

Debt Elimination Success Seminar
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U.S. Bankruptcy Filings, 1994-2003

(Source: American Bankruptcy Institute, www.abiworld.org)

Year	Total Consumer Bankruptcy Filings
1994	780,455
1995	874,642
1996	1,125,006
1997	1,350,118
1998	1,398,182
1999	1,281,581
2000	1,217,972
2001	1,452,030
2002	1,539,111
2003	1,625,208
TOTAL	12,644,305

Additional Facts:

1. Total U.S. Consumer Bankruptcies filed, 1984-1993 = 6,040,661
2. Total U.S. population, current estimate = 292,710,868
3. Total number of U.S. households, 2000 census = 105,480,101

Conclusions:

1. Consumer bankruptcy filings **DOUBLED** in the ten-year period ended 2003 versus the ten-year period ended 1993.
2. In the past ten years one out of every 23 Americans has filed bankruptcy.
3. In the past ten years roughly one out of every eight households has experienced a bankruptcy.

The True Cost of Minimum Payments

Total Unsecured Debt: **\$30,000**

Annual Rate of Interest: **25%**

Minimum Monthly Payments: **\$629.46**

Total Time to Pay Off Debt: _____

Total Paid: _____

The 10-20-70 Plan

Gross Income Method

10% Wealth Building		Food	
Long Term Savings			
		Auto Insurance	
20% Revolving Debt		Gas & Oil	
Car Payment or Lease		Auto Maintenance	
Student Loans			
Dept. Store Cards		Medical	
Credit Card Payments		Dental	
Other Debt Payments		Health Insurance	
Savings for Vacations		Life Insurance	
<i>Total Revolving Debt</i>		Other Insurance	
70% Living Expenses		Clothing	
Federal Income Tax		Cable TV	
Social Security Tax		Internet Accounts	
State Income Tax		Gym Membership	
Other Taxes		Sports & Hobbies	
		Subscriptions	
Mortgage or Rent		Vacations & Travel	
Home Insurance		Dining Out	
Property Taxes		Haircuts & Beauty	
Home Maintenance		School Lunches	
		Childrens' Allowances	
Gas & Electric		Day Care	
Water		Pet Food & Supplies	
Telephone		Charitable Gifts	
Cellular Phone		Other	
Other		<i>Total Living Expenses</i>	

Debt Roll-Up Strategy Example

Month No.	Debt #1 Payment	Debt #1 Balance	Debt #2 Payment	Debt #2 Balance	Debt #3 Payment	Debt #3 Balance	Debt #4 Payment	Debt #4 Balance	Debt #5 Payment	Debt #5 Balance	Debt #6 Payment	Debt #6 Balance
APR Start	Min. \$25	\$1,000	Min. \$50	\$2,000	Min. \$75	\$3,000	Min. \$100	\$4,000	Min. \$125	\$5,000	Min. \$150	\$6,000
		15%		18%		20%		12%		14%		18%
1	\$130		\$50		\$75		\$100		\$125		\$150	
2	\$130		\$50		\$75		\$100		\$125		\$150	
3	\$130		\$50		\$75		\$100		\$125		\$150	
4	\$130		\$50		\$75		\$100		\$125		\$150	
5	\$130		\$50		\$75		\$100		\$125		\$150	
6	\$130		\$50		\$75		\$100		\$125		\$150	
7	\$130		\$50		\$75		\$100		\$125		\$150	
8	\$130		\$50		\$75		\$100		\$125		\$150	
9	\$130	ZERO	\$50	\$1,827	\$75		\$100		\$125		\$150	
10			\$180		\$75		\$100		\$125		\$150	
11			\$180		\$75		\$100		\$125		\$150	
12			\$180		\$75		\$100		\$125		\$150	
13			\$180		\$75		\$100		\$125		\$150	
14			\$180		\$75		\$100		\$125		\$150	
15			\$180		\$75		\$100		\$125		\$150	
16			\$180		\$75		\$100		\$125		\$150	
17			\$180		\$75		\$100		\$125		\$150	
18			\$180		\$75		\$100		\$125		\$150	
19			\$180		\$75		\$100		\$125		\$150	
20			\$180		\$75		\$100		\$125		\$150	
21			\$180	ZERO	\$75	\$2,517	\$100		\$125		\$150	
22					\$255		\$100		\$125		\$150	
23					\$255		\$100		\$125		\$150	
24					\$255		\$100		\$125		\$150	
25					\$255		\$100		\$125		\$150	
26					\$255		\$100		\$125		\$150	
27					\$255		\$100		\$125		\$150	
28					\$255		\$100		\$125		\$150	
29					\$255		\$100		\$125		\$150	
30					\$255		\$100		\$125		\$150	
31					\$255		\$100		\$125		\$150	
32					\$255	ZERO	\$100	\$2,466	\$125		\$150	
33							\$355		\$125		\$150	
34							\$355		\$125		\$150	
35							\$355		\$125		\$150	
36							\$355		\$125		\$150	
37							\$355		\$125		\$150	
38							\$355		\$125		\$150	
39							\$355		\$125		\$150	
40							\$355	ZERO	\$125	\$2,923	\$150	
41									\$480		\$150	
42									\$480		\$150	
43									\$480		\$150	
44									\$480		\$150	
45									\$480		\$150	
46									\$480		\$150	
47									\$480	ZERO	\$150	\$3,741
48											\$630	
49											\$630	
50											\$630	
51											\$630	
52											\$630	
53											\$630	
54											\$630	ZERO

DEBT ROLL-UP STRATEGY EXAMPLE:

- \$21,000 debt on six accounts; \$525 minimum monthly payments.
- Must be able to consistently pay at least 20% above total standard minimum payments ($\$525 + 20\% = \630).
- Extra payment is called "accelerator margin."
- Start with smallest debt first; keep minimums in place on all others, and apply full accelerator margin to first debt.
- When first debt is paid off, roll up accelerator margin into payments on second debt.
- Repeat until all accounts paid in full.

TOTAL PAYOUT = \$34,020 (54 months x \$630)

Simplified Debt Negotiation Example

Month	Set-Aside	Debt #1	Debt #2	Debt #3	Debt #4	Debt #5	Debt #6	Total Debt	Settlements (50%)
Start		\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
1	\$625	\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
2	\$1,250	\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
3	\$1,875	\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
4	\$2,500	\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
5	\$3,125	\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
6	\$3,750	\$8,000	\$3,000	\$0	\$4,000	\$3,000	\$0	\$18,000	Settle #3 (\$1,000) & #6 (\$2,500)
7	\$875	\$8,000	\$3,000	\$0	\$4,000	\$3,000	\$0	\$18,000	
8	\$1,500	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	Settle #5 (\$1,500)
9	\$625	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	
10	\$1,250	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	
11	\$1,875	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	
12	\$2,500	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	
13	\$3,125	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	
14	\$3,750	\$8,000	\$3,000	\$0	\$4,000	\$0	\$0	\$15,000	
15	\$4,375	\$0	\$3,000	\$0	\$4,000	\$0	\$0	\$7,000	Settle #1 (\$4,000)
16	\$1,000	\$0	\$3,000	\$0	\$4,000	\$0	\$0	\$7,000	
17	\$1,625	\$0	\$3,000	\$0	\$4,000	\$0	\$0	\$7,000	
18	\$2,250	\$0	\$3,000	\$0	\$0	\$0	\$0	\$3,000	Settle #4 (\$2,000)
19	\$875	\$0	\$3,000	\$0	\$0	\$0	\$0	\$3,000	
20	\$1,500	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Settle #2 (\$1,500)

Debt Solution Sample Calculations

1. **Debt Roll-Up**—20% over regular minimum monthly payments.

Example:

- (a) Minimum monthly payments are \$700.
- (b) 20% times \$700 = \$140
- (c) \$700 plus \$140 = \$840 total monthly payments required for Debt Roll-Up

2. **Debt Consolidation (unsecured)**—25% reduction in overall interest rate on debts totaling \$15,000 or less.

Example:

- (a) Three debts totaling \$15,000—\$3,000 @ 18%; 5,000 @ 20%; and \$7,000 @ 22%
- (b) Calculate average rate on existing debts:

$$\begin{array}{r} \$3,000 \times .18 = \$ 540 \\ \$5,000 \times .20 = \$1,000 \\ \$7,000 \times .22 = \underline{\$1,540} \\ \qquad \qquad \qquad \$3,080 \end{array}$$

$$\$3,080 \text{ divided by } \$20,000 = .205 = 20.5\%$$

- (c) New consolidation loan is for \$20,000 at 15%
- (d) The savings of 5% is more than one-quarter, or 25%, of the original average rate of 20.5%

2. **Debt Consolidation (secured by equity)**—25% reduction in overall interest rate on debt where available equity exceeds debt to be paid off.

Example:

- (a) House worth \$200,000; mortgage balance at \$140,000
- (b) Multiply \$200,000 by 80% = \$160,000
- (c) \$160,000 less \$140,000 = \$20,000 available equity

Debt Solution Sample Calculations, continued

3. Credit Counseling—3% of debt balance as monthly payment minimum; short term duration, 6-12 months.

Example:

\$30,000 debt times 3% = \$900 per month

4. Debt Negotiation—2% of debt balance as monthly payment minimum, OR available equity greater then 50% of debt balance, OR ability to borrow or save 50% of debt balance over 2-3 year peiod.

Example:

(a) \$30,000 debt times 2% = \$600 per month

(b) \$30,000 @ 50% = \$15,000 versus available equity of \$20,000

(c) \$30,000 @ 50% = \$15,000 potential savings or borrowing

5. Bankruptcy—Cannot meet any of the above requirements.

Debt Solution Decision Tree

Caution! This summary is intended only as an approximate guide. Everyone's circumstances are unique, and you must take into account all the important factors that apply to your situation before choosing a debt solution.

1. **Do you have home equity available?**

If YES, go to Question 2.

If NO, skip Questions 2 & 3 and go to Question 4.

2. **Is the available home equity larger than the amount of unsecured debt that you are trying to eliminate?**

If YES, then your suggested debt solution would be **Debt Consolidation**, secured via your home equity, provided that the equity loan's interest rate is at least 25% less than your current average interest rate.

If NO, then go to Question 3.

3. **Is your available home equity greater than 50% of the unsecured debt that you are trying to eliminate?**

If YES, then your suggested debt solution would be **Debt Negotiation** combined with **Debt Consolidation**, OR the **Debt Negotiation** strategy alone.

If NO, then to to Question 4.

4. **Is your debt \$15,000 or less?**

If YES, then go to Question 5.

If NO, then skip Question 5 and go to Question 6.

Debt Solution Decision Tree, continued

5. Can you obtain a single unsecured loan equal to your total debt, and is the interest rate on that loan at least 25% less than your current average interest rate?

If YES, then your suggest debt solution would be Debt Consolidation via an unsecured loan.

If NO, then go to Question 6.

6. Can you consistently pay 20% or more above your normal monthly minimum payments?

If YES, then your suggested solution would be the Debt Roll-Up strategy.

If NO, then go to Question 7.

7. Is your cash flow problem a short-term one (6-12 months)?

(In other words, do you have good reason to believe that you will have significantly higher income or significantly lower expenses within 6-12 months?)

If YES, go to Question 8.

If NO (meaning you expect the problem to be long term), then skip Question 8 and go to Question 9.

8. Can you consistently make payments equal to AT LEAST 3% per month of the unsecured balances owed?

If YES, then your suggested debt solution would be Credit Counseling (through an NFCC approved agency).

If NO, then go to Question 9.

Debt Solution Decision Tree, continued

9. Can you consistently make monthly payments equal to AT LEAST 2% per month of the unsecured balances owed?

If YES, then your suggested debt solution is the Debt Negotiation strategy.

If NO, then go to Question 10.

10. If you were not making payments on your unsecured obligations, could you reasonably expect to save (or borrow from friends and family) within a 2-3 year period a sum equal to 50% of the debt owed?

(Example: You have \$30,000 of unsecured debt, and you are unable to consistently pay \$600 per month [2%] because your income fluctuates from one month to the next. But if you don't make any payments at all, you think you can reasonably save or borrow \$15,000 within a three-year period.)

If YES, your suggested debt solution is the Debt Negotiation strategy.

If NO, then you should consult with an attorney, as Bankruptcy may be your best debt solution.

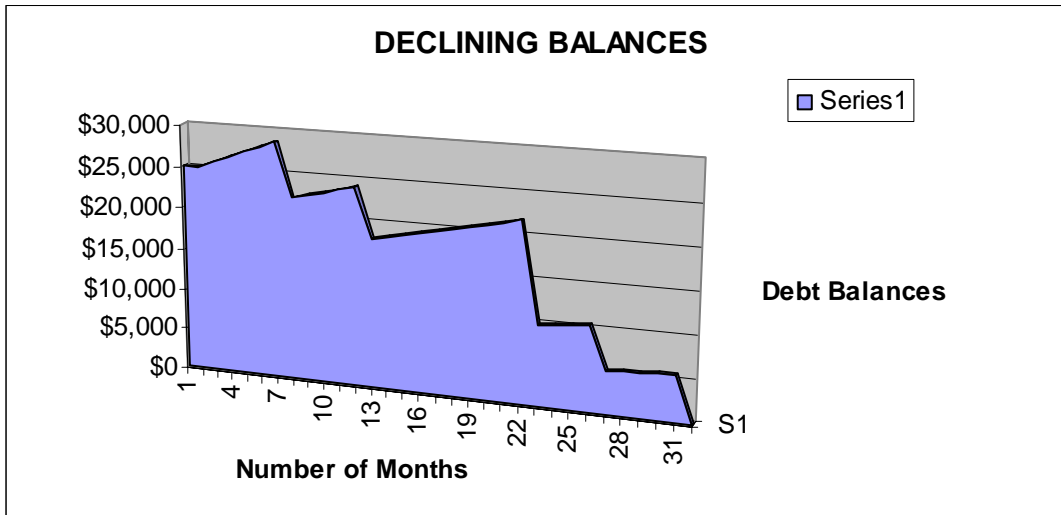
Phelan's Four Credit Questions

- 1. Would I still be carrying this much debt if I had not had good credit?**
- 2. What purchases will I need good credit for during the next 2-3 years?**
- 3. How much is my good credit worth in dollars?**
- 4. Three years from now, which would make me happier, a 700 FICO score or being debt-free?**

Real-World Debt Negotiation Example

Month	Set-Aside (SAF)	Debt #1	Debt #2	Debt #3	Debt #4	Debt #5	Debt #6	TOTALS	Notes & Settlements (SIFs) @50%
Start		\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	All accounts inflating @25% interest rate
1	\$625	\$8,000	\$3,000	\$2,000	\$4,000	\$3,000	\$5,000	\$25,000	
2	\$1,250	\$8,197	\$3,093	\$2,072	\$4,113	\$3,093	\$5,134	\$25,701	\$30 late fee added for first six months
3	\$1,875	\$8,397	\$3,187	\$2,145	\$4,229	\$3,187	\$5,271	\$26,416	
4	\$2,500	\$8,602	\$3,283	\$2,220	\$4,347	\$3,283	\$5,411	\$27,147	
5	\$3,125	\$8,812	\$3,382	\$2,296	\$4,468	\$3,382	\$5,554	\$27,892	
6	\$3,750	\$9,025	\$3,482	\$2,374	\$4,591	\$3,482	\$5,699	\$28,653	Settle #3 @ \$1,187 & #4 @ \$2,296
7	\$892	\$9,213	\$3,555	\$0	\$0	\$3,555	\$5,818	\$22,141	SAF = \$3,750 - \$1,187 - \$2,296 = \$267 + \$625 = \$892
8	\$1,517	\$9,405	\$3,629	\$0	\$0	\$3,629	\$5,939	\$22,602	
9	\$2,142	\$9,601	\$3,704	\$0	\$0	\$3,704	\$6,063	\$23,073	
10	\$2,767	\$9,801	\$3,782	\$0	\$0	\$3,782	\$6,189	\$23,554	
11	\$3,392	\$10,005	\$3,860	\$0	\$0	\$3,860	\$6,318	\$24,044	Settle #6 @ \$3,159
12	\$858	\$10,214	\$3,941	\$0	\$0	\$3,941	\$0	\$18,095	SAF = \$3,392 - \$3,159 = \$233 + \$625 = \$858
13	\$1,483	\$10,427	\$4,023	\$0	\$0	\$4,023	\$0	\$18,472	
14	\$2,108	\$10,644	\$4,107	\$0	\$0	\$4,107	\$0	\$18,857	
15	\$2,733	\$10,865	\$4,192	\$0	\$0	\$4,192	\$0	\$19,250	
16	\$3,358	\$11,092	\$4,280	\$0	\$0	\$4,280	\$0	\$19,651	
17	\$3,983	\$11,323	\$4,369	\$0	\$0	\$4,369	\$0	\$20,060	
18	\$4,608	\$11,559	\$4,460	\$0	\$0	\$4,460	\$0	\$20,478	
19	\$5,233	\$11,800	\$4,553	\$0	\$0	\$4,553	\$0	\$20,905	
20	\$5,858	\$12,045	\$4,647	\$0	\$0	\$4,647	\$0	\$21,340	
21	\$6,483	\$12,296	\$4,744	\$0	\$0	\$4,744	\$0	\$21,785	Settle #1 @ \$6,148
22	\$960	\$0	\$4,843	\$0	\$0	\$4,843	\$0	\$9,686	SAF = \$6,483 - \$6,148 = \$335 + \$625 = \$960
23	\$1,585	\$0	\$4,944	\$0	\$0	\$4,944	\$0	\$9,888	
24	\$2,210	\$0	\$5,047	\$0	\$0	\$5,047	\$0	\$10,094	
25	\$2,835	\$0	\$5,152	\$0	\$0	\$5,152	\$0	\$10,304	Settle #2 @ \$2,576
26	\$894	\$0	\$0	\$0	\$0	\$5,260	\$0	\$5,260	SAF = \$2,835 - \$2,576 = \$259 + \$625 = \$884
27	\$1,509	\$0	\$0	\$0	\$0	\$5,369	\$0	\$5,369	
28	\$2,134	\$0	\$0	\$0	\$0	\$5,481	\$0	\$5,481	
29	\$2,759	\$0	\$0	\$0	\$0	\$5,595	\$0	\$5,595	
30	\$3,384	\$0	\$0	\$0	\$0	\$5,712	\$0	\$5,712	Settle #5 @ \$2,856
31	\$528	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Leftover SAF = \$3,384 - \$2,856 = \$528

Real-World Debt Negotiation Example



Savings Comparisons

1. Total Payout = \$18,222 to completely eliminate debt in 31 months

Savings compared to starting debt of \$25,000 = **\$6,778**

2. Traditional Payoff = \$1,102.80 per month for 31 months = \$34,187

Savings compared to traditional payoff = **\$15,965**

3. Minimum Payment Payoff = \$625 per month for 87 months = \$54,375

Savings compared to minimum payment payoff = **\$36,153**

Sample Hardship/ Notification Letter

[Your Name]
[Your Address]
[Your City, State ZIP]

[Date]

[Creditor Name]
[Creditor Address] *
[Creditor City, State, ZIP]

Reference: [Your Account Number]

Dear Sir or Madam:

This letter is to notify you that I have experienced a serious financial hardship, and I am presently unable to maintain the normal payments on my account.

I am working diligently to avoid a bankruptcy scenario, and with the help of friends and family I am hoping to obtain sufficient funds to work out a settlement for this account.

Thank you for your patience and consideration. I will be in touch in the near future to work out an arrangement that is mutually agreeable.

Sincerely,

[Your Name Printed]

* For original creditors, use the "billing inquiries" address on the back of most statements. For collection agencies or collection attorneys, use the letterhead address.

Negotiation Script #1

Note: This script applies to direct settlement offers received from original creditors or collection agencies/attorneys, where offer is for 50% or less of current balance. Basically, you are just calling to take the deal, but you still want a proper letter first. After you reach a live representative, they will ask for your account number. Let's pick up the conversation from there.

Creditor Representative: "How can I help you today?"

YOU: "I received a letter from your company offering to settle my account for \$2,000. I'm calling to take advantage of that offer."

CR: "OK, great. Let's go ahead and get you set up for a payment. Do you have your checkbook handy?"

YOU: "No. I prefer to send my payment by FedEx. But first, I'm going to ask that you send me an official letter confirming the exact amount of the settlement. You can fax it to me to save time, but I really want something that is signed by a company official."

You may or may not encounter resistance at this point. If you do, simply ask to speak with the person in charge of settlements, or if the rep states that they do not have such a person, then simply ask for the rep's supervisor or manager. This will save a lot of time and aggravation, as junior reps are seldom properly trained to do settlements.

CR: "Yes, we would be happy to prepare such a letter for you. What is your fax number?"

YOU: "My fax number is _____. Now, before we wrap up, I'd like to ask that the letter include a statement releasing me from any further liability with your company once I've paid the settlement."

CR: "OK, that's usually standard in our letters anyway."

YOU: "Also, I would like to have any derogatory entries pertaining to this account deleted from my credit report once I have paid the settlement."

Some creditors will; some won't. Consider it a bonus if you gain agreement on this point, and don't let it blow the deal if they refuse to delete the negative credit items.

Negotiation Script #2

Note: This script applies to direct settlement offers received from original creditors or collection agencies/attorneys, where offer is for more than 50% of current balance. Track 4 of CD#4 and Track 2 of CD#5 contain variations on this technique. After you reach a live representative, they will ask for your account number. Let's pick up the conversation from there.

YOU: "I received a letter from your company offering to settle my account for \$_____. I'm calling to discuss that offer."

CR: "OK, great. Let's go ahead and get you set up for a payment. Do you have your checkbook handy?"

YOU: "I'm sorry. There is no way I can pay \$_____. But since your company is willing to settle the account, I am calling to tell you that I could manage a settlement amount of \$_____ (start at around 35% of the balance and use the nearest round number)."

CR: "We could not settle that account for that low an amount. But I can go ahead and set you up on a payment arrangement for the full balance."

YOU: "No, thank you. I have a very serious financial hardship right now, and I'm trying to avoid declaring bankruptcy. There is no way I can do a payment arrangement. If I can obtain some additional funds, will you settle the account for \$_____?" (Name a figure around 35%, rounded to the nearest logical amount.)

CR: (If they take the offer, then proceed to discuss the letter requirements). "No, that would still be too low."

YOU: "OK, what is the lowest settlement amount that you would personally be able to authorize?" (This is usually going to be the magic 50% that you are looking for. Never hesitate to ask for a supervisor or manager if you don't seem to be getting anywhere or if the rep tells you that he or she can only settle "as low as" some figure higher than 50%. Managers and supervisors almost always have 50% authority, and often can go much lower.)

CR: "The best I can do is to settle the account for half the balance owing. That would be \$_____."

Negotiation Script #2, continued

YOU: “I might be able to come up with that. Can we do it in two payments?” *(It’s usually a good idea to ask for multiple payments. First, you just told the rep you could not come up with more than 25% of the balance, so if you come up to 50% too quickly and easily, they will hold out for 60% or 70%. Second, it never hurts to buy yourself additional time. Even if you have the full 50% available in your set-aside fund, an emergency expense might arise.)*

CR: “Yes, but we will need \$_____ right away, with the remaining amount due next month.”

YOU: “I think I can manage that arrangement.”

CR: “Great. Let’s go ahead and get you set up for a payment. Do you have your checkbook handy?”

YOU: “I prefer to send my payment by FedEx. But first, I’m going to ask that you send me an official letter confirming the exact amount of the settlement. You can fax it to me to save time, but I really want something that is signed by a company official.”

CR: “Yes, we would be happy to prepare such a letter for you. What is your fax number?”

YOU: “My fax number is _____. Now, before we wrap up, I’d like to ask that the letter include a statement releasing me from any further liability with your company once I’ve paid the settlement.”

CR: “OK, that’s usually standard in our letters anyway.”

YOU: “Also, I would like to have any derogatory entries pertaining to this account deleted from my credit report once I have paid the settlement.”

Some creditors will; some won’t. Consider it a bonus if you gain agreement on this point, and don’t let it blow the deal if they refuse to delete the negative credit items.

CR: “OK. We’ll have that letter off to you today.”

YOU: “Thank you.”

Sample Settlement Letter

*XYZ Bank
123 Main Street
Anytown, USA*

December 15, 2003

**Mr. Joseph Client
456 Center Street
Springfield, USA**

Reference: Account Number 5240-6655-1234-0000

Current Balance: \$5,000.00

Dear Mr. Client,

This letter confirms that XYZ Bank will accept the sum of \$2,500.00 (50% of the current balance) as settlement for the referenced account.

This amount must be received at XYZ Bank no later than December 31, 2003, or this settlement offer will be null and void.

Please send your payment to the above indicated address, or call one of our representatives at 1-800-123-4567 to arrange payment.

Receipt of your settlement payment will relieve you of any further liability on the referenced account.

Please contact the undersigned should you have any questions.

Sincerely,

**Jack Johnson
Associate Vice-President**

Settlement Letter Checklist

- ✓ **Letter should be on official bank or agency letterhead (fax copy ok).**
- ✓ **Letter should be dated.**
- ✓ **Account number identified correctly.**
- ✓ **Amount of claim (full balance) stated correctly.**
- ✓ **Amount of settlement stated correctly.**
- ✓ **Payment due date(s) stated clearly and correctly.**
- ✓ **Payment instructions included.**
- ✓ **Release of liability clause included.**
- ✓ **Letter should be signed by a bank or agency representative.**

Sample Validation Letter (Collection Attorneys)

[Your Name]
[Your Address]
[Your City, State ZIP]

[Date]

[Collection Attorney Firm Name] *
[Address]
[City, State, ZIP]

Reference: [Your Account Number and/or Attorney's File Number]

Dear Attorney _____:

Please provide verification of your claim under the referenced account number.

I hereby request copies of the original account agreement, a record of all transactions on the account from inception, and any other documentation that will support your claim.

Thank you for your consideration.

Sincerely,

[Your Name Printed]

* This letter should only be used in response to notices received from collection attorneys.

Sample Post-Settlement Letter

[Your Name]
[Your Address]
[Your City, State ZIP]

[Date]

[Collection Agency Name] *
[Collection Agency Address]
[City, State, ZIP]

Reference: [Your Account Number and/or Agency's Reference Number]

Dear Sir or Madam:

This letter is to notify you that the referenced account was previously settled with XYZ Bank.

A copy of the settlement letter (*or zero-balance letter*) from XYZ Bank is attached, as well as a copy of the cashier's check used to make payment.

Please cease & desist from any further attempts to collect on this account. I also request that you immediately notify XYZ Bank of their error in forwarding this account to your office.

Thank you for your prompt attention to this matter.

Sincerely,

[Your Name Printed]

* Also send a blind copy to the original creditor's "billing inquiries" address and call them to follow up and obtain a zero-balance letter.

Creditor Harrassment and Your Rights

Important Note: *The following information is from the Federal Trade Commission's online publication, "Fair Debt Collection." The full text of the Fair Debt Collection Practices Act is also available at www.ftc.gov. We strongly recommend that you read through this material several times to familiarize yourself with your rights under federal law. In our experience, debt collectors frequently disobey the rules listed below. If you experience harassment by a creditor, then you should complain in writing to the Federal Trade Commission as well as the Attorney General for your home state. Copy the offending collection agency on the complaint. This will normally end the harassment. Remember, the term "debt collector" does not apply to the original creditor under Federal law. But if you are being harassed by representatives of an original creditor, you should complain formally anyway to the FTC and your Attorney General. More than 20 states have individual laws that DO make the original creditor subject to the same guidelines as debt collectors, and most reputable companies (including the big credit card banks) try to honor the spirit of the federal collection laws.*

If you use credit cards, owe money on a personal loan, or are paying on a home mortgage, you are a "debtor." If you fall behind in repaying your creditors, or an error is made on your accounts, you may be contacted by a "debt collector."

You should know that in either situation, the Fair Debt Collection Practices Act requires that debt collectors treat you fairly and prohibits certain methods of debt collection. Of course, the law does not erase any legitimate debt you owe.

The following answers some commonly asked questions about your rights under the Fair Debt Collection Practices Act.

What debts are covered?

Personal, family, and household debts are covered under the Act. This includes money owed for the purchase of an automobile, for medical care, or for charge accounts.

Who is a debt collector?

A debt collector is any person who regularly collects debts owed to others. This includes attorneys who collect debts on a regular basis.

Creditor Harrassment and Your Rights, continued

How may a debt collector contact you?

A collector may contact you in person, by mail, telephone, telegram, or fax. However, a debt collector may not contact you at inconvenient times or places, such as before 8 a.m. or after 9 p.m., unless you agree. A debt collector also may not contact you at work if the collector knows that your employer disapproves of such contacts.

Can you stop a debt collector from contacting you?

You can stop a debt collector from contacting you by writing a letter to the collector telling them to stop. Once the collector receives your letter, they may not contact you again except to say there will be no further contact or to notify you that the debt collector or the creditor intends to take some specific action. Please note, however, that sending such a letter to a collector does not make the debt go away if you actually owe it. You could still be sued by the debt collector or your original creditor.

May a debt collector contact anyone else about your debt?

If you have an attorney, the debt collector must contact the attorney, rather than you. If you do not have an attorney, a collector may contact other people, but only to find out where you live, what your phone number is, and where you work. Collectors usually are prohibited from contacting such third parties more than once. In most cases, the collector may not tell anyone other than you and your attorney that you owe money.

What must the debt collector tell you about the debt?

Within five days after you are first contacted, the collector must send you a written notice telling you the amount of money you owe; the name of the creditor to whom you owe the money; and what action to take if you believe you do not owe the money.

May a debt collector continue to contact you if you believe you do not owe money?

A collector may not contact you if, within 30 days after you receive the written notice, you send the collection agency a letter stating you do not owe money. However, a collector can renew collection activities if you are sent proof of the debt, such as a copy of a bill for the amount owed.

Creditor Harrassment and Your Rights, continued

What types of debt collection practices are prohibited?

Harassment. Debt collectors may not harass, oppress, or abuse you or any third parties they contact.

For example, debt collectors may not:

- use threats of violence or harm;
- publish a list of consumers who refuse to pay their debts (except to a credit bureau);
- use obscene or profane language; or
- repeatedly use the telephone to annoy someone.

False statements. Debt collectors may not use any false or misleading statements when collecting a debt. For example, debt collectors may not:

- falsely imply that they are attorneys or government representatives;
- falsely imply that you have committed a crime;
- falsely represent that they operate or work for a credit bureau;
- misrepresent the amount of your debt;
- indicate that papers being sent to you are legal forms when they are not; or
- indicate that papers being sent to you are not legal forms when they are.

Debt collectors also may not state that:

- you will be arrested if you do not pay your debt;
- they will seize, garnish, attach, or sell your property or wages, unless the collection agency or creditor intends to do so, and it is legal to do so; or
- actions, such as a lawsuit, will be taken against you, when such action legally may not be taken, or when they do not intend to take such action.

Creditor Harrassment and Your Rights, continued

Debt collectors may not:

- give false credit information about you to anyone, including a credit bureau;
- send you anything that looks like an official document from a court or government agency when it is not; or
- use a false name.

Unfair practices. Debt collectors may not engage in unfair practices when they try to collect a debt. For example, collectors may not:

- collect any amount greater than your debt, unless your state law permits such a charge;
- deposit a post-dated check prematurely;
- use deception to make you accept collect calls or pay for telegrams;
- take or threaten to take your property unless this can be done legally; or
- contact you by postcard.

What control do you have over payment of debts?

If you owe more than one debt, any payment you make must be applied to the debt you indicate. A debt collector may not apply a payment to any debt you believe you do not owe.

What can you do if you believe a debt collector violated the law?

You have the right to sue a collector in a state or federal court within one year from the date the law was violated. If you win, you may recover money for the damages you suffered plus an additional amount up to \$1,000. Court costs and attorney's fees also can be recovered. A group of people also may sue a debt collector and recover money for damages up to \$500,000, or one percent of the collector's net worth, whichever is less.

**Statute of Limitations
For 50 States and District of Columbia
(Written Contracts)**

<u>STATE</u>	<u># YEARS</u>	<u>STATE</u>	<u># YEARS</u>	<u>STATE</u>	<u># YEARS</u>
Alabama	6	Kentucky	15	N. Dakota	6
Alaska	3	Louisiana	10	Ohio	15
Arizona	6	Maine	6	Oklahoma	5
Arkansas	5	Maryland	3	Oregon	6
California	4	Massachusetts	6	Pennsylvania	4
Colorado	6	Michigan	6	Rhode Island	10
Connecticut	6	Minnesota	6	S. Carolina	3
Delaware	3	Mississippi	3	S. Dakota	6
D.C.	3	Missouri	10	Tennessee	6
Florida	5	Montana	8	Texas	4
Georgia	6	Nebraska	5	Utah	6
Hawaii	6	Nevada	6	Vermont	6
Idaho	5	New Hampshire	3	Virginia	5
Illinois	10	New Jersey	6	Washington	6
Indiana	10	New Mexico	6	W. Virginia	10
Iowa	10	New York	6	Wisconsin	6
Kansas	5	N. Carolina	3	Wyoming	10