

Debt-Free at Last! *A Superior Solution to* **Bankruptcy and** **Credit Counseling**

By Victor N. Chevalier



Learn how to reach *Financial Freedom*
without Bankruptcy or bill collector
harassment in half the time of Credit Counseling

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Debt Free at Last! A Superior Solution to Bankruptcy and Credit Counseling.

(This book does not provide any legal advice)

A Solution to the Debt Crisis

Dear Consumer:

Do you suffer from having too much debt? DON'T file bankruptcy or do Credit Counseling! This "must-read" book reveals a more powerful debt elimination strategy that can quickly and legally rid your problem debts forever!

You will also unmask some of the darkest, most guarded secrets of the banks, credit card companies, and collection agencies. Plus you will learn how to stop bill collector harassment, how to live DEBT-FREE without borrowing a single dime from the banks, and many more debt elimination secrets, including...

- How to reduce your total debt by 50% or more...
- How to improve your credit and *debt-to-income ratio*...
- Nine Amazing Credit Card Secrets...
- Why you must AVOID bankruptcy at all costs...
- Why minimum payments will keep you in *financial slavery*...
- How to prevent judgments, liens, and wage garnishments...

Soon you will get the *peace of mind* you deserve without dealing with attorneys, bankruptcies, lawsuits, or a single phone call from a harassing creditor ever again!

Enjoy the reading on your journey to *financial freedom*!

VICTOR CHEVALIER,
Author

Debt-Free at Last! *A Superior Solution to* Bankruptcy and Credit Counseling

By Victor N. Chevalier

In this country, millions of Americans are struggling to pay their bills because of some type of financial hardship. These hardships are generally caused by a loss of income, a medical problem, or a divorce. My hardship started when I was a young man in the military. I was the primary income provider for a family of four that relied on an \$18,000 annual income and owed over \$30,000 to various creditors. We were drowning in debt! Then tragedy struck. My wife's medical condition caused her to be hospitalized. This also led to my unexpected hardship discharge - an abrupt twist of fate that quickly descended me from the military ranks to the unemployment ranks. I endured my period of unemployment during one of the worst periods of the American economy - the beginning of the Gulf War!

For the next six months, paying our bills was a constant struggle. Once our accounts were delinquent, we could not escape the wrath of angry creditors. First, one of our vehicles was repossessed. Then we were barraged with a number of legal threats. Eventually, the collection pressure became so intolerable that we saw bankruptcy as our only salvation. But the decision to file bankruptcy was one of the biggest mistakes of our lives! I hope this experience will never happen to you. The purpose of for me writing this book is to show you a *better way* out of debt.

Nine Credit Card Secrets

The banks are very determined to keep you in *financial slavery!* They plan to render you defenseless and bury you in debt with high interest rates, fees, and countless other schemes. But I'm about to reveal to you **NINE CREDIT CARD SECRETS** to help you fight back!

CAUTION: *If you have too much credit card debt and your payments are late, please skip this chapter. NONE of the following tips will help you!*

SECRET #1: CARD SWITCHING GAMES

A popular credit card transfer tactic is the low introductory interest rate banks offer to get you to transfer your balance to a new card. But by accepting this offer, you will prolong paying off the original balance. Plus if your payment is late, or you go over-the-limit, your rate can increase to as high as 24 PERCENT!

SECRET #2: MISLEADING MINIMUM PAYMENTS

Most people generally send in the *minimum payment* posted on their billing statements. But doing this only benefits the banks. Especially on large account balances, the majority of *the minimum payment* pays the interest and barely reduces the principal. This prolongs the time to pay off the debt and allows the banks to add more interest charges. You can overcome this problem by ALWAYS paying more or doubling the *minimum* payment.

SECRET #3: THE TWO-CYCLE BILLING

Many credit card issuers use the *two-cycle billing method*, which calculates interest charges by charging two months of interest for the first month that you fail to pay off your total balance in full. This is triggered when you switch from paying in full to carrying a month-to-month balance. But it can be avoided by paying the balance in full or switching credit card companies.

SECRET #4: NEGOTIATING RATES & FEES

Most people make the common mistake of lowering high interest rates by enrolling in *Credit Counseling*. But if you have a good payment history, you can negotiate with most banks on your own. They will work with you out of fear that you'll transfer your balance to another card with lower rates and fees.

SECRET #5: THE RIGHT TO SET-OFF

Never bank at the same financial institution that issued your credit card! You may have signed a deposit account agreement that permits the bank to deduct any credit card payment that becomes delinquent. To avoid this *right to set-off*, always bank at a separate banking institution or avoid being late in sending out a payment.

SECRET #6: TRICKY INTRODUCTORY RATES

Beware of credit card bank offers with introductory “teaser” rates. After a certain time period, these cards may revert to a higher interest rate! Once a payment is late, the bank can raise the promotional interest rate to the highest legal rate in your state. To prevent this from happening to you, re-negotiate the interest rate, pay off the full balance before the rate increase, or close your credit card account.

SECRET #7: AVOID CARDS WITH NO GRACE PERIODS

NEVER believe “too-good-to-be-true,” low interest rate credit card offers. Banks normally make these offers for credit cards with no grace periods. This allows them to charge you interest from the day of your first purchase. To prevent this, carefully read the fine print.

SECRET #8: LOWER GRACE PERIODS

Most banks offer credit cards with “25-day grace periods.” During this time period, you can pay your balance in full without any penalty. However, some banks purposely shorten this grace period to twenty-days to increase their chances of charging you a \$25-\$50 penalty fee every time that your payment is late. As a measure, ensure that you have a 25-day grace period. This will improve your chances of making payments on time and avoiding late fees.

SECRET #9: DOUBLE FEES ON CASH ADVANCES

Most credit cards charge steep finance charges on cash advances. The interest charges normally start from the day of your cash advance. They may also charge transaction fees up to 2.5 percent of the amount advanced. To avoid being trapped into these exorbitant fees, NEVER take out a cash advance from your credit card unless it’s for an absolute emergency.

Hopefully, some of the above tips can be useful to you. But they may only help your situation if you have a good payment history. If none of them apply to your problem, don’t worry. In the next chapters, you will find the right solution...

The Bank Wins - You Lose!

In order to effectively get out of debt, you need to understand the degree of your financial condition. Let me start by making you aware of the following shocking facts:

- ▶ On the average, the typical credit card purchase costs 112% more than using cash
- ▶ Over 40% of U.S. families spend more money than they earn
- ▶ The average U.S. household has 7 credit cards
- ▶ The typical *minimum payment* is 90% interest/10% principal
- ▶ 65% of all credit cards have only the *minimum payments* made by consumers
- ▶ Each year, Americans pay out in excess of \$64 billion in interest alone
- ▶ 60% of all marriages end in divorce due to financial problems
- ▶ Bankruptcies are 8 times higher today than during the Great Depression

The above statistics are just a few of the indicators of why U.S. consumer debt is a serious epidemic. In fact, today American consumers are \$1.7 TRILLION in debt and consumer spending exceeds personal income! Thus it's no surprise how easy it was for you to get into debt.

Does the following scenario ring a bell? For many of debt's victims, the problem started with the greedy banks flooding their mailboxes with hundreds of "pre-approved" credit offers enticing them to "*buy now and pay later.*" You may have unsuspectingly accepted one of these offers. More than likely, you were also unaware of the bank's ulterior motive. Their evil scheme is to make huge profits by inundating the median household with lines of credit that impose exorbitant charges. In a report by the *Consumer Federation of America*, in 1997, more than FIVE-BILLION credit card solicitations were mailed out - nearly 50 per U.S. household. More than 1 billion were mailed in the first quarter of 2002 alone! Eventually your temptation to get more lines of credit became too impossible to resist. Before you knew it, you were thousands of dollars in debt and your accounts were up to their credit limits! To top things off, you could barely continue to afford making the *minimum payments*. You fell into the "*Debt Trap*" and now you can't get out!

You are NOT alone. The above dilemma afflicts two thirds of our nation that now lives in a state of *debtor's prison*. To be exact that's 78 MILLION American households that own credit cards with an average balance of \$7,564 at an average interest rate of 17 PERCENT! That puts you in the seventy-five percentile of Americans who are three paychecks away from bankruptcy. Not a pretty picture! I'm sure that living paycheck to paycheck gives you lots of stress. It must be equally frustrating to you not having any savings that can help you supplement your income in the event of a loss. Imagine if the unexpected happens. Let's say you got laid off from work. This will make you even more stressed wondering if you can pay your bills. Soon enough, you'll act in desperation occasionally skipping one bill to catch up with the next. I call this the "*robbing Peter to pay Paul*" approach. But this quick fix will not resolve your problem! It only causes your debt to keep rising and you're going to need serious creditor relief. But of course, the last thing on your mind is to file bankruptcy.

The only other option is to continue the *minimum payments*. But this will keep digging you deeper in the hole! Remember that it prolongs the repayment of your debts and causes you to pay thousands of dollars more in interest charges. To be exact, if you're paying double-digit interest rates, your *minimum payments* are about NINETY-PERCENT interest charges! There's barely any reduction of principal. At the rate you're going, expect to take the next FIFTEEN to TWENTY YEARS or perhaps the rest of your life to become debt-free.

The FIRST mistake: Do you know your first mistake when you started buying on credit? Overlooking that each purchase you made would end up costing you TWO to THREE times more than the original purchase price! Most people make this common mistake. The average consumer doesn't understand the consequences of buying on credit. This mathematical depiction will enlighten about the magnitude of your problem: If you make the minimum payment on a \$4,800 credit card balance at the 17 percent average U.S. cardholder interest rate, it will take you 39 years and seven months to pay the balance off. In interest alone, you'll pay 10,818.63 and a total of \$15,619. It's startling that by not using cash, you will spend about 112% more on any credit card purchase!

The SECOND Mistake! Are you now wondering what your second biggest mistake was? Overlooking fee charges! I'm talking about over-the-limit fees; balance transfer fees, cash advance fees, and last but not least, the infamous late fees! These bank charges

seriously devastate the pocket book. Yet they're incredibly lucrative for the banks. In 2001, credit card issuers collected \$23.9 billion in fees. Fee income alone, accounted for 31% of the \$78.1 billion of credit card industry profits! The majority of fee charges came from penalty fees, totaling \$7.1 billion, or 9 % of total revenue.

Okay, now that you know the truth, do you think the banks really care about you? Let me give it to you straight! It doesn't matter to them that you can't pay your bills because of a lay off from work, or because you couldn't work for a month due to a serious medical problem. I hate to tell you that their ONLY concern is that you pay your bills on time! The banks are only motivated by GREED. The banks plan to win the "*debt game*" at ANY cost!

WARNING:

As soon as you're bills become delinquent, they'll make your life a LIVING HELL. First they will assign your account to a dreadful collection department. Then nasty bill collectors will call and harass you with a variety of ruthless collection tactics. They will bombard you with "demand for payment" letters, abusive phone calls, and countless legal threats. It's not unusual for them to violate your rights shamelessly calling you at home after 9:00 p.m., or asking for you at work even when your employer does not allow it. Trust me, they will incessantly pressure you and psychologically humiliate you to force you to find a way to pay up. The pressure alone is so overwhelming, that I've seen people senselessly skipping mortgage payments to pay their bill collector's demands.

Sadly to say, your problem will go far beyond the brutal creditor harassment! While some of your creditors may report the negative status of your unpaid accounts to the credit bureaus, some plan to take you to court. Then once they win a judgment, they intend to start a wage garnishment or put a lien on your property. Unless you hit the New York lottery or you file bankruptcy, there's nothing you can do to stop them! But don't despair. I'm about to show you a way to win the fight against your creditors. After you read the following chapters, you will soon learn a better way to *financial freedom*...

Stop Damaging Your Credit!

There's an important question that I need to ask you. ***Do you think you have "good credit" because you NEVER made a late payment?*** That's NOT true! In reality, if you're living paycheck to paycheck and you have a lot of debt, this means that you have a high debt-to-income ratio. Unfortunately, this causes LONG-TERM damage to your credit! As I'm speaking to you, you're DESTROYING your creditworthiness. Many banks will also see your high *debt-to-income ratio* as a sign of insolvency. Let's face it - anyone can see that you're carrying way too much debt for your income level. So it's not difficult to understand why you're in the same boat as a consumer who has little or no credit history, one who has filed bankruptcy, or one who has a terrible bill-paying track record. Ironically, even if you have a good payment history, or if you have a credit score above 600, your days of having good credit are over!

What is the Debt-to-Income Ratio?

The *debt-to-income (DTI) ratio* is a major component of your credit profile. This powerful indicator helps the banks to determine how much more debt you can take on. The *DTI ratio* is a percentage of your household debt compared to household income. (e.g. if you have a 30% *DTI ratio*, only 30% of your total pre-tax gross monthly household income is applied toward paying off your debts. Banking institutions consider a low *DTI ratio* as a sign of financial strength. A positive *DTI ratio* is generally below 20%. If you're in this category, you will have a greater chance of qualifying for a loan. You can also get the best interest rates and loan terms. But if your *DTI ratio* is above 30%, it can jeopardize your chances of making major purchases, such as buying a home. If your *DTI ratio* is over 36%, most banks will avoid lending you money because they will worry that you have more debts than you can reasonably afford to pay. If your *DTI ratio* exceeds 50%, beware! Prospective creditors will deem you to be insolvent and on your way to file bankruptcy.

The following example will explain the negative impact of a high *DTI ratio*: Let's say you're \$20,000 in debt and you're barely making the *minimum payments*. If you don't find a quick way out of this mess, you know that your financial problem is bound to spiral out of control. Adding to the problem, you see that after you pay your bills each month, there's no money left over. Based on your \$3,000 gross monthly income and your revolving debt of \$1,500, you have a **50%**

DTI ratio! You seriously need help! So you think about applying for a debt consolidation loan. Sounds like a good idea. The problem is that as soon as the bank sees your *DTI ratio*, your loan application gets denied! The bank will think you have far too much debt and not enough income to responsibly meet your financial obligations. However, they offer you some hope by welcoming you to reapply as long as you manage to reduce at least 50% of your total debt. This will place your *DTI ratio* at a positive standing. But how can you pay off \$10,000 when you're barely able to pay your bills? It will be an eternity before the bank determines that you are creditworthy.

Calculating Your Debt-to-Income Ratio

Here's the formula to calculate your *debt-to-income (DTI) ratio*:

1. Add all monthly revolving debt including mortgage (rent), car, credit card, bank loan, student loans, and tuition. This equals your revolving debt monthly payment.
2. Divide your revolving debt monthly payment by your gross monthly income. If your income is \$3,000 and your monthly payment is \$500, your *DTI ratio* is 16%. (e.g., $\$500 / \$3,000 = .16$).

Debt-to-Income Ratio Worksheet

A. Enter Revolving Debt:

- | | |
|---|----------|
| 1. 1 st Mortgage/Rent: | \$ _____ |
| 2. 2 nd /3 rd Mortgage: | \$ _____ |
| 3. Car Payments: | \$ _____ |
| 4. Student Loans/Tuition: | \$ _____ |
| 5. Bank Loans: | \$ _____ |
| 6. Credit Cards: | \$ _____ |
| 7. Other Loans: | \$ _____ |

- | | |
|--------------------------------|----------------------------|
| B. Add Lines (1) through (6): | \$ _____ (Total Debt) |
| C. Enter Gross Monthly Income: | \$ _____ |
| D. Divide line (B) by line (C) | = _____ % DTI Ratio |

A Powerful Way to Eliminate Debt

It's so distressing that most people see only two choices – filing bankruptcy, or spending a lifetime digging their way out of debt. But let me present a better solution. It's called *Debt Negotiation*. This bankruptcy avoidance solution helps you achieve *financial freedom discreetly and affordably!* It is the fastest, most powerful way to eliminate your problem debts. In a nutshell, *Debt Negotiation* settles your debts at a reduced amount, it lets creditors recover some of the principal, and the status of "unpaid" accounts improves to a "positive" standing. Here's what you need to qualify for *Debt Negotiation*:

- A goal to avoid bankruptcy and reduce your debts 50% or more
- \$7,500 or more in unsecured debts
- A steady source of income

Note: *Debt Negotiation* only works on *unsecured debts*. These are debts that are not guaranteed by any personal property or collateral that a creditor can seize if you default in making payments. Here are some examples:

- Credit Cards
- Department Store Cards
- Gas Cards
- Personal Loans
- Signature Loans
- Judgments
- Liens
- Repossessions
- Collection Accounts
- Health Club Memberships

NOTE: Secured debts including, auto loans, mortgages, student loans, and IRS taxes, are not acceptable for *Debt Negotiation*.

Before deciding on *Debt Negotiation*, it's important to compare its benefits against the other options. This will help you make an informed decision to go with the best debt management program for your particular situation. Let's examine each one of them:

- 1. The DO-IT-YOURSELF Approach**
- 2. The BANKRUPTCY Approach**
- 3. The DEBT CONSOLIDATION Approach**
- 4. The DEBT NEGOTIATION Approach**

The *Do-It-Yourself* Approach

The biggest problem with the *Do-it-Yourself* approach is PROCRASTINATION! Day after day, you'll continue to live with your problem hoping for things to get better. But facing the hostility of bill collectors and doing NOTHING, does not fix your problem. If you constantly ignore a creditor's demands and don't take action now, you can get slapped with a wage garnishment or a lien on your home. Not to mention the devastation to your credit that this will cause.

In case you're prepared to take matters into your own hands, I hate to tell you that negotiating with the banks without professional help is complicated. Remember, you are just a novice! But even a brain surgeon would not dare operate on his brain, just as an attorney would not represent himself in court or he'd have a "fool" for a client. Keep in mind that dealing with creditors on your own is SERIOUS BUSINESS! You should AVOID taking matters into your own hands; the psychological pressure alone can kill you! In the end, the *Do-it-Yourself* approach can bring you plenty of migraines and a lot of wasted time.

The Bank's Hardship (Deferment) Plan

Do you still feel diplomatic to deal with creditors on your own? Take my advice, BACK OFF! Nothing in the world ever gets them to listen. Even when you think you found someone who listens, it won't take long to figure out that the banks are NOT your friends! They're very skilled at kicking you when you're down. The bank officials who speak with you are trained to handle your calls. They'll give you the impression they're helping you by offering you the bank's *hardship plan* (which can give you temporary relief by deferring or lowering your *minimum payment* up to six months). But as soon as you accept their offer, they have cornered you exactly where they want you! The bank's *hardship plan* will defer the unpaid interest charges and your principal balance will increase as well as your future *minimum payments* and the time to pay off your debt! When you mostly need help from the banks, they'll find a way to make life more miserable for you. This example shows why you must not accept *hardship plans*:

Estimated Cost of Deferment Based On:

<i>Current Principal Balance:</i>	\$10,000.00
<i>Annual Interest Rate:</i>	18%
<i>Length of Deferment:</i>	90 Days
<i>Total Interest Accrued:</i>	\$443.53
New Loan Balance:	\$10,443.53

CAUTION: *Bank Hardship Plans* prolong your debt and sink you deeper in the hole!

The *Bankruptcy* Approach

Bankruptcy may be the easiest way to seek protection from the creditors and bill collectors. But I strongly caution you to take this route only as your last resort! Most people experience negative ramifications as a result of filing for bankruptcy. It's appalling that millions of bankruptcy filers have chosen this route for relatively small debt amounts. Money Magazine reported that "90% of all personal bankruptcies could have been avoided with just an extra \$250 in monthly income." And every year produces yet another record number of personal bankruptcy filings. In 2002, bankruptcies outpaced the previous year's amount of 1,398,864 by 7.8 percent, or 1,508,578. Besides causing the loss to property, bankruptcy can cause a lot of emotional and public humiliation. It also causes severe damage to your credit! Additionally, bankruptcy is not cheap! Expect to pay considerable legal costs; \$1,000 to \$2,500, or more!

Contrary to popular belief, if you file for bankruptcy, it WILL NOT discharge all of your debts. More than 70 percent of all personal bankruptcies are filed under *Chapter 7*, also known as "*straight bankruptcy*" or "*liquidation*." This bankruptcy procedure eliminates most of your debts, but in exchange, you may have to liquidate personal assets like your home, furnishings, or automobile. The courts will also appoint a trustee who is responsible for converting your assets to cash in order to repay creditors. Additionally, you will not be allowed to discharge alimony, child support, and taxes, any loan not listed on the bankruptcy petition, student loans, or judgments.

The other form of bankruptcy is called *Chapter 13* commonly known as the "*wage earner's plan*." Although *Chapter 13* bankruptcy can not entirely eliminate your debts, it protects most of your assets. Unlike *Chapter 7* bankruptcy, which eliminates all of your debts, this procedure restructures the repayment of your debts. In order for you to qualify for *Chapter 13* bankruptcy, you must demonstrate to the bankruptcy court that you have consistent income to repay creditors. You will also be required to follow a three to five year court-approved creditor repayment plan. Like it or not, you'll be at the mercy of the court and you will lose control on how to pay back your creditors. You may file for *Chapter 7* bankruptcy every six years. There's no time limit to file for *Chapter 13* bankruptcy. **But either filing remains on your credit report for TEN YEARS and on public records up to TWENTY YEARS.** A bankruptcy can also cause you to be denied for

employment, state licenses, or insurance, and can cause you to be denied from renting an apartment.

In life after bankruptcy, the days of getting "unsecured credit" are history! You can be denied for virtually any type of credit for many years to come. Some bankruptcy filers find it possible to reapply for credit after about two years of their bankruptcy discharge. But unfortunately, most of their credit offers are from *predatory lenders*. These high-risk lending institutions like to swindle these credit-challenged consumers into getting "*secured loans*" that have steep interest rates and exorbitant fees. But DON'T make the mistake of accepting these loans under any circumstance! Or you will pay thousands to tens of thousands of dollars more than someone who never had a bankruptcy. According to a bankruptcy report by the credit agency, Standard & Poor's, lenders generally add a 5 percent premium on interest rates and sometimes require a 50 percent down payment on a mortgage for people with scarred credit histories. Additionally, you may qualify for *secured loans* that are guaranteed against your property or assets.

The following example illustrates what can happen if you accept a loan from a *predatory lender*: Let's say it's been two years after your bankruptcy was discharged and you just found your dream home. Times are good and now you have a good paying job. Knowing that you meet the income qualification, you decide to apply for a mortgage loan. But you're aware of the odds of qualifying due to your previous bankruptcy. After being turned down by half a dozen mortgage companies, you finally find a company that specializes in helping people with credit problems. The mortgage company initially offers you a \$150,000, *thirty-year fixed* mortgage at a 7% APR. This reinvigorates your hope to reapply. But while completing the new loan application, you come across the same unavoidable question, "*Have you ever filed for bankruptcy?*" Reluctantly, you answer "YES", which is also verified on your credit report. As a result, the mortgage company approves you but for a different loan based on a 10% APR! If you accept this loan, you will have to pay three points more than the original loan rate. But before you think it's no big deal, let's compare the two loans. Instead of having a mortgage payment of \$997.95 (under the original 7% APR loan rate), your new payment will be \$1,316.35. Wow, that's a difference of \$318.40 more per month! Don't you think it's ridiculous that a bankruptcy will force you to pay **\$114,624** more in interest charges over your loan term? Here's my advice: find any way you can to AVOID bankruptcy!!!

The *Debt Consolidation* Approach

If you're considering *Debt Consolidation*, here are the three options; please make sure to review each one of them carefully:

1. Borrowing Money:

There isn't much to cover on this topic since you may already be facing a financial problem that impedes you from qualifying for a loan. Succinctly said, the concept is to pay off your debt by borrowing at a lower interest rate and a lower monthly payment, which will benefit by paying off your debt in less time. But having a lot of debt and a high debt-to-income ratio, how can you qualify for a loan? Unless you can demonstrate to the banks that you have the income and the ability to repay a loan, no bank will want to lend you money.

2. Debt Consolidation (Home Equity) Loans:

I'm sure you've seen the TV ads, "*Consolidate debt and get a lower monthly payment.*" These are lenders who promote home-equity, or debt consolidation loans. But DON'T let their tricky ads fool you. Statistically, 75% of all the people who get a home equity loan get deeper into trouble. Do you know why? **You can not borrow your way out of debt!** A home equity loan only transfers debt from point A to point B but does not cause it to disappear. You will still have to pay back 100% of the debt plus the new interest charges!

Another problem with home equity loans is that not everyone qualifies for one. To get a home equity loan, first you must be a homeowner. Secondly, you must have equity on your home. This means that the value of your home must be considerably more than its original purchase price. Thirdly, you must have a good credit standing. And even if you meet all of the above qualifications, you will still face a major problem. Let's say that you were approved for a \$50,000 home equity loan. The good news is that you will be able to pay off your high interest credit cards. But here's the BAD news: **You just traded "unsecured debt" for "secured debt!"** And do you know what will happen if you default on any payments? The mortgage company will have the right to foreclose on your home. Does it make sense for you to risk losing your home over the next 10 to 15 years?

The other problem in getting a home equity loan is that it will give you renewed spending power. This also makes you susceptible to

get into MORE debt! According to a survey by the Consumer Bankers Association, within a year, 70% of the people who traded credit card balances to home equity loans, were again running up credit card debt. Let's look at the following example: Let's say you and your wife earn a combined \$75,000 annual household income. The good news is that you only owe a balance of \$198,000 on your \$320,000 mortgage. But the BIG problem is that you have a lot of debt! You owe \$34,000 on two car loans, \$5,000 on a Jet Ski, and \$38,000 on credit cards!!! This equals a principal balance of \$77,000 not mentioning what you owe in interest. In sum, you're paying an astounding \$4,566 of revolving debt per month!!! It also means that you are using SEVENTY-THREE-PERCENT (73%) of your gross monthly income just to pay off revolving debt not including your mortgage payments!

Luckily, your \$122,000 home equity qualified you for a debt consolidation loan. Now you can pay off the \$77,000 debt with a lower interest rate, a lower monthly payment, and a saving of \$953 per month. **BUT HERE'S THE RISK** – If you don't do a serious change in lifestyle and quickly modify your spending habits, history's bound to repeat itself! Within a year, you will see yourself gaining more debt and worst of all, the next time you have a financial problem you won't have any equity! The moral of the story is that if you're not very careful, the "home equity loan" approach may hurt you. For most people, this a temporary fix that ultimately brings long-term pain.

3. Credit Counseling

At some point you may consider the most popular debt consolidation approach of them all. It's called *Credit Counseling* or *Consumer Credit Counseling (CCC)*. Did you know that this concept was originated in the early 80's by the same folks you owe money to? Yes, I'm talking about the BANKS and credit card companies! The stated aim of CCC is to recover money for the banks that you as a troubled consumer would ordinarily have to discharge through a bankruptcy. The only benefit of a CCC program is that it can reduce your interest rate. In this procedure, first you will meet with a *credit counselor* who will determine how much money you can afford to pay each month to each creditor. Then all of your bills will be pooled into one single monthly payment that you make to the credit counselor who in turn will repay each of your creditors on your behalf.

In theory, the CCC approach seems practical, but when put into practice, it can be disastrous! Although the media reports *credit counselors* as "non-profit saviors," collectively, they are the BIGGEST

collection agency for the banks. In fact, the banks are their primary funding source. But don't take my word for it. According to Consumer Reports, in 2001, CCC programs collected about \$2.5 BILLION for the banks, who pay them 9% to 15% in back-end commissions, also know as fair share. This means that for every \$100 you give to a *credit counselor*, the bank lets them keep as much as \$15.00! They also collect monthly fees!!! So whose interest do you think CCC best serves, YOURS or the banks'? Wake up and smell the coffee - the longer you stay in a CCC program, the more money they will make! Unfortunately, this one-sided relationship doesn't give *credit counselors* any financial motivation to get you out of debt quickly.

Do you know the most damaging effect of Credit Counseling? HOW IT RUINS YOUR CREDIT! The initial damage starts as soon as creditors report to the credit bureaus that your accounts are "closed." Most CCC programs may also report that you are enrolled in a "Credit Counseling" or "Debt Management - Hardship Program." Unfortunately, this negative information can remain on your credit report for SEVEN YEARS! Compared to bankruptcy, a prospective lender will see that you needed *third party* assistance to get debt relief. Another credit problem with CCC is that while most creditors may agree to accept a lower monthly payment, some may report "*late payments*" on your credit report due to not receiving the full *minimum payment*. A major complaint by many CCC drop-outs is that their payments were not being sent to their creditors on time. These consumers were surprised to see "30", "60", and "90-day lates" on their credit reports on payments that were actually made on time.

Here's the biggest reason why you must try to avoid a CCC program: THEY HAVE A VERY HIGH DROP-OUT RATE! A July, 2001 Consumer Reports survey found that just "twenty-one percent of CCC clients successfully completed their debt management programs." The survey also indicates that "*out of 100 people, 79 never completed the program.*" And it's no surprise that many CCC drop-outs end up filing bankruptcy! I call CCC the "*Dying a Slow Death*" approach; just imagine having terminal cancer but your doctor prescribed you a medication that only prolongs your agony until the plug gets pulled. Let's face it; owing a lot of debt is like a cancer and merely reducing just the interest rate (as in the case of CCC programs) may not be strong enough medication to cut your cancer at the root. That's why if you start CCC owing \$25,000, you'll pay back \$25,000! And this doesn't even include the reduced interest rate and the program fees.

4. The *Debt Negotiation* Approach

Finally, let's examine what I consider to be the most powerful debt management solution of all, the *Debt Negotiation* approach. Besides helping you stop creditor harassment, this approach will help you conveniently build up the necessary funds to successfully settle all of your debts. Unlike *Debt Consolidation*, *Debt Negotiation* will substantially reduce not just your interest rate, but more importantly, the principal balance (what you owe). It can also help you pay off your debts for 35 to 50 cents on the dollar! But to give you a better understanding of the many virtues of *Debt Negotiation*, let's walk through an actual example:

Let's say your total debt is \$25,000 spread over six different credit cards. Their average interest rate is 21% and each card is up to its credit limit. Adding to this problem, you're helplessly sending out to your creditors about \$800 per month in wasted *minimum payments*. Even when you increase your payments, you NEVER see your account balances go down. So it's obvious that you're stuck in *Debtor's Prison!* You're just praying for a way out!!!

RULE #1: Proof of a Legitimate Financial Hardship

To make matters worse, you suffered a recent financial hardship; an illness caused you lose nearly two months of work! As a result of this financial setback, your credit card payments are late. Now your account balances have skyrocketed through the roof due to high interest rates, late fees, and over-limit fees! Plus your phone's ringing off the hook by creditors who are calling demanding their money NOW!

Of course, your primary concern is to find a way to bring an end to the tormenting creditor harassment. It terrifies you that at any time, a creditor may take you to court. Bankruptcy crossed your mind, but you want to avoid it! As you search for another solution, you make a wise decision and enroll in a *Debt Negotiation* program. Now a professional *debt negotiator* with many years of experience settling thousands of debts for his clients is working on your side! You have renewed hope knowing that you can escape bankruptcy and affordably eliminate all of your debts. In fact, the program can save you about 60% off your total debt. In less than 36 months, you can reach a ZERO balance on each account and reach *financial freedom!*

Because of the degree of your legitimate financial hardship, it may also be possible for to settle your debts at a bigger discount.

RULE #2: AVOID Talking To Creditors

It's very important that you follow Rule #2 because you will no longer have to deal with creditors. That is the job of your *debt negotiator* who will be managing your debts. Rule #2 is also important because it will help prevent bill collectors from tricking you into volunteering personal information that can support their collection efforts. By talking to a bill collector, they may use many tactics to get you to tell them where you live and work and how much income you make. Then they can easily manipulate you into giving out your checking account information over the phone and when you least expect it, they'll slyly swipe money out of your bank account. So to avoid any of these pitfalls, you have one rule to follow: REMAIN SILENT and DON'T talk to creditors!

What happens if a creditor keeps calling me? To help you with Rule #2, your *debt negotiator* will send your creditors a customized *Cease & Desist letter* that is designed to stop the collection calls and any illegal or overbearing collection activity. Creditors will be required not to call you at home or work. If they violate this requirement, they will be in violation of the *Fair Debt Collection Practices Act (FDCPA)* and can be fined up to \$1,000 per violation!

RULE #3: SAVE Money for Settlements

The initial job of your *debt negotiator* will be to explain your financial hardship to each creditor. Owing a lot of debt, your creditors know that any additional setback, such as your car breaking down, or a loss of additional income, may leave you no other choice but to file for bankruptcy. Creditors will also be reminded that if push comes to shove, you can always take this easy way out. But a bankruptcy is the last thing on any creditor's mind because they can risk getting ZERO money back. The GOOD NEWS is that creditors will be told that in lieu of filing for bankruptcy, your goal is to reach an agreeable settlement. But the BAD NEWS is that you plan to repay your debts at substantially reduced amounts.

Initially, all of your creditors are unwilling to settle. But your *debt negotiator* continues talking with each creditor until one of them

agrees to make a settlement. Within five months, you followed Rule #3 and saved \$500 per month, which gives you a total savings of \$2,500 for future settlement funds. Finally, on the fifth month, one of your creditors decides to throw in the towel. Unbelievably, they are now willing to accept a 50% settlement on the \$5,000 unpaid account! To satisfy payment in full you must remit a settlement amount of \$2,500. As a guarantee, your *debt negotiator* requests a written *settlement offer* from the creditor and sends you a copy. What perfect timing; with the same \$2,500 that you saved, you will be able to settle the debt. As soon as this happens, the negative status of the \$5,000 delinquent account will be positively reported as "SETTLED" or "PAID IN FULL." This same procedure will be repeated on your remaining accounts until each debt is SETTLED and your credit standing is improved. Congratulations on a rewarding path to *financial freedom!*

Let's summarize how you managed to escape *Debtor's Prison*. Remarkably, through *Debt Negotiation*, you can settle your debts for twenty to forty cents on the dollar. But I based the above scenario on a 50% across-the-board settlement just to be conservative. *Note: the creditor who decided to accept the lowest percentage settlement got paid first and the creditor that held out for a higher percentage got paid last.* In closing, you liquidated your entire \$25,000 debt in only twenty-five months! You also SAVED \$12,500, stopped the insanity of the *minimum payments*, and best of all, you escaped bankruptcy!

Why Debt Negotiation Works:

The "Bankruptcy" Threat: Although there are various factors that lead to the effectiveness of *Debt Negotiation*, the biggest one is the *threat of a bankruptcy*. This is indeed, the bank's greatest fear! Each year, bankruptcies cause the banks to lose BILLIONS of dollars! According to the Nilson Report, in 2002, credit card issuers lost \$18.19 billion on personal bankruptcies. This represents a 15.1% increase over the losses from 2001. But *Debt Negotiation* promises your creditors that you won't file bankruptcy as long as they can agree to make a workable settlement. This will create a "WIN-WIN" situation for both you and the creditors. On the other hand, if a creditor holds out for too long, they may force you into bankruptcy and NOBODY will win!

The Failure Rate of the Debt Collectors: Let me explain why debt collection makes *Debt Negotiation* such a successful

strategy. As soon as you stop paying your bills, even the largest banks won't have the time or the resources to collect on their own. Instead, they will assign the collection of your debt to a collection agency or collection attorney. These debt collectors can earn a commission for every dollar they can collect from you. They will also stop at nothing to get paid! But despite the scary tales that you've heard about them, there's no reason to panic if you're being targeted by a debt collector. Even if you do nothing, it will be difficult for them to collect any money from you. **Statistically, 66% of ALL of the debts managed by U.S. collection agencies is NEVER collected!**

The reason for this high failure rate is that most collection agencies have antiquated systems. They also pay minimum wage to collectors who have to rely largely on a commission basis. Being at this disadvantage, many debt collectors will get downright nasty. They will resort to unscrupulous phone tactics to pressure you to pay them. You may be misled with constant verbal threats of litigation although the debt collector does not have any right to sue you. A debt collector may even threaten to put you in jail or to contact your employer knowing it would cause you an inconvenience. But all of these actions are in direct violation of the *Fair Debt Collections Practices Act (FDCPA)*. Thankfully, just like you and I, a debt collector must be law abiding. Additionally, under the *FDCPA*, a debt collector:

1. Can not use profane or obscene language with you.
2. Can not threaten you with criminal prosecution or imply you committed a crime.
3. Can not threaten to take your property or garnish your wages if it's not legal to do so, or if they do not intend to take this action.
4. Can not take your property or garnish your wages without a court ordered judgment.

Your other benefit is that a debt collector is generally "assigned" your debt. This means that they DO NOT own your debt! Technically, you don't owe them any money and they can't prove you owe them money because they only have an "assignment of the debt." The only legitimate contract that exists is between you and the creditor. As a result, a collector's best defense may be to scare you with illegal or inappropriate verbal threats that they rarely back in writing. So don't be so quick to give in. There's no guarantee they can collect a dime from you unless you give in to their demands. On the other hand, it makes more financial sense for creditors to settle your debt than to risk NEVER collecting a penny by assigning the debt to a debt collector.

The Fear of Charge-Offs: Even before the threat of a bankruptcy, you creditors may face another major threat, the threat of a *charge-off*! Banks are under Federal regulations and their typical approach will be to *charge off* a debt if it remains unpaid for 180 days. A "*charge off*" or a "*non-performing asset*" is an accounting term used when a creditor eliminates your debt (what you owe) from their *profit and loss* statements. However, creditors can still pursue this uncollectible debt, or may sell or assign it to a collection agency.

Just like bankruptcies, *charge-offs* cause the banks to lose BILLIONS of dollars each year. According to the *Nilson Report*, in 2000, card issuers charged off \$47.49 billion in credit card debt and it is expected that \$76.46 billion will be charged off in 2005. **So the question of charge-offs is not, "can my debt be settled?" It's "how soon will my debt settle?"** Answering the latter question, *Debt Negotiation* makes the time clock run against creditors. As soon as your debt is "*unpaid*", it begins to *depreciate* making the creditor's collection efforts become increasingly more difficult. This also motivates creditors to rush to the negotiation table or else, once a *charge-off* occurs, they will face a much greater financial loss.

You may not be able to save enough funds to settle all of your debt before it *charges off*. But if this happens, don't worry. Besides being a tremendous tax benefit, a creditor can also sell your *charged-off* debt. Depending on the *aging* the debt, a collection agency may pay for it five to fifteen cents on the dollar! As an example, they can buy a \$5,000 *charged-off* account for \$250 to \$750. **WARNING:** the collection agency will still demand PAYMENT IN FULL! Luckily, because of the debt's "charge-off" status, your *debt negotiator* can work out a mutual arrangement that can settle the debt for PENNIES on dollar!

The Statute of Limitations: Another fear of the banks is that you may become a "*dead-beat debtor*." This is a debtor who skillfully avoids paying a debt by running out the *Statute of Limitations (SOL)*. This is the creditor's time limit to file a lawsuit to collect an unpaid debt. The *SOL* period starts as soon as the debt becomes delinquent and it lasts between 3 to 15 years depending on the type of debt and the state where you live or where the credit contract was signed. The *SOL* only covers lawsuits and applies to *oral agreements, written contracts, promissory notes* and *open accounts*. Waiting for the *SOL* to expire, a *dead-beat-debtor* can employ a number of crafty tactics, such as falling off a creditor's radar by moving from one residence to the next without leaving a forwarding address, or changing a phone number to an unlisted number. But I DON'T

recommend taking this DANGEROUS and UNETHICAL approach! Take my advice, you owe the money and this will put you in serious jeopardy of being sued and of destroying your credit!

On another hand, the *SOL* can present a powerful advantage for you; although it can not prevent creditors from filing a lawsuit, you may be able to have the suit dismissed on the basis that the *SOL* has expired. You won't be able to stop any collection activity or keep the debt from being reported to the credit bureaus. But upon settling the debt, collection activity will stop. The other good news is that once the debt is reaching the *SOL*, before losing the right to take you to court, most creditors will attempt to make a swift settlement. Creditors place less effort in trying to collect debts that are "*out of statute*."

The Pros & Cons of Legal Action: Ironically, a creditor's biggest defense is their *verbal threats*. This is what has scared millions of Americans into filing bankruptcy. But I'm going to tell you a secret that will lessen your worries about being sued.

Here's the secret:

What you owe is called an Unsecured Debt!

Your unsecured debt includes credit cards, department store cards, gas cards and personal loans issued by banks, credit unions, and financial institutions. Unlike a mortgage or an automobile loan, if you default on an *unsecured debt*, creditors have NO GUARANTEE of recovering money that you owe from your personal property or assets. After realizing that their legal threats do not have any effect, rather than going to court, creditors generally *charge-off* unpaid debts.

Now let's assume that one of your creditors plans to take you to court. First of all, it won't be an easy task! If they're smart, they will weigh the pros and cons of filing a lawsuit. In many cases, the legal costs alone may outweigh the debt amount. But if they take legal action, they will be required to pay legal costs and may need to invest a lot of time WITHOUT ANY GUARANTEE of ever winning a judgment. Upon being awarded a judgment, there's still NO GUARANTEE that they can collect a dime from you unless you pay them! Nevertheless, I want to satisfy your curiosity in case a creditor decides to take legal action. First the creditor may verify your employment; remember that without you having adequate income, they can't get paid. They will also review your credit report and/or public records to see if you own

property or assets worth legally pursuing. Then they will need to pay the legal costs to draft a court *Summons and Complaint* (lawsuit). Plus they need to pay a Deputy Sheriff or a process server to properly serve you the lawsuit. Once they serve you, they'll also need to wait (30) days to have a day in court. Finally, if they win a judgment, they can start the necessary paperwork to serve a wage garnishment order to your employer or to file a lien on your property.

Now let's talk about the TWO BIGGEST CREDITOR WEAPONS: **WAGE GARNISHMENTS** and **LIENS**. The first thing you should know is that *wage garnishments* are uncommon. In fact, they rarely happen with *unsecured debt*. But verbal threats of a *wage garnishment* are a very popular creditor tactic because there's no greater fear than for you to see money involuntarily taken out of your paycheck. But you should know that any creditor that threatens to "take money out of your paycheck" is making a FALSE statement! First of all, a creditor CAN NOT legally garnish your wages if you're SELF-EMPLOYED and in some states, wage garnishments are ILLEGAL. But in order to garnish your wages, a creditor must sue you, win a judgment, and serve a garnishment action to your employer. Plus while the garnishment action is in force, another creditor CAN NOT garnish your wages.

The banks also know that *wage garnishments* are tedious and costly and depending on the degree of your hardship, they can only garnish what's determined by law. But NO CREDITOR wants to take a long time to get paid! On the other hand, *Debt Negotiation can GUARANTEE* them to receive immediate payment without having to resort to unnecessary lawsuits. NOTE: *A popular Debt Negotiation strategy used to avoid lawsuits is filing a Response to a Summons and Complaint (lawsuit). This procedure can delay a court date up to six months allowing you to save additional funds for an out-of-court settlement.*

You should also know that when it comes to collecting *unsecured debt*, liens are also an uncommon creditor practice. But here's what you should know in case a creditor threatens to file a lien on your home. First of all, are you a homeowner? If not, there's NOTHING to fear. Liens only apply to homeowners. Next, does your home have equity? Good equity normally represents a property value of 30% or more above your home's original purchase price. If your home has no equity, again there's nothing to worry about. What can they possibly come after? But assuming that you have \$100,000 in equity, the creditor will need to take the proper legal steps to execute the lien. Also remember that the lien CAN NOT legally seize your property! It

can only manifest if you sell your property, in which case, the sales profit will be used to satisfy the lien amount. Thus if you plan to sell your home, simply wait for the debt to settle and for the lien to be removed.

In closing, creditors know that the legal route is costly and time-consuming without ANY GUARANTEES. In contrast the fast-track, *Debt Negotiation* approach ensures creditors get paid and your debts disappear out of your life for GOOD!

Debt-FREE At Last!

Congratulations on being DEBT-FREE! You managed to STOP the endless *minimum payments* and avoided *Credit Counseling!* The chart below illustrates your powerful benefits through *Debt Negotiation*:

	Minimum Payments	Debt Consolidation	Debt Negotiation
5 Accounts:	\$30,000	\$30,000	\$30,000
Monthly Payment:	\$650	\$650	\$650
Payoff Time:	16 Years/2 months	5 Years/6 Months	33 Months
Total Payoff:	\$120,975.00	\$41,075.00	<u>\$20,995</u>

Note: The above are estimates including all costs and payments to creditors.

It simply makes MORE sense!

Frequently Asked Questions

1. Am I a candidate for *Debt Negotiation*?

Debt Negotiation is for you if you have a legitimate financial hardship (e.g., a loss of income, medical condition, death in the family, divorce, or loss of child support), owe \$7,500 or more in *unsecured debts*, want to avoid bankruptcy, and have disposable income.

2. Is *Debt Negotiation* LEGAL?

Debt Negotiation is both LEGAL and ETHICAL. As a consumer, you have the right to appoint a third party to represent you to settle your debt. Most debt negotiators are not attorneys, but they do work with virtually every creditor and banking institution in all 50 states.

3. What types of debts qualify for *Debt Negotiation*?

Although *Debt Negotiation* works best on credit cards, it also works on a variety of unsecured accounts including department store cards, gas cards, medical bills, finance contracts, and signature loans. But the biggest discounts are typically awarded on credit card accounts. Secured debts are ineligible for *Debt Negotiation* such as mortgages, auto loans, and Federal debt (e.g. student loans and IRS taxes).

4. Can I do this myself?

You can certainly try to negotiate settlements on your own, but it can be very frustrating. You don't want to waste your time or disturb your *peace of mind*. Plus any discounts that you achieve on your own won't be as deep as those obtained by a professional *debt negotiator*.

5. How much money should I dedicate to the program?

As a rule of thumb, you should have a monthly savings of around \$200 for every \$10,000 of *unsecured debt*. (e.g., if you owe \$20,000, your monthly savings should be around \$400). The more money that you can save to build up settlement funds, the faster that you're debt-free.

6. Should I file bankruptcy if my employment income's too low?

Bankruptcy should be your last resort! Even if you have limited employment income, you may still qualify for *Debt Negotiation* if you're able to access other resources, such as retirement, disability, or unemployment income, money from the sale of property, cashing out an insurance policy, or borrowing money from a friend or relative.

7. How does a debt negotiator get paid?

Unlike credit counselors, *debt negotiators* DON'T work for or get paid by the banks. Some *debt negotiators* work on a fee contingency based on the amount of savings achieved. Others charge a flat fee based on the total debt. But the goal of all *debt negotiators* is to settle your debt quickly with the maximum amount of savings that can be achieved.

8. Can I still use my credit cards?

You must surrender most of your credit cards and also expect credit privileges to be suspended. The whole idea is to get out of debt, not to incur more debt. But you may be able to keep out an account for *emergency purposes*. Upon settling all of your debt, you can always reapply for credit, but hopefully with much better judgment.

9. What happens to my credit?

Your credit will decline on the front end until your total debt is settled. Afterwards, you will experience an improvement to your debt-to-income ratio and your creditworthiness. Your settled account will be reported to credit bureaus as **settled** or **paid-in-full**. This is much more positive than showing too much debt, delinquent accounts, or *bankruptcy*. Later on, if you wish to continue to improve your credit, you can sign up for credit arbitration (credit repair).

10. What are the tax consequences?

Creditors should report any canceled debt exceeding \$600 to the IRS. You should also report this as income on your annual tax return. However, the IRS permits you to write off any "income" from a canceled debt up to the amount that you were "insolvent." Unless you have a positive net worth, which is rare for most debtors, ordinarily, you won't have to pay taxes on the forgiven amounts. Ultimately you should consult with an accountant or tax attorney on this matter.

11. What happens if I get sued?

With *unsecured debts*, lawsuits are the exception, not the rule! A creditor has the right to sue you to recover their money. But you may fall behind on payments for years and never hear from one single attorney. Although lawsuits are a chief reason why people file for bankruptcy, by maintaining a good dialogue with creditors, *Debt Negotiation* can work out a solution to avoid unnecessary lawsuits.

12. Can creditors garnish my wages?

Wage garnishments are illegal in some states and your wages can't be garnished if you're self-employed. Additionally, garnishments involve time and money. In order to garnish your wages, a creditor must sue you, win a judgment, and file for a garnishment action. But *Debt Negotiation* helps prevent garnishments by working out a mutual settlement agreement between you and creditors.

Okay, I'm ready to start! What's my next step?

Debt Negotiation is not for everyone. But if you want to prevent bankruptcy, have \$7,500 or more in *unsecured debt*, and a steady source of income, *Debt Negotiation* may be your best choice.

To see which debt reduction strategy will work best for you, I recommend *U.S. Financial Management*. Request your free debt reduction consultation by going online to www.usfmgroup.com or call them toll-free at **1-800-682-8485**. Their *Debt Mastery Counselors* can give you specific advice to your financial situation. I hope you enjoyed reading this book and look forward to your financial health!

Your Financial Friend,

VICTOR N. CHEVALIER,
Author

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Debt Free at Last! A Superior Solution to Bankruptcy and Credit Counseling.

(This book does not provide any legal advice)