighing all the pros and cons, under professional guidance and only when it is the last choice left.

By definition, bankruptcy is declared when a person is not able to pay off his or her debts (and has proven that it is impossible to do so). All liabilities are settled legally in full or in part. This allows the creditors to receive a fair share of what is owed to them as well as give the debtor a fresh start to his/her financial obligations.

Some reasons for considering bankruptcy:

- You do not have enough to live on after all your monthly payments to your creditors are made.
- You are in a low income bracket or are on Social Security.

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- You do not have any other assets that can be sold to pay off your loans/debt.
- You are willing to live for seven to ten years with restricted access to credit.

There can be a stigma attached to the concept of declaring bankruptcy but it can also have a positive effect on your financial burden, if chosen. These may include:

- Bankruptcy “discharges” many of your debts implying that there is no longer any legal obligation to pay your debts.
- It halts the collection process. No more collection calls and notices.
- If your utilities have been cut off, they will be restored after declaring bankruptcy or it can prevent them from being cut off.
- The foreclosure process can be halted, giving you the much needed time to make your repayments.

There are many legalities involved and things to take into consideration when declaring bankruptcy. This is not a decision to be made without the aid of a competent lawyer. And while care should be taken, it should also not be disregarded as an option because of fear or embarrassment.

The disadvantages of declaring bankruptcy need to be studied and thought through before making any final decision. These include:

- Having your personal finances carefully scrutinized.
- Being subjected to a Bankruptcy Restriction Order (BRO) if you are proven to have behaved recklessly (gambling, speculation or unwarranted spending). You could be held

accountable for such offenses for up to fifteen years.

- If your home can be sold to offset the payments due, the Official Receiver will expedite the sale so that the proceeds are distributed among your creditors.
- There are some debts that cannot be written off such as taxes due to the IRS, child support and student loans applications for credit.
- If you have a profession in finance, law, government or law enforcement, you may lose your job or find it difficult to find employment in the future.

## Consumer rights and protection laws

Consumer protection law is the area of public law that governs the relationship between consumers and the businesses that sell goods and services. Consumer protection can cover a large scale of applications such as product liability, unfair business practices, misrepresentation, privacy rights and other consumer and business relations. These laws can deal with issues like credit and debt repair, product safety, contracts, pricing, personal loans and collection agency regulations.

It is in every consumer’s right to know more about the product or service that is being purchased. These rights protect not only the consumer but also aim to guarantee fair trade practices.

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## Debt collection and consumer rights

If collectors have started calling you or knocking at your door, it is important to understand the limits of what can and cannot be done by third-party collection agencies. The Fair Debt Collection Practices Act (FDCPA) provides protection for consumers and informs you about the rules that a debt collector must abide by. In cases of personal debt (car loans, credit cards), family debt (medical loans), and household debt (mortgages), the FDCPA prohibits harassment in cases of collections. If a collector indulges in any type of unscrupulous behavior, the FDCPA clearly delineates what is and is not acceptable under law.

However, the Federal Trade Commission's FDCPA rules do not apply to in-house collection agents or original creditors. If you owe money to a retail store for example, the owner is not bound by the rules. But, as soon as the debt is handed over to third-party bill collection agency, these rules are applicable:

1. Collectors have to contact you only by mail, telegram, e-mail, or fax and not by postcard.
2. You can be called on the phone only between 8:00 am and 9:00 pm.
3. Without prior permission, you cannot be contacted at work. If you tell the caller that your boss objects to such calls in office, they may not call you at work.
4. At the outset, the agent has to reveal his/her true identity.
5. No collector can threaten you with jail or imply that you have broken the law. (If a

check bounces however, it is considered a crime in certain states).

6. If any information about you is sought out, the collector has to first tell the informant for what the information is required. This information can then not be revealed to anyone else but your attorney.
7. There should be no verbal abuse, threatening or profane language or threats of violence.
8. The caller cannot threaten to take legal action against you unless they fully intend to do so in keeping with the governing laws in your jurisdiction.

There are, however, few things you should do if contacted by a collection agency:

1. Inform the caller that you are recording the phone conversation.
2. Ask for their particulars such as name, address and phone number for the record.
3. If you get a letter at your mailing address from the agency, you are within your rights to send a return receipt letter telling them to contact you through your lawyer in the future.

Each state has different rules that govern the relationship between debtors and creditors. It would pay to go online and research the relevant laws that apply in your state or even hire an attorney to protect your rights. For more information, or to file a complaint, call the Federal Trade Commission at **877-382-4357** or visit the agency's Web site: **<http://www.ftc.gov>**.

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