Settle Your Debts
(For a Fraction of What You Owe)

Negotiate with Your Creditors,
Pay off Your Debts,
Break the Stress Cycle and Get Your Life Back!

By Mike Roberts

The Credit Solution
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## Contents

Quick Start Guide .................................................................................................................. 5  
   How to Use the Quick Start Guide .................................................................................. 5  
   Quick Start Guide to Chapter 1 ..................................................................................... 6  
   Quick Start Guide to Chapter 2 ..................................................................................... 6  
   Quick Start Guide to Chapter 3 ..................................................................................... 7  
   Quick Start Guide to Chapter 4 ..................................................................................... 7  
   Quick Start Guide to the Appendix ............................................................................... 7  

Chapter 1: Introduction ......................................................................................................... 9  
   Excess Debt: An Equal Opportunity Destroyer .............................................................. 9  
      Sylvia Martinez .......................................................................................................... 9  
      Jack and Addy Wilson ............................................................................................... 10  
      Bill and Melinda Jeffries ........................................................................................... 12  
   You Might Be a Bad Person (But You’re Probably Not) ............................................... 13  
   Don’t Fall into the “Fault” Trap ..................................................................................... 15  
   Can You Really Turn Things Around? ......................................................................... 17  
   Is it Morally Right to Negotiate? .................................................................................. 18  
   When Should You Act? ................................................................................................. 20  
      The Hidden Impact of Stress .................................................................................... 21  

Chapter 2: Four Questions Everyone Asks ......................................................................... 23  
   Which Debts Can I Negotiate? ....................................................................................... 23  
      Secured Debt ............................................................................................................. 24  
      Unsecured Debt .......................................................................................................... 25  
      Exempt Debt ............................................................................................................. 26  
   What if They Sue Me in Court? ..................................................................................... 27  
      How Creditors Look at Loans ..................................................................................... 29  
      What Factors Trigger a Lawsuit? ................................................................................ 33  
      The More You Owe, the More Likely You’ll be Sued .............................................. 35  
   What Will Happen to My Credit Score? ........................................................................ 36  
   Will I Really Succeed? .................................................................................................... 36  
      Determination ............................................................................................................ 37  
      Resilience .................................................................................................................. 38  
   Do You Fit the Profile? ................................................................................................. 39
Quick Start Guide

As you can see from the Contents section, there is a lot of substance in this book. I know from experience that the process of settling your debts for less can be a daunting; and I wanted to make sure I covered everything, and explained everything. I did my best to anticipate your questions, and to answer them in advance. So I recommend that before you start trying to negotiate with your creditors, you begin with the introduction and read the entire book through to the end. Then familiarize yourself with all the samples, scripts and worksheets and make sure you understand where they fit into the process. For most of you this is the best approach.

But for a few (maybe you’re one of them) this might not be necessary. Maybe because of how you like to learn, or maybe because of your life experience, you’re more comfortable with an abbreviated approach. If so, this Quick Start Guide is for you. If the main body of this book is a ground-level, highly detailed treatment of the debt settlement process, this Quick Start Guide is a view from 500 feet up.

How to Use the Quick Start Guide

The following few paragraphs take each chapter in order and explain in a few words what the chapter covers and how you’ll be able to use it. The main concepts in each chapter are highlighted in blue/bold text and each is a link to the appropriate section in the main body of the book. When you come to a subject that you want to look at in detail, just click the link to parachute in for a closer look.

Think of this Quick Start Guide as a navigation tool. Use it to quickly target exactly what you want to learn and go directly to that subject. It is NOT a substitute for the book and the appendix. Negotiating with your creditors won’t be easy, regardless or your background or education. To give yourself the best chance for success you’ll want to completely understand the process and learn to use all the tools and worksheets before you start.
Quick Start Guide to Chapter 1

In this introduction you’ll get used to the idea of negotiating with your creditors. I cover some important points that you should think about before you get started and I talk about how debt causes harm to good people. You’ll meet some ordinary folks who, like you, are struggling with excess debt—Sylvia (a single mother of two, recently divorced), Jack and Addy (a couple in their 50s dealing with illness and job loss), and Bill and Melinda (a young couple who have lost their small business in a tough economy).

Your debt problems are NOT due to a character defect. The most common causes of excess debt are illness, divorce, job loss and small business failure. It’s important to recognize this, to avoid blaming yourself, and to promise yourself that you’re the one who is going to fix your problem. You should accept that it’s OK to negotiate with your creditors, that the time to get started is now, and that you have to get rid of the stress you’re feeling now. It can cause lasting harm.

Quick Start Guide to Chapter 2

Here I answer four questions that always seem to come up. The first is “Which Debts Can I Negotiate?” The answer is that you can negotiate unsecured debt, like credit cards. You won’t be able to negotiate secured debt or debt that is exempt in bankruptcy.

The second common question is “Will They Sue Me in Court?” The answer is that your creditors might sue you; but it’s expensive for them, and they only do it when the debt is large enough and they believe the debtor can pay.

The third question that always arises is this: “What Will Happen to My Credit Score?” The answer is that it will go down, at least temporarily. Once your debt situation improves, you can repair your credit.

Finally, there is the question whether you’ll be successful. The answer here is that your chances are excellent. You probably already have what it takes (determination and resilience), and you’ll be fine as long as your creditors come to believe that you simply cannot pay them.
Quick Start Guide to Chapter 3

This chapter is all about preparation. First you need to identify all your debts. There are worksheets in the appendix to help you through this and you’ll learn how to use them. Next you need to set up a personal budget, and put it to use as a tool to reduce your expenses. Again there are detailed worksheets available that map out this process. You’ll also learn ways to change your spending habits, and there are tips for increasing income here too.

Quick Start Guide to Chapter 4

This chapter covers the nuts and bolts of negotiations with your creditors. This is where you learn exactly what to do, and how to do it. First, I discuss in detail how collections work. You have to know what to expect from the collectors. I want you to know what they can do, and what they cannot do in trying to collect from you. You need to expect phone calls from collection agents and be ready for them. You have to know what to say, and what to do to protect yourself after you hang up.

Next, the role of bankruptcy is covered. I explain why this is important, why creditors fear it, and how you can determine if bankruptcy is a weapon you can use in negotiations.

Finally, I take you through each phase of the negotiation process: You’ll learn what you must do to put your creditors in the right frame of mind. You’ll learn how to figure out how much you can afford to pay in settling your debts. Again, you’ll find worksheets in the appendix that are essential to making this determination and to calculating your opening offer. Once you know what you can afford and how much to offer each creditor, you need to set the stage once again before you make your first offer. Finally, you’ll learn what to do if you don’t get a response to your first offer, how to calculate and present your second offer and, if necessary, how and when to put your third offer on the table.

Quick Start Guide to the Appendix

The Appendix contains a wealth of tools to help you analyze your own financial situation and to coach you through the process of negotiating with your creditors.
Use the **Debt Inventory Checklist** to make sure you account for all your creditors. You can’t afford to leave anyone out.

Use the **Debt Memo** form to create a paper record for any debts for which you don’t have bills or invoices.

You might need to call a creditor to get the current status on an account. This **Balance Inquiry Phone Script** will guide you through the call.

Use the **Personal Budget Form** to get a complete handle on your finances; and the **Expense Reduction Worksheet** will help you cut down on your expenses.

If you talk with a collection agent, you need to follow up with a letter to protect your rights and pave the way for later negotiations. Use this **sample letter**.

To negotiate successfully, you must appear to your creditors as a potential bankruptcy candidate. Whether you will qualify to file Chapter 7 depends in part on your income and the state you live in. This **income schedule** will tell you where you stand.

Your settlement offers have to be realistic in light of your particular financial situation. This **Settlement Offers Worksheet** will help you with the calculations.

There is an important message that must be sent just prior to a first offer. If you deliver this message in a phone call with an original creditor, **this phone script** will guide you through it. If you talk with a collection agency, you’ll need **this phone script**. If you send your pre-offer message in writing, you can use **this sample letter**.

Your formal offers should be delivered in writing. Use this **first offer letter** to deliver the first one, and follow up with **this letter** if you don’t get a response. Use these forms for your **second offer letter** and your **third offer letter**.
Chapter 1: Introduction

Excess Debt: An Equal Opportunity Destroyer

“Love” and “debt” are both four-letter words; but this is all they have in common. Lots of love is good; too much debt is very bad. You probably believe, with good reason, that you can’t have too much love in your life (the more the better); but you don’t believe that about debt for a second. You know better.

Too much debt is absolutely lethal. It is toxic, and it can destroy you. It ruins good people, people just like you, every day. It can arrive all at once, explode like a roadside bomb, and lay waste to your happiness, your peace of mind and your family relationships. Or it can sneak into your life, undetected at first, like a deadly virus—an infection that eventually raises your stress to a fever pitch and crowds out every other feeling and emotion.

Regardless of how too much debt comes into your life, no matter how it takes hold, the aftermath is always the same: hopelessness, misery and pain. It would be nice if excessive debt only victimized self-centered, stingy people—hateful people with no one but themselves to blame for their greedy, vicious decisions. That would be comforting; it would create some sense of fairness, of justice.

But that isn’t how it works at all.

Sylvia Martinez

A single mother of two pre-schoolers should be sound asleep at 2:30 AM. Sylvia Martinez knows this as well as anyone; her days are long and exhausting, and she needs all the rest she can get. Somehow this doesn’t help. Tonight is just like the night before, and the night before that. She’s wide awake and staring into the darkness. It’s hard to sleep when you’re terrified, when you believe you’re on the verge of losing everything and you don’t see any way to save yourself and your family. Panic and sleep don’t mix.

A year ago, life was very different. Sylvia was happily married (or so she thought), and Adrian (three) and Felice (18 months) were doing great. Then disaster struck. Michael moved out, and a divorce quickly followed. She didn’t see it coming, but that didn’t help her in the property settlement. She got the kids, the house, a serviceable car and not much else. Along with the house and
car came a mortgage and a car payment. Michael has been good about the alimony and child support (so far); but the fact is there just isn’t enough money. There was never going to be enough money.

Sylvia knew from day one that she wouldn’t be able to make ends meet. Her full time job only lets her take home about $3,300 per month, the alimony and child support add another $1,300 per month, and that’s it for income—a grand total of $4,600 per month. On the expense side, she has the mortgage ($1,100), the car payment ($280), food ($900), child care ($800), plus the inevitable utilities, car expenses, taxes and insurance (another $1,400 per month). All told, it’s costing Sylvia just under $4,500 per month just to survive.

Not long after the divorce, Sylvia started getting credit card offers in the mail. She knew things were going to be tight, and she thought it would be good to have a buffer. She and Michael had built up good credit, so she quickly was accepted for three new cards with high limits. Unfortunately, the “buffer” idea soon went by the wayside. Adrian picked up a respiratory infection at day care that kept him hospitalized for a week (no health insurance), both kids needed some new clothes, the car transmission gave out, and so it went. All these expenses went on the cards. Within a few months, Sylvia owed over $13,000 in credit card debt.

The cards are maxed out now, and with the astronomical interest the balance is climbing by the day. It’s been three months since Sylvia even sent in the minimum monthly payments. The last two statements remain unopened on the kitchen counter because she can’t bring herself to look at them.

Sylvia feels like she’s out of options. She can’t concentrate at work, she bursts into tears during dinner with the kids, and Adrian keeps asking mommy what’s wrong. She hasn’t had a good night’s sleep in three months because the terror is always there. When she does manage to close her eyes, all she sees are the unopened credit card bills on the counter. Her life is unraveling.

Does it really have to be this way for Sylvia? Maybe not.

**Jack and Addy Wilson**

Jack Wilson doesn’t know Sylvia Martinez, but he knows only too well what she’s going through. He and Sylvia share an emotion that is both basic and dangerous—that emotion is fear.
Jack is 58 years old, and until recently his life was an American success story. He did great in college and when he graduated with his business degree he took a job in sales. A natural extrovert, Jack was a sales manager’s dream. He was friendly, smart, and likeable—a born people person. He could sell anything, and he did. His company made a fortune off Jack over his 30-year career. His reward was a good salary, annual raises and bonuses, and lots of praise. Jack wasn’t getting rich, but he felt good about the life he had made for himself and his wife Addy.

Then came 2008, the year everything changed. Jack’s company was particularly hard hit by the financial crash and it was soon swallowed up by an enormous corporation with a marketing and sales plan that did not include Jack. At 56, he was unemployed.

It’s always a disaster to lose the only job you’ve ever had after 30 years, but Jack didn’t have much time to dwell on his misfortune. A few weeks after his boss told him he had been “downsized,” Addy’s doctor told her she was suffering from leukemia. This meant that when their health insurance ran out (which would be soon), Jack and Addy would have to find a way to handle her medical bills on their own. With a leukemia diagnosis, they knew one thing for sure—Regardless of the outcome, the treatments wouldn’t come cheap.

Now it’s three years later. Addy is in remission; but she isn’t strong enough to work. Her medical bills chewed up their savings in pretty short order, and once their money ran out, she continued to receive treatment for several more months. They now owe over $45,000 in bills that Jack can’t pay. He was never able to find a job comparable to the one he lost. His new position as a manager of a small retail store pays about half what he was making before; and there is no prospect of a big uptick in his income.

The financial situation is bleak. Jack is only clearing about $50,000 per year, and all the money goes to food, utilities, transportation and the mortgage. There’s almost nothing left for any extras at all, let alone repayment of the $45,000 in unpaid medical bills.

Jack is a tough, optimistic guy, but he’s starting to wear down. Things have been going from bad to worse for almost four years now. He can’t sleep, he’s lost weight, and he doesn’t see a way out of the maze. He can’t really talk with Addy about it either. She sees what the debt cloud is doing to Jack, and she
feels like it’s her fault. In fact, these days they don’t talk much at all. Jack is depressed, and starting to feel like a failure for the first time in his life. The collection agents are calling, and he’s beginning to think that bankruptcy might be the only way to get rid of them.

Is he right? Maybe not.

**Bill and Melinda Jeffries**

Bill Jeffries loves to make things. He’s a craftsman. He can’t help it. He’s one of those people with an inner drive to put things together, to assemble, to make things fit. Bill got a job with a high-end cabinet manufacturer right out of high school and over the next 12 years he learned the trade of custom cabinetry from the ground up.

By 2008 Bill had become the most skilled cabinet maker his company had, and he began to feel boxed in by what he felt were the company’s tired old styles and designs. He had lots of fresh ideas and he wanted to put them to use. He decided the time was right to quit his job and start his own company—Jeffries Custom Cabinetry.

Bill’s wife Melinda is nothing like him. She is an athlete. She can’t pound a nail straight, but she’s passionate about eating right, working out, and training. She has a good job as a personal trainer at a local health club. At 32 and 30 respectively, Bill and Melinda had never made much money, but by 2008 they had managed to pay off their car and they were having no trouble making the mortgage payments on the small home they bought together in 2004. They had some savings put aside ($8,000), but most months they just managed to get by. By the time they paid all their bills and credit cards every month, there was nothing left.

When Bill decided to start his own business, he thought Melinda would be as fired up as he was. She wasn’t. She had serious reservations. She knew they had no operating capital for a new business. She worried about how Bill would buy new equipment and how they would get by on her salary while Bill built up his customer base.

“No problem,” said Bill. “Here’s the plan: I’ll finance all the new equipment I need. I’ll pay it all off once the cash starts coming in. We have nothing on our credit cards now, so we can live off the cards for a few months. Once the
business is really rolling, we’ll pay those off too.”

This would have been a bad plan in good economic times; in 2008 it was a disaster. No sooner did Bill quit his job, finance all his new gear and set up his new shop than the worldwide financial crisis hit. To make things worse, Bill’s new table saw malfunctioned one day and kicked back a piece of wood that broke his right hand in three places. He couldn’t work for several weeks, he incurred $4,000 in medical bills that he couldn’t pay, and when he was finally able to produce a cabinet, nobody wanted to buy one. There were no customers. By then the economy was completely in the tank, and the last thing anyone was thinking about was new custom cabinets.

Fast forward to the present. Bill lost his business. He couldn’t work, so the finance companies soon repossessed all his gear and sold it at auction for a cheap price. After the sale, Bill still owed a grand total of about $25,000 on his equipment loans.

Once the equipment disappeared, Bill swallowed his pride and went back to work for his old employer. Still, he and Melinda had used their credit cards to get by for almost six months by that time, adding another $7,000 to their overall debt burden. All in all, with business loan deficiencies, the medical bills and the credit cards, they took on a total of $36,000 in debt in only six months.

They’ve made no progress at all in paying off all these new obligations. They made the minimum payments on the cards for a few months, but now they’ve stopped those too. Everyone is after them—the finance companies, the doctors, the hospital, the credit card companies, everybody. The collection agents are calling and threatening suit. Bill and Melinda are making no more money today than they did in 2007, a year in which they saved no money at all and only barely managed to make ends meet. They have no idea what to do next.

Is there a way out? Do they have any options at all? Is bankruptcy the only answer?

**You Might Be a Bad Person (But You’re Probably Not)**

I’ve introduced you to Sylvia, Jack and Addy, and Bill and Melinda to make a couple of points.
Point #1: The fact that you’re seriously in debt does NOT mean that you are a bad, irresponsible person. Very likely you’re exactly the opposite. It’s simply a fact of modern life that nice, responsible, well-meaning people get into serious debt trouble all the time.

- People get sick and need medical care. It costs a fortune; and not all of us have health coverage or the ability to pay.

- People get divorced and run into a brick wall of debt. The fact is it costs more to maintain two households than one. In divorce, expenses almost always go up and income doesn’t.

- People get laid off, downsized or fired all the time, and lately unemployment has become an epidemic. Quickly mounting debt is an almost inevitable result of job loss.

- People have dreams, and often they start businesses in the hope of making their dreams a reality. Many startups fail, and often for reasons beyond anyone’s control. The Small Business Administration has long estimated that about half of all new businesses fail within five years; and since the crash in 2008 that percentage has been much higher.

These are the main reasons people end up with too much debt (illness, divorce, job loss, and failed business ventures). These causes have nothing to do with ethics, morality or personal character. They can befall anyone, even you. In all probably, one or more of these misfortunes has happened to you.

Maybe your story is similar to Sylvia’s; maybe you’re more like Jack, Addy, Bill or Melinda. Maybe your circumstances are unique in some ways. Regardless, if you bought this book, I know for sure that you have a lot in common with these folks.

Why? Because you’re looking for a solution to your problem, that’s why. You’re trying to find a way to make your life better. This is what good, responsible people do. Don’t let anyone tell you that you have some kind of moral defect just because you have debts you can’t pay. You don’t.

Point #2: Your second takeaway from these three stories is even more important for your future. It’s entirely normal to feel incredible stress and
anxiety when you have debts that you can’t pay. If you have feelings of hopelessness and despair, you’re not alone. These emotions come with the territory. Everyone experiences them. They’re a natural, very human reaction to your situation.

I want you to focus on these feelings and make sure you recognize them. Admit to yourself that you have them. This is the first step to making them go away forever. The very fact that you have these feelings is one of the main reasons why you want to improve your life. You can use the prospect of getting rid of them as a terrific motivator.

Just imagine what it would be like to wake up every morning, confident and carefree, with no worries about creditors, bill collectors and lawyers. Think about what it would feel like to answer the phone or open your mail without feeling your heart pounding in your chest. These are goals that you can achieve. You can live a life free of hopelessness and fear. I’m going to help you get there.

**Don’t Fall into the ‘Fault’ Trap**

While we’re on the subject of your mindset, I want to warn you about a very dangerous trap. Collection agents have a lot of weapons to use against you, and one of their favorites is guilt. They try to shame you into paying. In a thousand different ways, they send the message that your debts are your fault, that you have done something morally wrong, and that because you have “sinned,” you must now pay the price. Don’t fall for it.

In my opinion, you should simply get rid of the idea of fault. Throw it in the trash, which is where it belongs. It has no value to you. It is useful only to those who want to collect money from you.

Here’s the problem with the idea of fault: It forces you to make a false choice. If you accept the concept of fault, then one of two things is true:

- Your excessive debt is your fault (you did something unethical, disgraceful or stupid to get yourself into your current mess), or

- Your excessive debt is someone else’s fault (someone else cheated you or took unfair advantage of you and caused your current financial troubles).
More than likely, neither of these conclusions is true; and neither helps you at all. It’s useless to assign fault to anyone. It solves nothing. From the point of view of curing your debt problems, the truth is that it doesn’t matter in the least whose fault it is that you’re in debt.

Here’s the reason why the notion of fault is so counterproductive—we connect it in our minds with punishment. If someone is at fault, then they are to blame; and if they are to blame, then they should be punished. The only reason to blame someone for something is to justify punishing them. You don’t want to go there.

- If you blame someone else for your debts, you’re wasting your time and energy. They’re probably beyond your power to punish them, and they’re not going to settle your debts for you, whether you’re justified in blaming them or not.

- If you blame yourself for your debts, you’re dooming yourself to failure. You’re about to enter into negotiations with your creditors. You can’t afford to start that process feeling like you deserve to be punished for what you’ve done. Your creditors will eat you alive if you have that mindset.

What you need to do, what you MUST do, is get rid of the idea of “fault” and everything associated with it, and replace it with “responsibility.”

“But aren’t ‘fault’ and ‘responsibility’ pretty much the same thing?” I hear you asking. No they most certainly are not. They are polar opposites. Fault is negative and harmful; responsibility is positive and constructive. If you make up your mind to accept responsibility for your debt troubles, instead of blaming yourself for them, you’re well on your way to solving your problems.

Something transforming happens when you become “responsible” for a problem. You take ownership of it. You define it. You start thinking of ways to solve it. You begin to see yourself as **the** person in charge—the one who is going to get the job done. You stop looking around for someone else to step in. You stop procrastinating. You start putting together a plan.

Responsibility has nothing at all to do with blame and punishment; it has everything to do with personal motivation and action. Believe me, you’re going
to need a positive, take charge attitude to negotiate successfully with your creditors. Responsibility is at the heart of this process. It’s the key ingredient in your recipe for success.

Can You Really Turn Things Around?

We’ve already discussed the feeling of hopelessness a little, but we need to talk about it some more. It’s important, and I want to address it head on simply because it causes so much needless harm.

The problem with losing hope is that it leads to inaction. If you believe there is nothing you can do to improve your circumstances, then that’s exactly what you’ll do—nothing. If you do nothing, will things get better? No. Will they get worse? Count on it.

Statistically, a huge percentage of those with excessive debt fall prey to this feeling of despair. They don’t open their mail, they don’t answer the phone, and they don’t seek help. They just crawl deeper and deeper into their own shell. This never solves anything.

The sad fact is that we all instinctively understand that doing nothing isn’t a game plan. It’s not going to makes things better. Rationally, we get it; but emotionally? Well, that’s often another story. Sometimes it’s almost impossible to shake the feeling that all is lost and there is nothing we can do.

I’m no psychologist, but I have experienced serious debt trouble myself. I know only too well what it feels like. I also have talked or corresponded with hundreds of people just like you—people who can’t pay their debts. What I’ve noticed time and time again, and what I experienced myself, is that there is a secret to breaking out of the despair cycle.

What is it? What’s the key? How do you escape the “all is lost” syndrome? You do it by following the example of successful, action oriented achievers everywhere. YOU ADOPT A GAME PLAN!

This book is your plan. You’re holding the key to your success in your hands right now. In this book I’m going to teach you how to reduce your debt in a planned, managed way. You’ll find that there are three steps to getting out of the financial hole you’re in and winning your battle with debt. You need to
• Honestly figure out what your situation is right now (crunch the numbers),

• Reduce your expenses to a manageable level by negotiating with your creditors and paying off some of your debts, and

• Learn how to manage your financial life to keep your future debt under control.

As always, I’m going to take you through this item by item. This is a method that works. You just need to implement it, and I’m going to show you exactly how to do it. I know it can be very difficult to take the first step when you’re trying to make a big change in your life, when you’re struggling to break the chains of inaction and get moving; but you’ve got a plan now, and you’ve already taken Step 1. You can do this. You can make things better.

Is it Morally Right to Negotiate?

OK, you’ve got a plan; but should you really do this? Is it right to do this? We should deal with this issue now, because you’re going to face it sooner or later.

When the collection agents and creditors aren’t trying to make you feel stupid and ashamed, they often argue that you have an ethical obligation to pay every penny that your contract calls for, no matter what. They are so fond of this tactic because they know that it resonates with most of us. We all want to “honor our word.” We’ve all been taught to make good on our promises.

So what are the ethics of this? Is it really OK to try to get out of a debt by paying less than you owe? Isn’t that dishonest? Well, this is a good question, and it deserves a straight answer. My answer is no. I believe that ethics and morals have nothing to do with negotiating your debts when you don’t have the ability to pay them in full.

Here are some reasons why I feel so strongly about this:

1. Since 1800 we have had some form of a federal bankruptcy law in the US, and since 1978 individuals have had the right to voluntarily petition for bankruptcy and have their debts discharged. To qualify, you just need to
prove that you can’t pay.

Those who go through bankruptcy aren’t thrown in jail. Far from it. Their debts are dissolved and they are free to move on with their lives. This process exists and is written into our federal laws because as a society we have long since decided that it is good public policy. It makes no sense to harass and torment someone just because their financial circumstances have changed and they can no longer pay all their debts.

2. If we say that individual consumers are acting unethically when they don’t pay a debt, then we treat them differently from corporations and other business entities. Corporations and limited liability companies fail all the time. They go out of business; and when they do their creditors don’t get paid.

The individuals who form these companies aren’t normally on the hook for these debts. This is one of the principal reasons why business people create corporations and other entities in the first place—to shield themselves from personal liability if their business decisions don’t work out as planned.

Why is it OK for a business person to make mistakes and leave creditors hanging, but not OK for you to do the same thing? When you get right down to it, the only difference between a business person and you is that the business person had the money to create a legal debt shield (a corporation or a limited liability company) before things started to go bad, and you didn’t.

3. Credit card companies and other major creditors assume that a substantial percentage of their customers won’t pay. They build these “losses” into their business model and this is one of the major reasons why their interest rates are so obscenely high.

In a very real sense, if you pay as agreed on your revolving credit, you’re subsidizing your fellow consumers who are not paying as they agreed. You’re paying not only what you “owe,” but what others owe as well.

4. Finally, when you negotiate with a creditor and arrive at a debt settlement, you’re creating a new contract—a new agreement. You’re simply replacing the old agreement (the one that didn’t work out) with a
new one that will work better for all concerned. The old contract disappears and a new one appears in its place.

The debt settlement process is voluntary on both sides. Your creditors are big boys and girls. They know where their interests lie, and believe me, they know how to protect themselves. They don’t do anything they don’t want to do. When they accept a negotiated settlement, they do it because it is a good deal for them and they know it.

The key to all this, the underlying concept that makes negotiating your debts OK in my book, is that you no longer have the ability to pay in full. That prospect has disappeared. It’s gone. For whatever the reason (divorce, illness, job loss, business reversal, or some combination thereof) you’ve lost the ability to pay. Your life has not gone as you hoped and believed it would. You have committed no crime. You have cheated no one. Things just have not worked out.

In these circumstances, I strongly believe, you are completely justified in approaching your creditors and trying to settle your debts for an amount that you can afford. And here’s an additional piece of information that might surprise you. Regardless of how they posture and protest, your creditors secretly agree with me.

- This is why they make deals every day to accept less than the contract calls for.
- When they come to believe that a consumer has lost the ability to pay as agreed, they welcome the opportunity to negotiate.

Regardless of what the contract says, they almost always would rather take a reduced amount than receive nothing at all.

When Should You Act?

OK, you know for sure that you can’t pay all your debts, you’ve decided to take action, and you’ve got a game plan. When should you get started? My answer: RIGHT NOW!
The Hidden Impact of Stress

Don’t put this off. We’ve already talked about some of the more obvious effects of overwhelming debt. They’re easy to see. I’m talking here about

- The tension you feel when the phone rings (Is it the collection agent again?),
- Your unwillingness to open your credit card statements (you just can’t face the bad news in black and white),
- The feeling that you’re boxed in, that’s there’s no way out, that you’re under a cloud that just keeps getting heavier and darker.

These feelings are real, they’re natural, and they’re understandable; and everyone with uncontrolled debt experiences them to some degree. But study after study has shown that these feelings are really just symptoms of deeper, much more serious problems—problems that are not so obvious.

It’s clear that the tension, the fear, and the hopelessness are very often accompanied by major physical and behavior problems, including

- Poor diet, excessive weight gain and sleep loss,
- Increased blood pressure,
- Higher separation and divorce rate,
- Higher suicide rate,
- Greater likelihood of involvement in family violence,
- Greater susceptibility to stroke or heart attack.

Consumers with severe debt issues face more than just financial problems. If you’re in this situation, your health and your family relationships are under seige as well.
Do yourself and your loved ones a major favor. Get started now. There are emotional and practical benefits of starting to work on a plan instead of continuing to ignore the inevitable. Turn a page. You’ll feel differently about your future, and you’ll start to behave differently. People will notice. You’ll feel better about yourself.

End the stress. End the wear and tear on your mind and body that stress causes. The sooner you start, the sooner you’ll come out the other side and start living a manageable financial life.
Chapter 2: Four Questions Everyone Asks

Part of the process of starting any new project is clearing away any lingering questions or concerns that are likely to nag at you as you go along. It’s always a good idea to get rid of these distractions up front, so you can apply yourself to the job at hand and give it your full, undivided attention. You don’t want to get bumped off course once you get started. If you fall off the rails, it can be difficult to get back on track and start moving again.

In my experience, there are four questions that just about everyone asks. All of them are logical and legitimate; and I know they’re going to crop up pretty soon, if they haven’t already. See if these look familiar:

1. Which debts can I negotiate?
2. What happens if my creditors sue me in court? Can I prevent this?
3. What’s going to happen to my credit score if I try to negotiate a debt settlement?
4. Am I the right person to do this? Can I really succeed?

Let’s get these issues out of the way right now.

Which Debts Can I Negotiate?

I wish I could tell you that you can negotiate all your debts; but I can’t. Unfortunately, that isn’t how it is. The fact is that you’ll be able to negotiate your unsecured debts; but for the most part you won’t have much luck trying to negotiate your secured debts. I say “for the most part” because it is sometimes possible to negotiate the payoff on a second mortgage, in the context of a maneuver called a short sale, when the value of the home is less than the amount owed; but that is beyond the scope of this book. You’ll also be unable to negotiate any debts that would be exempt from discharge if you were to file bankruptcy.
Secured Debt

Every loan you have is either secured or unsecured. The most common secured loans are those involving cars and houses, but they are also used for the purchase of RVs, boats, appliances, furniture, and other “big ticket” consumer items. When you buy something using a secured loan, the contract always says that if you don’t pay as agreed, the lender has the right to

- Take physical possession of whatever it is that you are buying (the collateral),
- Sell it at auction, and
- Keep the sale proceeds to satisfy your debt.

The right to take your property away from you, to sell it, and then use the money to satisfy your debt is an incredibly powerful weapon. Lender’s everywhere understand its lethal nature, and they don’t hesitate to use it. Normally, they prefer to repossess (foreclose) rather than negotiate.

Here’s a scenario showing how this typically plays out:

*Bob has $19,000 remaining on his car loan, and he’s lost his job. He’s missed three monthly payments.*

*He calls the finance company and explains the situation. He won’t be able to pay until he gets another job.*

*The finance company knows exactly how much they can get for the car at auction ($15,000), and it will cost them about $1,000 to repossess the car and conduct the sale. They decide to do exactly that.*

*They repo the car and sell it for $15,000. They deduct their $1,000 in costs, and apply the $14,000 to Bob’s balance. Now he owes them $5,000 instead of $19,000 and the car is gone.*

You can see why this is normally such an attractive option for lenders. They always prefer cash to conversation. Money now; talk later—That’s how they think. The collateral always represents an opportunity to get money now. That’s why they have the collateral in the first place.
Let’s rewrite the scenario and assume that our friend Bob has $10,000 in cash to offer the finance company in full satisfaction of his $19,000 debt. Would they take it? No way. They know they can net $14,000 if they grab the car. That’s $4,000 more than Bob is offering, and after they sell the car and pocket the $14,000 they’ll still have at least some prospect of eventually collecting some of the remainder from Bob.

Of course, once the car is gone, the remaining $5,000 is unsecured. The amount still owing on a debt once repossession and sale has occurred is called a “deficiency.” For reasons that we’ll see later, the finance company is usually going to be willing to negotiate a settlement to get rid of a deficiency.

**Unsecured Debt**

An unsecured loan is one for which there is no collateral. There is nothing for the creditor to repossess or foreclose. Credit card debt usually falls into this category.

Without collateral, the lender has no right to just take something away from you and sell it. There is no quick and easy way for the creditor to get money if you stop paying.

This doesn’t mean that the lender is powerless to collect the debt eventually, but it does mean that the process of collecting is going to take on three characteristics that all creditors hate:
• Getting paid is going to take a long time (months for sure, and maybe years),

• It’s going to be expensive (collection agencies will have to be paid, and maybe lawyers too), and

• The creditor might end up with nothing at all (if you file bankruptcy, it’s likely that the creditor will get zero).

These factors are the reasons why creditors are willing to negotiate debt settlements when it comes to unsecured debt. Sure, they always want every penny the contract calls for; but they’re realistic too. If you can’t pay the full amount, and if you offer to a reduced lump sum now instead of later, you’ll usually find your creditor interested in talking. They know from experience that with the passage of time, the likelihood of collecting goes down, and the expenses of collecting go up.

**Exempt Debt**

We’re going to get into bankruptcy in more detail later, but for now I want you to just understand that although most unsecured debt is discharged in consumer bankruptcy (Chapter 7), there are certain categories of unsecured loans or debts that are not. The most important of these debts are student loans and unpaid taxes. If you have a student loan and you file bankruptcy, you might get all your credit cards and other unsecured loans erased, but your student loan won’t go anywhere. It will survive the bankruptcy and you’ll still have to pay it.

Creditors holding exempt debt know that you can’t escape them, so they aren’t threatened at all by the possibility that you might file bankruptcy. In fact, in many cases they hope you do file. They hope you get all your other debts discharged so you’ll have money available to pay them. As you might imagine, this attitude can make it very difficult to negotiate with a creditor holding an exempt debt.

**The IRS—A Special Problem.** If you owe unpaid taxes to the IRS, you have a particularly difficult problem. This is because the IRS has a unique position when it comes to collecting. They can, and they do, make their own rules. Normally, failing to pay a debt in the US is not a crime (and therefore cannot result in a criminal conviction or jail time); but this general rule doesn’t
necessarily apply when it comes to unpaid taxes. If you ignore your obligations to the IRS, you can go to jail.

- If you have a problem with unpaid taxes, run (don’t walk) to the office of a CPA or a tax attorney.

- Do not try to deal with the IRS on your own. Sometimes they negotiate (in highly specialized circumstances) and they have payment plans that they make available, but working with the IRS agents is not a do-it-yourself project.

- Once your representative works out a deal or a payment plan, make sure you honor it. Give your IRS payments the highest possible priority. If you find that you can’t pay, get back in touch with the IRS through your representative. Whatever you do, DON’T ignore them.

What if They Sue Me in Court?

The prospect of being sued in court strikes fear into the hearts of most people. It should. It’s threatening, it’s costly, and the outcome is always uncertain at best. If you get sued, you have two choices:

- You can hire a lawyer to defend you in court (this will cost you money that you don’t have), or

- You can defend yourself in court (less expensive than hiring a lawyer, true, but terrifying for most people).

As you can see, neither option is attractive; and choosing one or the other isn’t likely to change the outcome. In all probability, you’re going to lose. The loan contract you originally signed is almost certainly bullet proof.

And this isn’t the end of the bad news. When a creditor decides to bring a lawsuit to collect on a debt, there are usually some very good reasons why. None of them is good news for the debtor:

- **Reason #1—Attachment.** When a creditor sues you in court, the debt is almost always unsecured, which as you know means that the creditor has
no collateral available for repossession and sale.

By bringing suit, the creditor can remedy this problem. Normally, the creditor will accompany the lawsuit with a request to attach your assets. If the request is granted (and it usually is), then you’ll have a lien against your assets (any equity you might have in your house or any money you might have in the bank will be tied up) from the time the request is granted until the lawsuit is resolved. If the suit goes against you, the creditor will have a right to “execute” on the attachment.

The word “execute” is well chosen. In fact, it’s perfect. It means that the creditor can collect on his court judgment by selling or liquidating any asset covered by the attachment lien.

• **Reason #2—Stopping the Statute of Limitations.** Every state has a law (a statute of limitations, or “SOL”) that provides a deadline for bringing suit to collect a debt. Depending on the state, this time period will be from one to six years. It usually starts when you breach the original contract by missing a payment.

  o If a creditor lets the deadline go by without bringing suit, the right to sue disappears.

  o But once suit is brought, the SOL clock stops ticking and the creditor is free from the deadline. It no longer applies. As a practical matter, by bring suit the creditor acquires all the time in the world to squeeze you for the money.

Once the SOL deadline passes, of course, the creditor’s prospects for getting paid plummet because the debtor knows he can’t be sued. Creditors hate to let this happen, and this SOL factor is a major motivator for bringing suit.

• **Reason #3—Obtaining a Judgment.** If your creditor wins a suit on a debt, the court will enter a judgment against you. This court decree becomes a matter of public record, and is reported to the major credit reporting agencies. It becomes a very important black mark on your credit report, it substantially lowers your credit score, and in many cases it can stay on your credit report longer than the standard seven years.
The presence of a judgment on your record can make it very difficult to get credit, buy insurance, get a job or qualify for housing. I get into all this in detail in _The Credit Solution_, but for now I just want you to appreciate that a judgment is something to be avoided if at all possible.

OK, from this discussion so far you might think that creditors would be “lawsuit happy.” You might expect them to bring suit right away every time a debtor gets behind on a loan. The fact is they don’t. Creditors are reluctant to sue in most cases. The truth is they only do it in certain special circumstances, and then only when all else has failed. To understand why, you need to look at an unsecured debt from the creditor’s point of view.

### How Creditors Look at Loans

Creditors are simple minded. I don’t mean they’re stupid (they’re not); but I do mean they are uncomplicated. There is nothing sophisticated or complex about their business. They loan money at interest, and they do everything they can to collect all the money and all the interest that the contract calls for. That’s it. Simple.

But creditors are also practical. They always act in their own best interest, and experience has taught them that things can change. They know that a good loan can go bad. As a result, they’re willing to adapt to circumstances. As they adapt, they are guided by a couple of important commandments:

- They always want to use the least expensive collection method available as long as they believe that the less expensive option will get the job done, and

- The less they expect to receive in the end, the less they are willing to spend to collect.

Let’s look at the life cycles of two different debts to see how these guiding principles are applied.

**The “Good” Loan Life Cycle:** A loan is “good” as long as you’re paying as agreed. In the language of creditors, it is a “performing” loan. Creditors love performing loans because this means that their heart’s desire (receipt of every dime that the contract calls for) is a legitimate prospect.
As long as your payments are flowing, the outlook from the creditor’s point of view is rosy. From where they sit, things are perfect. They expect to receive all of their money, and because you’re behaving (paying on time), they don’t anticipate having to spend any money at all to collect.

In a “good” loan, you continue paying on time until the loan is paid off (in the case of an installment loan), or until you stop using the account (in the case of a credit card or other revolving loan). The decisions about which collection method to use, and how much money to spend to collect never arise. Creditors make a great deal of money on these performing loans. The cash only flows in one direction—into their pockets. This is their definition of true happiness.

**The “Not so Good” Loan Life Cycle:** When you miss a payment, an alarm goes off in the creditor’s mind. They notice when a payment is only a few days late (even though in most cases they don’t report the event to the credit reporting agencies). They notice, but they usually don’t actually do anything right away. They know that sometimes people just forget to make a payment, or they get caught short for a few days and can’t come up with the cash immediately.

But when you’re more than 30 days past due, things change. Statistically, creditors know that this is often the first sign of serious trouble. Now they start to apply a little pressure.

- The first thing they do is notify the credit reporting agencies and make sure the 30-day late payment shows up on your credit report.
- They’ll also send you a past due notice of some kind. Usually, though, this is about it.

They don’t get carried away just yet. They don’t want to spend any money. It doesn’t cost them anything to report your 30-day late payment and send you a letter.

As more months go by and you don’t pay, they begin to think about collection; but in most cases they don’t actually take any action that costs them any money until your payments are at least 120 days late. Many creditors stretch it to 180 days. Sure, they keep reporting your late pays to the CRAs, and they keep sending you increasingly unpleasant letters; but again, these measures don’t cost them anything.
• They’re very reluctant to bite the bullet and start spending money to collect.

• This is especially true if you started out with a good credit rating and your overall history of repaying your debts is good. They know you’re a responsible person who has paid as agreed in the past. This encourages them to believe that even though you might have hit a serious bump in your financial road, you’ll work to get things back on track and eventually take care of the payments.

• Remember that dreams die hard, even the dreams of creditors. They always want to believe that eventually you’re going to pay them ALL of the money the contract calls for.

All that changes once you get past 180 days. If six months have gone by and you haven’t paid, the creditors know that time is not on their side. They have lots of data available to them (data about how debtors behave in a variety of circumstances), and that data tells them two things:

1. The longer you go without paying, the less likely it is that you will ever pay in full.

2. The longer you go without paying, the less likely it is that you will ever pay at all.

So at some point after you miss your fourth payment, and certainly once you have missed your sixth payment, your creditor has a decision to make. He knows that the negative credit reporting and the hostile past due notices haven’t worked and that he has to try something else. He’s got some options:

• Larger creditors often have an in-house “collections” department or a “late accounts” department, so your past due account might end up there.

• Or your creditor might refer the account out to an independent collection agency (CA). This can work a couple of ways.

  o The creditor might agree to pay the CA a percentage of any amounts eventually collected. If this happens the original creditor continues to own the contract and the CA simply earns a fee for
services rendered.

- Or the creditor might sell the account to the CA, usually for a fraction of the outstanding balance due on the account. If this happens the original creditor is now out of the picture and the CA, as the new owner of the account, becomes the new creditor.

Regardless of the option chosen, the decision to put your account into “collections” is a watershed event for your creditor. Why? Because at this point he is admitting that his fondest wish (that he’s going to get back all principal and interest in full) isn’t going to come true.

- If the account goes to in-house collections, it will be charged with the expenses attributed to the collection efforts.

- If an outside CA agrees to collect the account for a fee, that fee will be charged to and deducted from the account.

- If the creditor sells the account to a CA, the sale price is always far less than the balance due on the account.

So, at the 180-day stage, your account becomes worth substantially less than the balance due. Your creditors know this, the collection agents all know it, and now you know it too.

As more time passes without any payments, the value of your account continues to go down. In fact, it is not unusual for accounts that have been sold to pass through the hands of two or even three CAs, each of whom pays substantially less for the collection rights than its predecessor. Once an account is more than 12 to 18 months out from the last payment, it might sell for as little as a few cents on the dollar.

As I hope you are beginning to see, the passage of time creates leverage for you. The old saying “Time is Money!” is true; and when it comes to collecting debts, time works in favor of the debtor, not the creditor.

If the months continue to roll by and there is no resumption in payments (and if there is no new agreement to settle the account), then one of two scenarios will play out:
• Whoever owns the account will hire a debt collection law firm to sue you in court, or

• The account owner will simply continue efforts at collecting (calling, writing letters, negative credit reporting, and so on) until the statute of limitations expires. At this point the collection efforts will die down significantly, or cease altogether.

What Factors Trigger a Lawsuit?

Creditors don’t like lawsuits at all. Here’s the reason: A lawsuit represents an immediate, absolute commitment to paying out real money without any assurance whatsoever of getting it back. A lawsuit always costs your creditor at least a few hundred dollars, and in many cases the cost is much higher. When a creditor hires a lawyer, all they have is an expectation (a hope) of eventual payment. This is no more than they had before they engaged the lawyer. This feature (this requirement of an immediate payment of money or at least an agreement to pay it) makes hiring a lawyer to sue a debtor different from all other creditor options.

• If a nonperforming account is referred to “in house” collections, no money changes hands. The creditor doesn’t actually write anyone a check. The account just moves from one desk within the company to another. The new person who inherits the account is already on the payroll. They don’t get “hired” for that particular case. It’s true that the “expense” of the in house collection agent’s activity is charged against the account, but it is a paper charge—an accounting thing.

• If your creditor “hires” an outside CA to chase you, very little money, if any, is paid out of pocket to the CA. Sometimes the CA will be paid a small amount up front, but most if not all of the CA’s fee is eventually taken as a percentage of the amount collected. If the CA comes up empty, it doesn’t earn the percentage fee.

• If your creditor “sells” your account to a CA, not only does the creditor not pay out any money—he receives money. It might not be anything close to the balance of the account, but it is money flowing into the creditor’s pocket, not out of it.
Here are the financial realities that any creditor faces when deciding whether to sue on a debt.

- **Attorney Fees:** The lawyer, or the law firm, must be paid. Depending on the state and local custom, the attorney might be paid by the hour or on contingency (which means the attorney’s fee is a percentage of the amount eventually collected). Even for lawyers who accept contingency fees in collections cases, it is rare for them to take all the risk themselves. It’s common for the creditor and the law firm to work out a “split fee” arrangement in which the hourly rate is reduced, and a portion of the attorney’s fee comes out of amounts eventually received.

- **Court Costs and Filing Fees:** All courts charge fixed fees for the filing of lawsuits and the maintenance of court records. These fees can range from around $100 for a simple filing to two or three times that amount if an attachment is involved.

- **Service Fees:** Service of process is an essential element in any lawsuit. The defendant (the debtor) must be located (physically tracked down) and a copy of the creditor’s lawsuit must be “served” before the court will allow the suit to be filed and placed on the court docket. Usually this means that someone (either a local sheriff’s deputy or a professional process server) must go to the debtor’s residence and give him a copy of the documents. Depending on the jurisdiction, the cost for this runs between $50 and $100, plus mileage; but it can be more if the debtor is hard to find.

- **Subpoenas and Witness Fees:** This isn’t a factor in every case, but sometimes a creditor’s case can turn on the testimony of someone other than the lender or the creditor. People are often unwilling to voluntarily appear in court and in such cases they must be served with a subpoena and paid a witness fee plus mileage. These fees run along the same lines as service fees generally.

The certainty of these up front expenses is the reason why the SOL often is allowed to expire on an unpaid debt without a lawsuit being filed in court. It’s true that creditors almost always have the contractual right to collect all these expenses, in addition to the balance due, if they should prevail in the case; but this doesn’t change the fact that they must pay them (or accept responsibility
for them) in advance. They hate that. In many, many cases the creditors don’t ever sue because

- The amount owed is not large enough to justify the advance payment of the costs and expenses associated with suit, or

- The creditor makes a determination that the debtor is “judgment proof.”

This second point needs some explanation.

A debtor is said to be judgment proof when it’s obvious that she has no cash flow and no assets that can be attached, sold and turned into money. In such cases, it’s pointless to bring the lawsuit because the judgment will be worthless.

Creditors don’t bring suit in such cases unless they have reason to believe that the debtor’s circumstances will probably change downstream and the judgment will then be worth something.

**The More You Owe, the More Likely You’ll be Sued**

So, will you be sued on a $350 credit card bill? No. The full amount of the debt barely covers the filing fees.

Will you be sued on a $35,000 debt if you don’t pay after six months? Probably, unless you are clearly judgment proof. The likelihood of suit for this amount of debt is extremely high.

What about for debts in between? My own view is that the probability of suit for balances below $5,000 is pretty low. When you throw in the attorney’s fees on top of the other expenses, the numbers just don’t crunch for the creditor. They’re likely to see filing suit in such cases as throwing good money after bad.

Even if you owe quite a bit and the creditor thinks a lawsuit makes sense, he won’t bring it without warning. You’ll be threatened with the prospect of the
suit before it is filed. Creditors don’t give advance warning out of some perverted sense of honor—they do it because they want to see if the mere threat of the suit will prompt you to pay some money or make a deal.

What Will Happen to My Credit Score?

The short answer to this question is that it probably will go down. Here’s the thing: In most cases, you’re considering entering into negotiations with your creditors because you can’t make your payments. If that’s true, you’ve missed payments already and your credit score is headed south. It’s very likely that by now it has already fallen below the point where you could get a good loan on favorable terms.

This is just a fact of financial life. You credit score is falling, for now, and it is probably going to fall some more before this process is completed. I wish this wasn’t true, but it is.

For the present, the best thing you can do for yourself is forget about your credit score. There will be plenty of time to think about it later. When you get to the final phase of putting together a deal with your creditors, it will be time to focus on it again. At that point there will be measures you can take to minimize any further damage to your credit score, and perhaps you’ll be able to improve it.

For today, embrace this thought: This process isn’t about immediately improving your credit score. It’s about gaining peace of mind, avoiding lawsuits and collection agency harassment, and getting things back under control. It’s about laying a solid financial foundation for your life—a foundation on which you’ll be able to rebuild your credit and start living without debt-related stress.

Will I Really Succeed?

I’m asked this a lot, and I think it is a natural, honest question. It’s bound to arise in the mind of just about anyone who doesn’t have a background in formal negotiations; and of course, most of us don’t. Let me calm any concerns you might have about your ability to succeed at negotiating your debts. I promise you that you can do this; and if you follow the steps contained in this book, you will do it.
Success at reducing your debts doesn’t require a fancy degree in psychology; and you don’t need any training as a hard boiled, in-your-face negotiator. These qualifications are fine, if you happen to have them, but they’re not necessary. All you really need are determination and resilience. These are traits that you have right now, regardless of your background.

**Determination**

Determination is vital to your success, but I already know that you have it. How do I know? Because you’ve bought this book and you’ve committed to following the plan and taking the steps necessary for success. You’ve spent your money, and you’ve made a promise to yourself. All you have to do now is keep that promise. I’m not suggesting that this will always be easy. It won’t.

- There will be times when you won’t want to do something that your plan requires. You’re going to want to postpone a task, or maybe move to another step without completing the one you’re on. You’ll need to resist these temptations. They lead to failure.

- You’ll need to carve out small blocks of time for certain tasks, and allow nothing to interfere. You’ll need to shield yourself from all interruptions and distractions. This can be particularly difficult if you live with other people who might not fully understand what you’re trying to do. You’ll have to find a way.

- You’ll have to stick with your plan when it doesn’t seem to be working. I guarantee that there will be moments when you’ll feel discouraged. This is because the process of negotiation is not smooth. There are bumps along the way. Sometimes it will seem like you’re not making progress. You need to understand that this is normal for negotiations. Breakthroughs come when you least expect them.

You’ll just have to stay focused. Keep your eye on the prize (a life without overwhelming debt) and remember that you owe yourself your very best effort. Stick with the plan and keep moving forward in a methodical, organized way. You’ll be fine.
Resilience

At first glance, resilience might seem like the same thing as determination; but it’s actually different. Resilience is the ability to bounce back and keep going under difficult circumstances—the ability to resist pressure and stay on course. Believe me, you’re going to feel some pressure to give in, or to abandon your efforts. It might come from your creditors (those with whom you’re negotiating), or it might come from friends or family who don’t understand or don’t agree with what you’re doing.

- Your creditor or your collection agent will suggest to you, in a number of ways, that what you’re doing is wrong. You’ll need to consider the source and persevere. This is a standard creditor ploy. You have to see it for what it is and ignore it.

- As you move through the process your creditors will continue to report your account activity to the credit reporting agencies. Your credit score will fall. You must understand that this will happen, and be willing to take the heat. Keep in mind that though this is not pleasant at all, it is temporary. When you come out the other side, you’ll be able to start rebuilding your credit.

- Folks who have not studied debt reduction through negotiation often believe that big banks and credit card companies are all powerful, and that nothing good can come from resisting them. They might share these views with you and suggest that you’re wasting your time, or even doing yourself harm. They probably mean well, but they’re wrong. Follow your own compass here. You’re on the right track.

You have the means within you to combat these negative influences. We all are resilient to some degree. I’m willing bet that you have your share of this valuable trait. I’m sure that

- You don’t always do what others tell you to do, that

- You don’t take advice from others when you think that advice is wrong, and that
• You have had some success at achieving goals in your life.

It takes resilience to follow your own lead and to pursue your goals. You’ve tapped your own reservoir of resilience in the past, but you have NOT exhausted it. It is available to you now. Just promise yourself that you’re not going to let others (some of whom will have an interest in seeing you fail) bump you off track. You can do it.

**Do You Fit the Profile?**

So, you need a deep commitment to your plan and a strong sense that you’re doing the right thing. These are both indispensible; but there is another attribute that is also very important—you must fit the profile of a person who simply cannot pay his debts.

Why? Because creditors do not accept less than the full amount owed on an account unless they believe that the reduced amount is all they will ever get. If they don’t believe this, they won’t make a deal.

So what are they looking for? What are the factors that tend to show that a debtor won’t be able to pay in full?

• First, and probably most important, you need to be behind in your payments. This is the element that all creditors consider first. If you’re up to date in your payments, they won’t negotiate. The more payments you’ve missed, the more likely they are to accept less than the full amount due. This makes a lot of sense to creditors because they believe that the past predicts the future.

  o If you’ve been making payments, they believe you’ll continue doing just that;

  o If you’ve been missing payments recently, this tells them that something is seriously wrong and that for whatever the reason you are not likely to catch up any time soon. The more payments you’ve missed, the less likely it is that they’ll resume

• Another important bellwether is a substantial reduction in income (the loss of a job, a reduction in hours, or a change in employment resulting in less pay). You don’t necessarily have to be unemployed when you are
negotiating; but it does have to be apparent that you can’t make ends meet and that things are not likely to improve.

- It’s helpful to your cause if you don’t have any substantial equity in any of your assets. Most important, you can’t be sitting on tens of thousands of dollars in home equity. This is particularly critical if you happen to be trying to negotiate a debt that is large enough to support the time and expense of a lawsuit. If your creditor believes he can sue you, attach the equity in your home, and get paid when the sheriff conducts a sale, he won’t be willing to compromise much, if at all.

- Finally, your negotiation position is considerably stronger if you are a candidate for Chapter 7 bankruptcy. This is a whole separate topic, and I’ll have more to say about it later. I’m not advocating that you file; but if you happen to be a person who meets the criteria to file, it’s important that your creditors know it. When a person goes through Chapter 7, unsecured creditors normally end up with nothing at all. All creditors know this, and the possibility that you might file gives you powerful leverage.
Chapter 3: Preparation is Everything

Nailing Down Your Debts

You’re not quite ready to get started. You’ve got some homework to do first, and I’m going to help you through it. A lot of this is just “busy work”; but some of it is downright unpleasant. The best way to approach it is to just bear down and get it done.

As emotionally difficult as it may be, the first step in debt recovery is to figure out exactly how bad the problem is. To do this, you need to gather together ALL of your debts, bills, and recurring payment statements. Here are the easy (sort of) steps you need to take:

1. **Gather Together Your Stuff.** This is the easy part. Rummage through your files and records and find every bill, invoice, statement, and loan agreement that you can get your hands on. For the moment, dump them all into a box or basket. Don’t worry if it just looks like a pile of rubbish; you’ll get organized in a moment. Right now you just want to get everything together in one place.

2. **Sort Your Stuff.** Okay. Time to get organized. You need to make sense of everything you threw into your box. Most people find it easiest to start by sorting the pile into groups-- maybe a separate stack for House and another for Utilities and still another for Credit Cards and so on. You get the picture.

   Now sort each smaller pile by Creditor. Make a separate stack for each credit card company. Do the same with your utilities. Follow this pattern for all your major categories.

Now for the toughest part. If you’re like most folks with serious debt issues, some of these invoices and bills are unopened. You have to put that approach to your troubles in the past and OPEN each and every one of these mailings now. Don’t worry about amounts due yet; just look at the invoice dates. For each and every company or creditor, put the most recent invoice on the top of that stack. Now take all these most recent bills and put them all in one pile. You want to have all of these most
recent statements in one place.

3. **Inventory Your Debts.** Now we are going to prepare a complete inventory of your debts. Understand that the goal of this step is NOT to determine how much you owe. All we want to do here is insure that you have identified all your debts. Things are going to be tough enough over the next couple months without a great big unexpected and forgotten bill showing up. You don’t need any surprises.

Here’s what you do: Go to the Appendix at the end of this book and print a copy of the “Debt Inventory Checklist”.

Now, take each bill or invoice in your “most recent” stack, and enter it on the Checklist. Simply locate the description in the left hand column that most closely describes your bill, and then enter the Document Date and the Next Payment Amount on the Checklist.

4. **Identify Your Out-of-Date Info.** OK, now I want you to look at all the dates in the “Document Date” column of your Checklist. Circle any date that is more than 30 days in the past. Why? Because any bill or invoice you have that is more than 30 days old is probably not your most recent statement. It probably isn’t an accurate picture of what you owe on that account right now. Again, just circles these old dates for now. We’ll come back to them shortly.

5. **Identify Your Undocumented Debts.** Once you’ve posted all the bills that you found and circled those that are out-of-date, you will notice that you’re missing some bills. Maybe your water bill isn’t listed because you just lost it; and your monthly rent might not have made the list because you don’t get a bill for that.

You need to fill in these holes in your Checklist. Carefully review the list of typical bills on the Checklist and circle all those that do not have a “paper bill”. If you can think of any other debts that are NOT listed on the Checklist, then write them in on one of the blank lines on the Checklist and circle them.

Now, count the number of circled or “written in” debts on your Checklist. These are all debt items for which you currently have no documentation, right? Well, you need to have a piece of paper for every single bill you are
going to pay, so you need to go to Appendix B and print one copy of the Debt Memo form for each circled debt. If you circled three undocumented debts, for example, then you will print out three blank Debt Memo forms.

For each undocumented debt, fill out as much of the Debt Memo form as you can. At a bare minimum, make sure your write in the name of the creditor, what the bill is for, and the creditor’s phone number. If you need to look it up, take a moment and do it.

6. **Update Your Out-of-Date Info.** Remember I mentioned at the top of this section that some of this process is not exactly fun. Well, here we are. This is the part I was talking about. For most of us, this is the most painful step in the debt inventory process.

You need to call each creditor that you have circled for “Out-of-Date information. I know, I know; that’s just what you’ve been trying to avoid. But you HAVE to have accurate information if you really want to get through this, and if you don’t have a current bill, you need to call the creditor. It’s that simple.

Will the person on the other end of the phone try to collect from you? Of course. Will they be insistent and annoying? Almost certainly. Do you really have to make the call? Absolutely.

Do you have to agree to anything they demand? Absolutely Not. All you need to do is politely explain that you are working on getting your financial affairs in order, that you are putting together a plan, and that you will be back in touch soon. Then ask for the following information:

   a. The total amount now due, including all interest, penalties and fees if any,

   b. The minimum payment due (if it’s a credit card),

   c. The next due date,

   d. Whether you’re facing any penalties, cut-offs, etc.,
Mark this up-to-date information on the outdated paper bill that you have. Then say thanks and politely end the conversation. If you have any concerns about your ability to handle this phone call, feel free to use the Balance Inquiry Phone Script that you’ll find in the Appendix.

And one more thing: As you can see from the phone script, you can’t allow yourself to get sucked into agreeing to do anything, including making a payment. This is NOT the time to even mention the possibility of a payoff or a payment plan.

You are not negotiating yet; all you’re doing now is gathering information. There’ll be plenty of time to negotiate later.

7. **Update Your Missing Documents**. This is similar to step #6 except that this time you are calling each creditor that appears on one of your “Debt Memo” slips. The goal is to get up-to-date information about these “undocumented” debts.

Again, just explain that you’re working on getting your financial affairs in order and that you’re putting together a plan. You probably won’t have your account number, so be prepared to provide your phone number, address, and so on. They’ll need to be able to identify you and find your account in their system. Then ask for the following information:

a. The total amount now due, including all interest, penalties and fees if any,

b. The minimum payment due (if it’s a credit card),

c. The next due date,

d. Whether you’re facing any penalties, cut-offs, etc.,

e. The account number, and
f. The mailing address or payment remittance info.

Now thank them and end the conversation. Don’t mention the idea of a payoff or a payment plan under any circumstances. Again, if you need a confidence builder don’t hesitate to use the Balance Inquiry Phone Script in the Appendix.

**One piece of advice about these phone calls- - Do them NOW!** You might be tempted to take a fifteen- minute break after each call, especially if you’re finding them stressful. You have to resist this. Forget the breaks. This is a recipe for never getting them done. Set aside an hour (or two) and make them one after another. Just get into “the zone” and power through it until you’re finished.

Okay! That’s it. Once you’ve completed these calls, you will have two very important tools:

- A Debt Inventory Checklist. This is accurate, reliable information about the status of every debt you have, and

- A small (hopefully) pile of Debt Memo forms- - accurate information about debts for which you have no formal documentation.

At this point, you have completed the first important step in getting out of debt. It probably hasn’t been fun; but now you are ready to move on to the next important phase.

**Setting up Your Personal Budget**

You’ve got your Debt Inventory all set now, but in order to use it you need to have a crystal clear picture of both your income and your expenses. You need to set up a personal budget. You need to know

- How much income you can count on each month,

- How much it costs you each month to pay your debts and cover your other necessary living expenses, and
• Whether there is anything left over (whether you’re running in the red or the black).

If you have never set up a budget, this might seem like a monumental task; but it’s easier than it sounds. Let’s get started. *(These are instructions for setting up a budget on paper. If you’re comfortable with excel, google docs, or any other spreadsheet software then I advise you to use that instead because it’s a lot easier to edit, run totals, etc.)*

Take a wide sheet of paper and divide it into 14 columns. Or you can use the Personal Budget form in the Appendix. If you’re not printing out the Appendix form, use it as a guide to fill in the various cells and labels. When you’re done, your top few rows should look like this:

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
<th>Aug</th>
<th>Sep</th>
<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income</strong></td>
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<tr>
<td>Salary/ Wages</td>
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<tr>
<td>Part- Time Job</td>
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<td>Alimony</td>
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<tr>
<td>Child Support</td>
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<td>Fed/ State Assist</td>
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<td>Self- Employment</td>
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<td>Other Income</td>
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</tr>
<tr>
<td><strong>Income Totals</strong></td>
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</tbody>
</table>

|       |     |     |     |     |     |     |     |     |     |     |     |     |        |
| **Expenses** |     |     |     |     |     |     |     |     |     |     |     |     |        |
| Housing |     |     |     |     |     |     |     |     |     |     |     |     |        |
| Mortgage/ Rent |     |     |     |     |     |     |     |     |     |     |     |     |        |
| 2nd Mortgage |     |     |     |     |     |     |     |     |     |     |     |     |        |
| Property Taxes |     |     |     |     |     |     |     |     |     |     |     |     |        |

In most of the categories, you probably won’t need all the items. Most of us, for example, only have one or two sources of income. In each category, I’ve left a couple of blank rows so you can add any special items that might apply to you.
At the end of each category, there is a row for totals for that group of expenses.

Once you have everything filled in (or the form is printed out), your form is complete. That’s the easy part. Now you need to put in the numbers.

1. **Income.** It’s more fun to talk about money coming in than money going out, so let’s start there. Fill in each month’s income from each income source. When you’re done, add up the monthly columns and put a total in the appropriate box. Let’s assume you have a regular job, a winter part-time job at a local ski resort, and some regular alimony payments coming in. Your Income section might look something like this:

<table>
<thead>
<tr>
<th></th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
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<th>Oct</th>
<th>Nov</th>
<th>Dec</th>
<th>Annual</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Salary/Wages</strong></td>
<td>2950</td>
<td>2950</td>
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<td>2950</td>
<td>2950</td>
<td>2950</td>
<td>36,400</td>
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<tr>
<td><strong>Part-Time Job</strong></td>
<td>150</td>
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<td>150</td>
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<td>150</td>
<td>900</td>
</tr>
<tr>
<td><strong>Alimony</strong></td>
<td>725</td>
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<td>725</td>
<td>725</td>
<td>8,700</td>
</tr>
<tr>
<td><strong>Child Support</strong></td>
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<td><strong>Fed/State Assist</strong></td>
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<td><strong>Self-Employment</strong></td>
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<tr>
<td><strong>Other Income</strong></td>
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</tr>
<tr>
<td><strong>Income Totals</strong></td>
<td>3825</td>
<td>3825</td>
<td>3825</td>
<td>3675</td>
<td>3675</td>
<td>3675</td>
<td>3675</td>
<td>3675</td>
<td>3675</td>
<td>3825</td>
<td>3825</td>
<td>3825</td>
<td>45,000</td>
</tr>
</tbody>
</table>

2. **Expense Categories.** Now move on and go through the same process with your various expense categories. This is where your Debt Inventory comes in. You’ll find that it’s a good, quick source for filling in the numbers that apply.

For your other living expense items (those for which you don’t have invoices, monthly statements or debt memos) you’ll have to comb through your check register and your credit card statements to be sure you have accurate numbers. It’s important to take the time and trouble here to do this right.
You need to enter real numbers on this budget. This is no place for wishful thinking. You’re going to be using this tool to figure out how much you can offer creditors in settlement, and you need to be careful. You don’t want to make a deal later and find out you don’t have the money to pay what you promised.

Be realistic and put in what you really expect to pay (not what you want to pay). And remember, expenses change. Your heating bill is going to look a lot different in January than it does in July.

For each category (housing, utilities, or whatever) add up all the expense items for each month and put the monthly (and annual) totals in the “Total” line for that category.

And now for the Emergency Reserve line (You were wondering what that was for, right?) This is money that you need to be setting aside for those financial “surprises” that always seem to happen at the worst possible time- - i.e. the car engine dies a week before the family vacation is scheduled to start. Enter about 5% of your Total Monthly Income for each month.

Don’t fall into the trap of thinking that you have a few thousand dollars open on a credit card that you can use as a reserve. That is very dangerous. It is VERY common for credit card providers to suddenly cut your limit down to your current balance leaving you no money available on the card. This typically happens when you are showing signs of financial distress on your credit report (your card member agreement almost certainly gives the card company the right to check your credit report) and it’s particularly devastating because your interest rates will usually go up at the same time.

Leave the Savings line blank for the moment.

Oh, and one more thing. I know that some of your expenses don’t have to be paid every month. Car insurance, for example is typically billed on a
quarterly or semi-annual basis. I still want you to put in monthly numbers for these expenses. To get the right values, just do the math. If you have a quarterly payment, divide it by three; if the bill comes every six months, divide by six, and so on.

3. **Net Totals.** Now, the last major section is labeled “Net Totals (All Expenses Subtracted from All Income).” This is where you figure out either the good news or the bad news. This is where you learn whether you’re running in the red or in the black.

   a. For the first row in this section, labeled “Total Income,” just transfer the monthly and annual numbers from the last row of the “Income” section, which is at the top of the form.

   b. To get the numbers for your second row, labeled “Total Expenses,” you’ll have to do some math. Take a separate sheet of paper and for each monthly and annual column, write down the totals for each expense category, including “Emergency Reserves & Savings.” Then add up all the numbers for each column and put that number in the correct column in your “Total Expenses” row.

   c. OK, now for the truth. For each column (all 12 monthly columns and the annual column), subtract your total expenses number from your total income number. If the number is positive, enter it on the “Surplus” row; if it is negative, enter it on the “Deficit” row.

If you find your numbers are in the “Surplus” row, then congratulations. You have money left over, and you’re in a great position to handle all your obligations, put money into savings, and go forward from here to live a financially stress-free life.

But, of course, your numbers probably are not in the “Surplus” row. They’re in the “Deficit” row. If they weren’t, you wouldn’t have bought this book, and you wouldn’t have gone through this exercise in the first place. The sad fact is that it’s costing you more to live than you can afford. You can’t pay your debts with the income you have, and unless something changes you’re going to go deeper and deeper into debt with each passing month.
Okay, you’ve prepared a good, accurate, up-to-date personal Budget. Now we’re going to talk about how to use that budget to lower your expenses, reduce your debt, and manage your personal finances.

**Using Your Personal Budget to Reduce Expenses**

I know you’re ready to start managing your way out of debt, and I’m ready to help you. Let’s get started.

If your monthly cash flow is negative, then you’re running in the red. That has to change because if it continues, things will only get worse for you. There are only three ways to go from negative to positive cash flow:

1. You can change your spending habits and spend less;

2. You can bring in more income; and/or

3. You can reduce your debts.

**Changing How You Spend Your Money**

It seems so obvious; but the truth is that our lifestyle and spending patterns are deeply ingrained habits that will NOT automatically change just because we are having debt problems.

The good news is that you can exercise a good deal of control over these spending patterns and habits. If you can manage to change some of these behaviors, you can make a major difference in the amount of money available to you every month. Interestingly, and as you’ll see, the changes and sacrifices you make can benefit you in ways that might surprise you.

As usual, I’ve created a worksheet to help you through this. You’ll find it in the Appendix (**Expense Reduction Worksheet**), and it looks like this (except that it’s a lot longer). Go ahead and print it out now.
The first thing I want you to do is to fill in the “Old Amount” column. For this task just refer to your Personal Budget and transfer the average monthly values for all your expense items. We’re going to be working with monthly (not annual) numbers on this worksheet. Now we’re going to classify all these expenses into two groups (critical and non-critical).

**Identify Your Critical Expenses.** I’m certain you have some expenses that you simply can’t reduce. These are your so-called “critical” expenses, and they include things like your car payment, your rent, maybe your child support obligation, and the like. There is nothing you can do to lower these; and we’re not going to waste time on them. They’re fixed, and you have to pay them.

Go through your worksheet and check the box in the “C” column for every one of these “cast-in-stone” expense items.

**Identify Your Non-Critical Expenses.** By definition, every expense item that doesn’t have the “C” box checked can be reduced.

- First, I want you to check the “R” box next to every expense item that doesn’t already have a check mark in the “C” box.

<table>
<thead>
<tr>
<th>Monthly Expense Item</th>
<th>Old Amount</th>
<th>C</th>
<th>R</th>
<th>New Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Housing</td>
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<tr>
<td>Mortgage/Rent</td>
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<tr>
<td>2nd Mortgage</td>
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<tr>
<td>Property Taxes</td>
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<td>Association Dues</td>
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<td>Repairs</td>
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<td>Maintenance</td>
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<td>Home Insurance</td>
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<td>Utilities</td>
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<td>Electric</td>
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<tr>
<td>Heat</td>
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<td></td>
</tr>
</tbody>
</table>
• OK, excellent. That wasn’t so hard; but this next part is tougher. Now you need to look at the number in the “Old Amount” column for each of these “R” items and think about how you can lower it.

**Cut Your Non-Critical Expenses to the Bone.** I recommend that you make yourself this promise:

*When it comes to my “R” items, I will NOT transfer the “Old Amount” number to the “New Amount” column. That just isn’t going to happen.*

The “New Amount” has to be less, hopefully a lot less. It MUST go down by some amount. Make this deal with yourself and enforce it. When you come up with a realistic new number, write it in the “New Amount” column for that item. If you haven’t already figured it out, “R” stands for “Reduced.”

I know that I’m asking you (and you’re asking yourself) to do something here that isn’t easy at all. The fact is that our lifestyles and our spending patterns are deeply ingrained. They are habits, and they’re hard to break; but I know from my own experience that it can be done. I’ve done it myself, and I know many others who have done it too. You can join the club.

You have to give this your best shot because this is where you can make a major difference in the amount of money you have available every month. Here are some thoughts and suggestions that might help you work through this:

• Get tough in the grocery store. No one is suggesting a permanent diet of ramen noodles, but for a month or two? You’d survive it, right? Seriously, you can cut down on your grocery bill by shopping store brands and cutting out the bottled water and expensive meat cuts. There is real money to be saved at the supermarket.

• Instead of buying lunch at work for somewhere between $8.00 and $10.00, pack a turkey sandwich. You’ll cut your lunch budget by 65% (you can save as much as $150/month on this single step), and you’ll live longer to enjoy your financial freedom.

• Buy a pack of gum instead of a pack of cigarettes. If you smoke, it’s costing you a fortune. You’ve probably been promising yourself you’ll quit; and now is the time. Buy a six pack of lemon tea instead of a six
pack of beer (at least until your debt crisis passes).

- Use a service like Netflix instead of going to the theater.

- Make a list of errands to be done so that you can reduce driving trips (gas usage) to a minimum.

- Consider doing your own laundry rather than taking it out. Wash and iron your own shirts instead of having them dry cleaned (at $3.00 each).

- If you have reliable cell phone service, get rid of your land line. If you’re paying extra for text messaging and chatty calls to your sister in California, stop. Send emails (they’re free) and call your sister less often.

- Buy any clothes you need at Goodwill instead of the department store. Once Goodwill clothes leave the store, they look and wear just like any other clothes.

You get the picture. If you’re creative and use some will power, you can peel some serious money off the “Old Amounts” of your “R” items. Once you’re finished grinding down all these not-cast-in-stone expenses, move on to the last two sections of the worksheet.

**Your New Expense Totals.** This part is just plugging in numbers and doing a little math. Tally up all your “C” item amounts (“Old” or “New” doesn’t matter; they’re the same.

Then add up the “New Amounts” for all your “R” items.

Combine the “C” expenses with your “New Amounts” total for your “R” expenses. This is your new monthly expense projection.

**Are You Out of the Red?** OK. This wasn’t fun, for sure; and it might have been painful. Was it enough to get you a positive monthly cash flow? Let’s find out. In the last worksheet section (“New Cash Flow Projection”), find your Total Income on your Personal Budget and write that number on the first line.

On the second line, write in your new monthly expense projection (from the last line of the previous worksheet section).
Subtract your new expenses total from your income total and write this number on the last line. It’s either positive or negative. If it’s positive, you’ve done it; you’ve broken into the black and you’re on your way to making things better for yourself. If it isn’t, you’re still running in the red and you’ve got more work to do.

If you find that you’re still in the red, this doesn’t mean you won’t be able to negotiate settlements for your unsecured debts.

Far from it!

Don’t despair. Later on I’m going to show you how to use your New Monthly Expense Totals to settle your debts even if you’re in the red.

Now that you’ve finished your worksheet, your last two sections might look something like this:

<table>
<thead>
<tr>
<th>New Monthly Expense Totals</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total of All “C” Items</td>
<td>$2,790</td>
</tr>
<tr>
<td>Total of All “R” Items (New Amounts)</td>
<td>$1,900</td>
</tr>
<tr>
<td>Add “C” and New “R” Items</td>
<td>$4,690</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>New Cash Flow Projection</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Income (From Personal Budget)</td>
<td>$4,975</td>
</tr>
<tr>
<td>Total “C” and New “R” Items</td>
<td>$4,690</td>
</tr>
<tr>
<td>New Monthly Cash Flow</td>
<td>$285</td>
</tr>
</tbody>
</table>

Boosting Your Income

So far we’ve only worked through one of the three ways you can start to live a life of positive monthly cash flow. The next item on the agenda is increasing your income.
There are several ways to start bringing some “extra” money through your door:

- It would be wonderful if we could simply ask for more money in our time of need, but in today’s economy, your employer may be reading this book as well! Practically speaking there are probably two realistic ways to quickly increase your income through work:
  
  - If you’re paid hourly, you can ask to work more hours, or
  
  - You can find a part-time (even temporary) second job. Is this appealing? Not in the least. But you have to ask yourself how serious you are about getting out of debt.

If you have a family or are not in good health this may not be practical; but if you’re young and single, this is a viable option that you should seriously consider. I personally can vouch for this approach. I worked two part-time jobs while holding a full-time “career” job back in 2007, and I was able to earn an extra $20K that year to pay toward my debt. That was a really difficult time in my life, but it helped me to avoid bankruptcy and I’m glad that I did it.

Let me pass on a hidden benefit to working a second job. It makes it just about impossible to spend money. You have no time, and no inclination because you’re too tired. 😊

Be creative, and you might be able to figure out a second job that you actually like going to.

**A word of warning here!** There is an entire industry of “work at home” and “get rich quick” scams out there, designed to rip off folks who desperately need to increase their income. Trust me on this: Starting on a new; very speculative business venture is NOT a great way to keep your financial head above water. If you let yourself get sucked into one of these schemes and head down this road, you’ll spend startup money you don’t have, you’ll waste time and valuable energy, and you’ll almost certainly regret it. Don’t go there.
If you own your home, you might be able to get some additional cash by refinancing or getting an equity line of credit. I know this represents more debt, but it might be worth it (more on this later).

Take a look at your payroll withholdings. You may have requested that your employer withhold more taxes than necessary (We all like that big refund check, right?). But by adjusting your withholdings, you may be able to increase your “take home” pay now, when you need it most. Just be careful with this. Don’t set yourself up for a big tax payment at the end of the year.

Check into your utility deposits. When you first opened a new utility account, the utility company may have required a cash deposit. Sometimes this amounts to hundreds of dollars. After a year or so, they will often return that deposit if asked. So ask!

Sell something valuable. This is a big one. Almost everyone has something they can sell—a car, a boat, real estate, stocks, bonds, collectibles, whatever. Now might be the time to liquidate if you have some extra assets. Believe it or not, most of the world exists quite nicely without two cars and a boat in the driveway (Yeah, I know; this probably isn’t you. But just in case.)

Sell something not so valuable. It’s not uncommon for families to make $500 to $1,000 on a good Yard Sale. And don’t forget Craigslist.com and Ebay.com.

Get rid of some junk and help yourself get out of debt at the same time. You might be amazed at what sells well—nice clothing, shoes and boots, tools, books, sporting goods, old furniture, kitchen goods, electronics, even old toys. Use your imagination. You can get rid of extra clutter and make hundreds in the process.

Reducing Your Debts

The third way to improve your cash flow and get into the black is to reduce your debt load. This is where you can make the greatest gains. This is where you can transform your financial life, not just for now, but for the future.
The rest of this book is going to focus on this third, and most powerful measure. This is what we’re going to be talking about from here on out—how to settle your debts for less than you owe.
Chapter 4: Settling Your Debts for Less

How Collections Work—What to Expect

You’re soon going to be contacting and negotiating with people who want money from you. To succeed, it will help a lot to have plenty of confidence and a positive attitude. An important part of gaining confidence when you’re dealing with someone you don’t know is to find out as much as you can about them in advance. So let’s make sure you know who these folks are, and what you can expect from them.

The Collectors

People who spend their workdays trying to collect money from people who don’t have it fall into two categories: original creditors (OCs) and collections agencies (CAs). Everyone you contact will be representing either your OC or a CA. That’s the universe.

**Original Creditor:** This is your original lender. It might be a bank, or it might be a financing company or a credit card company. Regardless, this is the entity that you originally borrowed from and promised to repay. These are the people whose name appears on your original loan contract or credit card agreement.

If you’re behind on your payments to your original creditor (and your OC has not sent the account out to a CA), you’ll probably be dealing with an internal collection department. Every major firm offering consumer credit has one. Internal collections is the “first line of recovery” for the company and it is primarily responsible for encouraging payment by “forgot to pay” and “slow pay” customers.

The people in internal collections departments don’t usually play “hard ball”; at least not at first. They start with friendly reminder notices. If these don’t work, the in-house collectors start sending the notices more frequently and they increase the level of urgency. When it becomes clear that letters and notices probably are not going to produce any payments, the company usually decides
to send the account out to an independent collection agency (CA). They do this for a couple of good reasons:

- There are often cost savings in “outsourcing” these collection efforts, and
- Even more important, they want someone else (someone else with a different company name) to do the more unpleasant heavy lifting.

Many of these consumer companies depend on the goodwill of their customers for their success. They don’t want to gain a reputation for beating up on their customers, even those who don’t pay them. They see this as just bad PR. They would rather hire someone else to do it and try to distance themselves from the process.

**Collection Agencies.** These independent companies specialize in collecting difficult or very late accounts. The arrangement between the OC and the CA can vary.

- Sometimes they work for the OC as a contractor. The OC hires the CA to do the collecting, and any money produced through the CA’s efforts goes to the OC, which still owns the account. In these cases, the CA earns a fee for its work—usually a percentage of any amounts collected.

- Sometimes the OC simply sells the account to the CA for a price far below the amount owed. When this happens, it’s likely that the debt is very old and at least once CA, working as a contractor for the OC, has tried and failed to collect. Once the account is sold to a CA, the CA owns the account and gets to keep any amounts collected. In these cases, the CA makes its profit by collecting more than it paid the OC for the account.

Regardless of their deal with the OC, a CA is always highly motivated to browbeat debtors into paying. If is common for CAs to pay their collectors (the people who actually call you) on a commission basis, which means that the more a collector brings in, the more money she makes. Historically, this arrangement has led CAs to use some very questionable and abusive tactics.

**Collection Attorneys.** Attorneys never work for themselves. They represent other people. If you are contacted by an attorney, he or she is acting on behalf of an original creditor or a collection agency. In the great majority of cases, collection lawyers work for CAs, not OCs. This is because OCs usually prefer to
send an account out to a CA instead of incurring the expense of hiring a lawyer and going to court.

What Collection Agencies Can Do

The activities of Collection Agencies and their representatives are governed by a federal law that applies in all 50 states—the Fair Debt Collection Practices Act (FDCPA). This law focuses mostly

- On what CAs ARE NOT ALLOWED to do, and
- On certain things that they ARE REQUIRED to do.

It doesn’t say much at all about what they ARE PERMITTED do. Still, it is obvious that the FDCPA did not leave CAs powerless to collect money.

- They may call you on the phone and try to persuade you pay. They may do this repeatedly (within reason), between the hours of 8:00 AM and 9:00 PM, unless you write to them and tell them to stop.

- They may write to you and try to persuade you to pay, unless you write to them and tell them to stop.

- They may bring legal action against you in court to force you to pay.

There are strict rules that CAs must follow in their telephoning and letter writing efforts, and this brings us to what they cannot do.

What Collection Agencies Cannot Do

Before 1977, when Congress passed the FDCPA, debt collectors were notorious for being unpleasant. They used to engage in a wide variety of abusive and intimidating practices, including

- Calling debtors repeatedly day and night (often very early in the morning and into the wee hours at night),
• Calling the friends, relatives and employers of debtors and exposing the debt to these third parties,

• Using obscene and personally abusive language,

• Threatening to make debts public,

• Calling on false pretenses and hiding their identity and purpose, and

• Threatening arrest and jail (or some other punishment that they had no legal power to deliver).

Under the FDCPA, all of these practices are now illegal. Most CAs these days know the law and abide by it. You’re not likely to run into this kind of unscrupulous behavior, but if you do you don’t have to tolerate it. Each instance of illegal conduct is a violation of the FDCPA and is punishable by a fine of $1,000. You have the right to sue in court to enforce these penalties.

How to Handle Collection Agent Phone Calls

Even when collection agencies follow the letter of the law, the process of dealing with them can be emotionally draining. You may find yourself having to handle collection agents before you want to—that is, before you’re ready to start trying to negotiate the debt and settle it for less than you owe. So, I have some recommendations for you to help you deal with this stressful situation.

This approach is designed to

1. Get you some information you’re going to need,

2. Put a stop to the harassing phone calls, and

3. Buy you some time until you’re ready to start the negotiation process.

Recommendation #1—Take the Call. That’s right. Take the call; then get control of the call. If you haven’t made a payment on an account in three months or more, you have to expect that you’ll be hearing from a collection agent sometime soon. There is no point in dreading it; be ready for it. You can turn this initial phone contact to your advantage by following these guidelines:
• Confirm your name and mailing address, but don’t provide any other information.

  o Don’t answer questions about why you have not paid, or whether you can pay.

  o **Do not, under any circumstances, agree that you owe the debt.** If necessary, simply state that you are not prepared to answer any questions.

• If you don’t have a pen and paper immediately available, excuse yourself from the phone, put it down, and go find both. You want to make a written record of this phone conversation.

• Once you’re back on the line (with pen and paper in hand), insist on getting the following information (take your time, make sure you have everything spelled correctly, and write it all down):

  o The name and mailing address of the collection agency (critically important because you’re going to write to them later),

  o The name and direct line phone number of the caller (the individual agent),

  o The name of the debtor (that’s you),

  o The name of the original creditor,

  o The original creditor’s account number,

  o The collection agency’s account number or file number,

  o The amount of the CA claims you owe.

• And one final thing: Before you hang up be sure to ask whether the original creditor or the collection agency is now the owner of the account. Depending on how far behind you are, the collection agency might have purchased the account from your original creditor for pennies on the dollar. More on this later. For now, just be sure to find out who owns the account.
Once you have all this information, politely end the conversation. Make sure you also record the date and time of the call.

Recommendation #2—Write to the Collection Agency. OK. You’ve got all the information the agent was able to provide to you about the debt. Now it’s time to sit tight for five days. I know, I know; I’m usually all for taking action immediately. Why the wait? Because now that the CA has contacted you by phone, it is required by law to write you within five days to give you notice of your right to request “validation” of the debt. You want to wait to see if you get the letter.

- Most CAs are well aware of this obligation, and they will send the letter. If they do, they are complying with the law, and you’ll buy some time. Your receipt of this “Validation Notice” from the CA starts a 30-day clock that we’ll talk more about shortly.

- If the CA doesn’t send the letter this is good for you, because the CA has violated the FDCPA. This will provide some leverage that you can later use in your negotiations with this CA.

Once the five days goes by, whether you receive the legally required written notice from the CA or not, you need to write a letter to the CA. This letter will have two purposes:

1. It will force the CA to “validate” your debt in writing, and obtain for you all the consumer protections that the FDCPA makes available to you.

2. It will make the CA stop calling you. From your point of view, there is no reason to talk to them at this point. Remember, you haven’t started to negotiate yet. That comes later.

Here’s the link to this Sample Validation Letter to CA, which is in the appendix. Go ahead and print out a copy so you’ll have it in front of you as you read the rest of this section. This letter is very important, and I want to make sure you understand what’s in it, how it works, and why you’re writing it.

At this point in the debt collection process you’ve just heard from the CA about this particular debt for the first time. This means that the CA has probably not
notified the credit reporting agencies (Experian, Equifax and TransUnion) that the account has been placed in collections.

- Of course, you don’t want your credit reports to show the account in collections because this will seriously lower your score. At this early stage, you have a chance to keep that from happening (or at least to delay it).

- Once you send this letter, you handcuff the CA (at least for awhile). The CA is prohibited from notifying the credit reporting agencies of the “collections” status of the account until it has provided the “validation” documentation requested in your letter.

So, in sending the letter you derail the CA from its intended purpose and send it off in another direction. You keep the CA from reporting your debt as “in collections,” (something that it wants very much to do); and you force the CA to gather together the documentation you’re requesting (something it very much doesn’t want to do).

**Bonus Point.** In addition to the leverage you gain from requiring validation of the debt, there is always a chance that the CA won’t be able to supply the documentation. If this turns out to be the case, it’s great for you. The FDCPA is very clear that once the CA receives your written request for validation, NO COLLECTION ACTIVITY is allowed until the requested documents are supplied to you. If you find that the CA can’t come up with the requested validation, this provides you with some very strong leverage that you can use in negotiations.

**So What are You Disputing?** Strictly speaking, the FDCPA says that to trigger the “validation” process, the debtor has to notify the CA that the “debt, or any portion thereof, is disputed.” As so often happens, the law does not define what “dispute” means. The main thing to keep in mind here is that if there is anything about the debt that isn’t quite right (the amount, the interest calculation, the late fees, the penalties), then you’re entitled to dispute it and ask for validation. The chances are very good that if you do all the interest calculations and sort through the various fees and penalties that the claim contains, you’ll find something that isn’t correct or that you don’t think you should be charged for.

In addition, you have no relationship with the CA. You never signed a contract with them. Your relationship, if you have one at all, is with the original creditor.
You’re entitled to make the CA prove to you that they represent the OC and therefore have the right to contact you about this debt.

**Stopping the Phone Calls.** Debt collectors do not like dealing with debtors in writing. They would much rather work by phone. This is where they feel they have an advantage and in most cases they’re right. Their agents are highly trained, they work from proven scripts, and they’re very good at what they do. So you want to deprive the CA of its “home court advantage” and force it to communicate with you only in writing. There may come a point in the negotiations when you want to call the CA (that’s why you got the agent’s name and phone number); but initially I recommend you take the phone weapon out of their hands.

**Your address.** Send this letter out on a letterhead that includes your correct mailing address. This is very important. Don’t forget to verify that address with a copy of a recent utility bill.

**The Role of Bankruptcy**

One of the most important goals of this book is to help you avoid the need to file Chapter 7 bankruptcy. I know that Chapter 7 can seem like a pretty attractive option if you’re hopelessly behind in paying your debts, but it isn’t a painless process. As with most things, there is a downside and an upside.

- **The Downside:** There are high costs and serious, long lasting consequences. You’ll pay hundreds of dollars in court filing fees and several hundred more to your bankruptcy attorney. She won’t work for free, and you’ll have to appear in Federal Bankruptcy Court at least once. That won’t be fun. In many cases your primary assets (like your car and your house) will be seized and sold to pay your secured creditors. This is agonizing and emotionally very difficult for most people.

Your bankruptcy will show up on your credit reports and do heavy damage to your credit score. Though there are ways to improve your score after a bankruptcy, the process takes many months; and the bankruptcy will remain on your credit reports for 10 years, regardless of your score.
• **The Upside**: The main upside to filing Chapter 7 bankruptcy is that it provides an opportunity to start over financially. If you file, and if you’re successful, your unsecured debts will be discharged forever (forgiven, wiped out) and those creditors who don’t have collateral will be left with nothing.

**The Elephant in the Room**

Now, as I said, I want to encourage you to avoid bankruptcy if at all possible; but this doesn’t mean you can’t use it to your advantage. In fact, you can use it; and you should. It can be an incredibly potent weapon for you. It can provide tremendous leverage to help you negotiate good settlements of your unsecured debts.

The reason why bankruptcy can be such a powerful tool in negotiations is really pretty simple. The prospect that you might file is your creditor’s worst nightmare. It’s the end of the world. Why? For two reasons:

1. **The Automatic Stay**: The moment you file, something called the “automatic stay” goes into effect. This means that once the bankruptcy court clerk accepts your papers and opens your case, your creditors are absolutely prohibited from doing anything further to collect from you. This happens automatically. From that moment on
   a. They can’t call you,
   b. They can’t write to you,
   c. They can’t sue you, and
   d. They can’t report to the credit reporting agencies.

They can’t engage in any collection activity whatsoever. It’s true that secured creditors (creditors who have collateral) can ask the court to suspend this prohibition for the limited purpose of allowing them to repossess or foreclose, but unsecured creditors are not allowed to do this. They’re completely stuck. They simply have to sit tight until the case wends its way through the bankruptcy court and comes out the other end.
2. **The Discharge**: And what is it that awaits the unsecured creditors on the other end of the average Chapter 7 filing? Can they expect to be paid anything at all when the case is over? No, they can’t. They will get zero. In almost every successful Chapter 7 bankruptcy case, all the unsecured debts are wiped out. The court issues a final “discharge” order, and all debts covered by the order (all unsecured debts that are not otherwise exempt) disappear, never to return.

So your unsecured creditors are genuinely afraid of bankruptcy. You can count on it. They might deny it; but don’t you believe it. They know that from the moment you file, there is nothing at all they can do to continue to try to collect, and your account immediately becomes almost worthless.

**Is the Bankruptcy Weapon Available to You?**

Let’s call the prospect of filing Chapter 7 what it is—it’s a threat. This is true whether you raise the issue during negotiations or just let it lurk in the background. And like any threat, it is only effective if it is credible. In order for your creditors to lower their settlement demands because of the possibility that you might file bankruptcy, they must believe that you’re a legitimate candidate.

Let’s take a look at your circumstances from your creditors’ point of view. In trying to determine whether you might actually file (whether they have to take you seriously as a Chapter 7 candidate), they’re going to ask themselves two questions:

1. **What Kind of Debt Do You Have?** This is important because your creditors know that if your debt troubles stem mostly from a failed business venture, you’ll be allowed to file Chapter 7 if you want to. Remember Bill Jeffries? He’s in deep trouble because he lost his startup cabinetry business. Bill’s creditors have to be worried that he might file because they know the law places no roadblocks in his path. The door to the courthouse is open to him.

   If your debts are mostly consumer in nature (not from a failed business effort), then a second question arises.

2. **Do You Meet the Means Test?** Whether it is fair or not, the bankruptcy law makes it more difficult to file Chapter 7 if you have mostly consumer debt. You have to meet something called a “means test.” If you don’t
meet the test, you can’t file Chapter 7, and you’re unsecured debts are not going to be discharged. As far as your creditors are concerned, bankruptcy doesn’t pose much of a threat.

So how do your creditors know if you meet the means test? How do you know? The answer is that you (and your creditors) look at your income. If it is low enough, then you automatically pass the means test and you can file Chapter 7. Here’s how to figure this out:

- First, take a look at your average gross (before tax) monthly income for the past six months. Consider all sources except social security benefits; they are not part of your income for means test purposes. Your Personal Budget form can help you here, except that you’ll need to add back in whatever you pay in income taxes and withholding for wage/salary income.

- Now you need to compare your gross monthly income with the median monthly income for families like yours in the state where you live. You’ll find this number in the Median Income Chart in the appendix. Just locate your state or territory and look in the column that matches your family size (two people, three people, or whatever). Divide this number by 12 to calculate the income number that you can’t exceed. You have to be below it to automatically qualify for a Chapter 7 filing.

Let’s take an example to see exactly how this works. Say your gross monthly income before taxes is $4,500 (not counting social security benefits) and you’re married with one child. Your family size is three.

- If you live in Alabama, you don’t automatically qualify for Chapter 7 because the median income for a family of three is only $4,265 ($51,182 divided by 12). Your income is too high.

- It’s a different story if you happen to live in Connecticut. The median income there for a family of three is $6,688 ($80,263 divided by 12). You make the cutoff with no problem. You know that for your creditors, the specter of your bankruptcy is real.

Now if you find that your monthly income is higher than the median income in your state, all is not necessarily lost. You still might be allowed to file Chapter 7; but unfortunately you have to move on to the second and third stages of the
means test (there are three in all), and things get a great deal more complicated once you get past the first stage. It would take another 50 pages to explain how all of that works, and that is beyond the scope of this book.

**If You Don’t Meet the Means Test (Stage One), See a Lawyer.** If your debts are mostly from business losses, or if you have mostly consumer debt and your income is below the median in your state, you’ll qualify to file Chapter 7. The chances are very good that you fall into this group, and if that’s the case, you’re all set. You can start your negotiations with confidence that your creditors will take seriously the possibility that you might file.

But if your income is too high, and if you still want to find out whether you’ll be able to use bankruptcy as a tool during your debt negotiations, you should consult a bankruptcy lawyer.

- Call a law firm that handles bankruptcies, tell them you think your income is above the median, and ask what they’ll charge you to run your income and expense numbers through the means test. They’ll give you a price, or at least a range. If they specialize in bankruptcy law, they have software that crunches these numbers and weighs all the necessary factors.
  
  o Find someone you’re comfortable with, find the money to pay the fee, and get the means test analysis done.

  o You can expect to pay somewhere between $200 and $500 depending on where you live, but it will be well worth it if you find that you qualify to file.

- If the lawyer says you qualify, then you’ll be able to tell your creditors that you have consulted an attorney and that you already know you have the right to file Chapter 7 if you decide you have to.

**The Negotiation Process**

You’re ready to get started now, and it’s time to define your goal. This part isn’t complicated. Your objective is to persuade each of your unsecured creditors to agree to a major reduction in the amount of your debt and to accept payment
of this lower amount in one of two ways:

- If you have the cash available, you want to negotiate a single, lump sum payment. This will always get you the best deal.

- If you don’t have enough cash to pay the negotiated balance all at once, you’ll have to make a partial payment up front and set up a short payment plan that you can afford. This will cost a little more, but for most folks in serious debt trouble, it’s the only option.

That’s it. If you achieve this goal, you’ll have accomplished what you set out to do. This is that victory will look like.

**Lowering the Creditor’s Expectations**

Chances are there was a period when you were making your payments on your unsecured accounts. You might have been struggling (you probably were), but you were managing to handle it. Your creditors loved you and they were happy. At that point you had given them no reason to think you couldn’t pay, so they believed just the opposite—they believed that you would pay every penny owed.

It is pretty much impossible to negotiate with a creditor who believes that you have the ability to pay the full amount. If they anticipate getting all their money, they won’t agree to accept less. In this respect creditors are no different from anyone else. This isn’t going to change.

So, if you want to negotiate with your creditors to reduce your debts, you have to lower their expectations. The way they look at you, and at your accounts, has to change. You have to alter their mindset. You have to destroy their confidence that you will pay in full. They must come to believe that they will receive very little, and maybe nothing at all.

“OK, great,” you say, “I see the logic here, but exactly how do I go about changing my creditor’s expectations?” Well there is really only one way to put your creditors in the proper frame of mind—You have to stop making payments, at least temporarily.

- For most people in serious debt trouble (which is probably you if you bought this book), this happens automatically. It’s involuntary. You simply reach a point where you just don’t have the cash flow. You can’t
make your monthly payments, you don’t make them, and you fall seriously behind.

• If you don’t happen to be behind in your payments to your creditors, you have to understand that they’re not going to negotiate with you now. They won’t consider settling for reduced amounts until they see several missed payments.

How Many Missed Payments are Enough? How far behind do you have to be to create the necessary atmosphere for negotiation? There is no hard and fast answer to this question. It depends on the creditor and your payment history. Three is the absolute, bare minimum. You have little to no chance of reducing a debt it you’re only behind a payment or two; and to really knock a debt down to a fraction of its original size, you need to miss six payments or more.

Deciding How Much You Can Afford in Settlement

How much can you afford to pay if you settle? Good question, right? Don’t be too hard on yourself if you have no idea what the answer is at this stage. You’re not alone.

Don’t worry. I’m going to help you figure this out, and here’s why: If you enter into negotiations without a very clear idea of what you can afford to pay in final settlement, you’ll fail. I can almost guarantee it. You’ll just get lost in the back and forth of the process. Unless you know where your bottom line is,

• You can’t decide what your opening offer should be, and
• You can’t make decisions about accepting or rejecting any counteroffers you might receive.

In determining what you can afford, it’s essential that you have accurate information and that you be brutally honest with yourself. You have to get this right the first time. You’re only going to get one shot at negotiating your debts, and if you make a deal that isn’t realistic (that you can’t honor because it turns out you just don’t have the money) you won’t get another chance.

**Put Your Expense Reduction Worksheet to Work.** Remember all the hard work you did sorting out your finances earlier? (I’m sure you do.) You’ve been through the painful process of budgeting and cost cutting, and I know it wasn’t fun; but this is where it pays off.

Get your Expense Reduction Worksheet in front of you and then print out the [Settlement Offers Worksheet](#) that you’ll find in the Appendix. All set? Good. Now let’s go through some simple steps, using the Settlement Offers Worksheet, to help you figure out how much you can afford in settlement.

**Totals for Your Unsecured Debts:** First we’re going to fill in the numbers in the first section of your Settlement Offers Worksheet.

1. We need to locate the unsecured debts that you want to negotiate. You’ll find most, if not all of them listed in the “Other Loans/Credit Card Balances” section on your Expense Reduction Worksheet.

2. Copy the Monthly Payments for each of your unsecured debts into the appropriate boxes in the “Monthly Pmt.” Column.
   a. These are fixed for your installment loans,
   b. You can use the minimum payments for your credit cards, and
   c. For medical bills or other unsecured debts, divide the balance by 12 and enter that number.

3. Now find the most recent invoice or debt memo for each of these debts and enter the total amount owed for each debt in the “Current Balance” column on your worksheet.
4. Now total up both columns. You should have a total for monthly payments and a total for current balances.

a. The current balances total is the total for all the unsecured debt that you can’t pay.

b. The monthly payment total is the drain on your monthly cash flow caused by all this excess debt.

5. Don’t worry about the “%” column for the moment. We’ll come back to that soon. For now I want you to imagine what your monthly cash flow would be like if you didn’t have to make any payments on these various debts. That’s exactly what we want to find out.

To do that we need to go to the “Calculate Your Life After Settlement Cash Flow (Your LASCF)” section of the Settlement Offers Worksheet.

6. In the first line, enter the New Monthly Cash Flow number from your Expense Reduction Worksheet (this is what your cash flow would be if you made monthly payments on all the debts that you want to negotiate). This might very well be a negative number. If it is, that’s OK.

7. Now take the total of all the monthly payments on your unsecured debts (bottom box in the “Monthly Pmt.” Column in the first section of the Settlement Offers Worksheet) and enter it on the second line.

8. Add the number on the second line to the number on the first line. This is what your cash flow would be if all of your unsecured debts disappeared. This is how much money you’d have left over every month if you didn’t have these debts.

I’m going to show you exactly how to use this “Life After Settlement Cash Flow” number, but before I get into that we need to do one more thing—We need to fill in the “%” column in the first section.

9. For each of your debts listed in the top section, divide the current balance for that debt by the total of the current balances for all the debts. Let’s say the first installment loan has a current balance of $4,500 and the total owed on all your unsecured debts is $30,000. The percentage value for this first installment loan would be .15 (or 15%). When you’re done,
add up all your percentages to make sure they equal 100%

If you have maybe four unsecured debts with current balances totaling $30,000, your top section might look like this.

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Monthly Pmt.</th>
<th>Current Bal.</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment Loan #1</td>
<td>187.50</td>
<td>4,500</td>
<td>15%</td>
</tr>
<tr>
<td>Medical Bill #1</td>
<td>425.00</td>
<td>5,100</td>
<td>17%</td>
</tr>
<tr>
<td>Credit Card #1</td>
<td>375.00</td>
<td>7,500</td>
<td>25%</td>
</tr>
<tr>
<td>Credit Card #2</td>
<td>645.00</td>
<td>12,900</td>
<td>43%</td>
</tr>
<tr>
<td><strong>Totals for Unsecured Debts</strong></td>
<td><strong>1,632.50</strong></td>
<td><strong>30,000</strong></td>
<td>100%</td>
</tr>
</tbody>
</table>

**Your LASCF is Your Settlement Offer Key:** Now, at last, you have the tools you need (your LASCF and the percentages you just calculated) to decide how much you can afford in settlement.

- Your LASCF will allow you to figure out the total you can afford to pay out to settle with all your creditors.

- Your percentages will let you determine how much you can afford to pay each individual creditor.

Here’s how I recommend you use these tools:

1. Multiply your LASCF by a factor of 12. This will give you the total amount available to settle all your unsecured debts over 12 months.

   a. In all probability, you’re going to end up with some kind of payment plan (I’m assuming you don’t have a lot of cash on hand right now to offer as a single, lump sum payment).

   b. You don’t want any payment plans to extend beyond one year, and if possible you want this process to be over sooner than that. Remember that you absolutely must honor any settlement deal you make, and you’re going to be struggling to make ends meet while
you’re making these payments. The longer they last, the more likely it is that something unforeseen will come up and derail your payments.

c. Just in case this isn’t completely clear, let’s assume your LASCF is $1,000. In this case your total available to settle all your debts is $12,000.

2. Divide the total ($12,000 in the example) among your creditors, using their percentages to calculate the share for each one.

a. If you have $12,000 available, and your first creditor’s percentage is 15% (his total balance is 15% of the total balances for all creditors), then you know you can pay that creditor no more than $1,800 in settlement.

b. There is a very good reason for taking this “to each a percentage” approach. This is exactly how the bankruptcy process works. Most Chapter 7s end up with the unsecured creditors getting nothing at all, of course; but in the rare case when there is something left over for the credit card companies and the like, each only gets a proportional share. It isn’t “first come, first served.”

i. Section 726 of the bankruptcy law says that unsecured creditors in a Chapter 7 only get “pro rata” shares of any money that might be available to them after all the assets are sold.

ii. This just means that the proportion each receives is based on the relationship between the individual balance due and the total of all the balances for all the creditors in that particular class. This is why I’m recommending this percentage approach.

**Defining Your Offer (Planning Your Attack)**

You’ve worked through the process of getting your financial house in order, and now you have a good, clear idea of what you can afford to pay to get rid of your unsecured debts. Congratulations! You’re on the verge of starting the
negotiation process, but before you make first contact there are still a couple of questions remaining that need answers:

- Do you offer to pay a reduced amount in a single, lump sum?
- If not a lump sum (if you’re going with a payment plan offer instead), then
  - How much do you offer as a “down payment,” and
  - How many payments should there be?

**You Need Cash for a Lump Sum.** There is no way around it. If you settle for a single payment, you’ll soon need to send a money order or a cashier’s check for the agreed amount. You’ll have to have the cash, and it will have to come from somewhere. If there is any way you can swing it, this is always the best way to go. Cash will get you’re the lowest overall settlement number every time.

- If you can borrow the money from a close friend or relative, do it. They’re not going to gouge you on the terms, and you’re better off making payments to a friend or loved one than to a creditor.

- Income tax refunds can be a source of settlement cash. If your overall unsecured debt is small enough, and if you are expecting a substantial refund from your income taxes, try to time your payments with receipt of the refund.

- If you have something you can sell to raise the money, sell it. You can replace it later, once you’ve gained the peace of mind that comes with being free of excess debt.

- If you’ve stopped making your payments (or if you’re on the verge of stopping), don’t spend the payment money on something else. Put it aside and keep it available for settlement. Depending on the loan, the value of four to six missed payments might be enough to make a lump sum deal.

**You Need to Fund a Payment Plan.** If you don’t have the money for a single payment, you’re like most folks who have excessive debt. You don’t have any meaningful cash lying around. This means that you need to structure a payment
plan; and you need to know what it’s going to look like BEFORE you start negotiating.

Even if you’ve already missed several payments, it’s going to take many weeks (two to three months, probably) before you can negotiate a settlement. With this thought in mind, start putting aside your LASCF money right now. By the time you make your deal, you’ll have the cash on hand to offer a down payment and to follow up with some reasonable payments. Here’s an example of how this might work.

- Let’s say you owe a medical clinic a balance of $5,100. All of your unsecured debts combined equal $30,000, so this medical bill amounts to 17% of the total.

- Now assume that your LASCF is $1,200 per month. This means that you have 17% of $1,200 per month available to try to settle this medical bill.

- Seventeen percent of $1,200 is $204.

- At the end of three months (which will go by while you’re negotiating), you should have $612 on hand if you just salt the payments away and don’t spend them on anything else. When the time comes, you should be able to pay the $604 as a down payment, and agree to maybe nine monthly payments of $204 each.

- The total amount of your settlement, including down payment and monthly payments, would be $2,448.

Now you’re starting to get the picture, right? This is a system that can work for you. Of course, the example just given is only that—an example. It isn’t a prediction, and it isn’t a guarantee. Depending on how far behind you are on a given debt, and depending on the creditor, you might be able to negotiate a better deal or you might have to pay more.

**Offer Less than You Can Afford.** It probably goes without saying, but just in case it doesn’t, let me state it here in black and white—Your first offer must be less than you can afford. There are two excellent reasons for this:

1. In the right circumstances, you might find that your creditor is willing to accept less than the maximum you can pay. To find out if this is true, you
have to offer less.

2. Your creditor almost certainly will not accept your first offer. You’ll need to increase it, at least a little, as negotiations proceed. You have to leave yourself some room to do this and still not exceed the maximum that you can afford.

How much of your maximum should you offer at first? I think 75% is a good rule of thumb. In most situations this will allow you to put a serious offer on the table, and still permit you to make a meaningful increase if you have to. It’s easy to apply this 75% rule to a lump sum payment, but maybe it’s not so obvious how it would work with a payment plan. Here are a couple of approaches.

- Offer 75% of the down payment that you’ve calculated using your LASCF number, and shave the number of payments back to six. In the medical bill example given above, you would offer 75% of $612 (which would equal roughly $460) and you would offer to make only six payments of $204 instead of nine. That way you would have the flexibility to increase both your down payment and the number of payments as needed to make your deal.

- Another option, using the same example, would be to offer the $460 down payment and nine payments of only $153. When push comes to shove you can increase the down payment and the size (but not the number) of the monthly payments.

Just to make absolutely certain there is no confusion here,

I’m suggesting you offer 75% of what you can afford, NOT 75% OF WHAT YOU OWE.

What you owe used to matter to your creditors, but the more payments you miss, the more irrelevant that number becomes.
Offer A LOT LESS than the Full Amount Claimed. In all probability your LASCF calculations are going to dictate a settlement amount that is only a small fraction of what the creditor or the collection agency claims is due. Just in case, I recommend keeping the first offer at or below 20% of the full amount of the debt. If your LASCF calculations crank out a higher number, lower it to get it under 20%

- Keep in mind that you are several payments behind. By the time you finish negotiating, you’re going to be still more payments behind. Your creditors know that in these circumstances they can expect to be paid only a small slice of the full debt.

- Collection agencies are pretty stingy about making their recovery percentages public, but the best industry estimates are that consumer collections eventually bring in somewhere between 18% and 22% of the original debt.

You Have the Tools You Need to Succeed. You get the idea. You’re ready now to fire up your engines and get rolling. This can be a little intimidating, I know; and it’s tempting to think that you’re going up against people who have all the power. You might feel that in the end you don’t have much of a chance. I want to assure you that this isn’t the case at all.

It’s true that you’re going to be dealing with big companies who have lots of resources; but you have the tools to succeed. You can afford to be confident. Remember that you too will be dealing from a position of strength.

- You’ll be well prepared. You have this book, you’ve done the hard work to get ready, and you have a method to get the very best deal available. You have a plan, and you know much more about this process than your creditors think you do. This is a tremendous advantage.

- You have something that your creditors want—money. In the end, once they begin to understand that they might not get any at all, they’ll very likely be willing to make concessions in order to get something.

Of course, the only way to find out how you’ll make out in the end is to start the process and do your very best. Go for it. You can do it.
Sending the Pre-Offer Message

As I’ve already made clear, you cannot begin negotiations until you have missed some payments (well, you can; but there isn’t much point in it); so from now on I’m assuming that this is where you are. You’re seriously behind in your payments and you’re ready to start bargaining.

Create a Favorable “Atmosphere”: If you’re well behind in your payments, you’ve already gone a long way toward putting your creditors in the right frame of mind to settle with you, but there is more you can do. You have some messages that you want to send just before you put an offer on the table. In a nutshell, this is what you want to convey:

- You’re a reasonable, honest person who is in a disastrous financial situation because of something that isn’t your fault—- an illness, an accident, a job loss, a business loss, or some other kind of misfortune.

- You’re financial situation is really bad and not likely to improve. It is so bad, in fact, that bankruptcy might be your only option.

- You’ve looked into bankruptcy Chapter 7, and you think it is available to you. You want to avoid it if you can.

- The only way you’ll be able to avoid Chapter 7 is to work out settlements with all your creditors. These settlements will have to be very low in comparison to the amounts owed.

- Settling with just one or two creditors won’t help you. You need to settle with all or none.

How you send these messages will depend on whether your original creditor still has the account and whether, if it has gone to collections, the collection agency has already called you.

If the Original Creditor Still has the Account: You might not know whether a specific account has been turned over to collections, so you need to find out. Just call your original creditor and tell them you wish to speak with someone about settling your account. If the account has gone to outside collections,
they’ll tell you that and give you the contact info for the collection agency.

If they still have the account, they will transfer your call to someone within the company who can talk with you. If you’re at least three months behind in your payments, this “someone” is almost certain to be an in-house collection agent.

- This is not a problem. This is your opportunity to set the tone for the negotiations that are soon to follow. Go ahead and stay on the line and talk to the in-house collector. Use this phone script (Original Creditor Pre-Offer Phone Script), which is in the appendix.

- Once you complete the call, make careful notes and file them in the folder with your other information on this particular account.

If the Account is in Collections: If you learn that an outside collection agency now has your account, just carefully note the name, mailing address and phone number of the collection agency.

- For the moment, you don’t need to do anything. Just wait for the collection agency to call you, which they soon will do (remember, you’re way behind in your payments). Then handle the call as indicated in this script (Collection Agency Pre-Offer Phone Script), which you’ll find in the appendix.

- Once you’ve completed this call, wait five days (for reasons already discussed), and mail this letter to the CA (Sample Validation Letter to CA), also in the appendix.

Now it’s possible that your account has been in collections for some time, that the CA called you before you were ready to negotiate, and that you already sent the CA a Validation Letter. If so, you won’t be able to speak with them now because you previously told them in writing not to communicate with you by phone.

- If this is where things now stand, you could write another letter lifting the prohibition against phone calls and then you could call them; but I don’t recommend it.
A better approach is to leave the “no phone calls” order in place, and to send your “atmosphere” message in writing. Use this letter (Sample Pre-Offer Letter to CA), which is in the appendix.

Your First Offer

At last, it’s time to put your first offer on the table. If you’ve figured out that I’m calling this your “first offer” because it won’t be your last, you’re right. It’s almost certain that your creditors will not accept your opening proposal. You’ll need to make two, maybe three offers, sweetening them as you go.

Negotiate in Writing. At this point, now that negotiations are starting, I recommend that you deal with your creditors only in writing if you can. Here’s why:

1. It’s vital that each offer have certain elements, and the best way to be sure you’re covering everything is to submit your offer in writing.

2. You want an accurate record of who offered what, and when. The best way to build a record is with a written paper trail.

3. You want to make it easy for the creditor to make an agreement with you by just signing your written proposal.

4. It’s always important in negotiations to control the agenda. You want to be bargaining over your language and your terms, not theirs. The best way to control the agenda is to make detailed, written proposals.

Still, there are some circumstances in which this “only in writing” rule might be relaxed.

• If you happen to be negotiating with an original creditor, you might not be able to avoid talking with them on the phone. Original creditors are not covered by the FDCPA (it applies only to collection agents and other third-party bill collectors) and there is no law that says original creditors can’t call their customers. They might do so once they receive an offer (or a counter-offer). As a practical matter, you’ll want to talk with them.
• They might have a legitimate question or need clarification on something.

• If they call you, they probably won’t respond to your latest proposal until they speak with you.

• If you’re negotiating with a collection agency, they’re not likely to call you (you told them not to in your Validation Letter); but there are a couple of reasons why you might decide you need to talk with them.

  o First, though most people don’t have any training or experience in hard-ball money negotiations, you might be the exception. You might be well equipped to hold your own in a conversation with a collection agent. If this describes you (maybe you’re a talented “closer”), you might want to make your case on the phone. This is OK (for you, not for most people), as long as you follow up in writing and make sure all the details are covered.

  o Second, you might come to the conclusion that your only chance to make a deal is to call. If you’ve gone back and forth in writing, you’re nowhere close to an agreement and things are going nowhere, you might decide that you have nothing to lose by calling and trying the personal touch.

**Use the Sample Letters as Guides.** To arm you for the task ahead I’m including some sample offer and counter-offer letters in the appendix. I strongly recommend that you personalize these letters using your own language and your own style of expression to the extent you can. Use the template text as a guide, to make sure you have all the necessary elements in your letter, but try to use your own voice. This goes for all the letters you’ll be writing as you go through this process.

• The more of your own personality you can put into your letters, the more effective they will be.

• **Caution #1:** Take special care that you don’t let any anger seep into any of these letters. Depending on how the creditor or collection agency has treated you in recent months, you might be very angry with them, and justifiably so. Believe me, reflecting that anger in your letters won’t help you at all (even though it might feel good). Anger just generates more
anger, and angry people don’t make concessions and reach settlement agreements.

- **Caution #2**: Please don’t, under any circumstances, make any attempt at humor or sarcasm. These letters are no place for irony, even if you think a creditor is taking a silly position. Especially in response to your first offer, a creditor’s behavior might be insulting or even ridiculous. You need to ignore it and “keep a straight face” on paper.

Your financial situation isn’t funny, and neither is your offer. To succeed you must be perceived as a serious person who understands the gravity of what you’re asking your creditor to do. The tone of your letters must reflect this.

**Specific Terms of Your Offer.** This template, **Sample First Offer Letter**, has several options for you to select from, depending on whom you’re mailing it to and whether you’re proposing a lump sum or a payment plan. If you have the cash to swing a single payment settlement, remember that the amount you’re offering here is only about 75% of what you think you can afford based on all your preparation and calculations (and no more than 20% of the full amount of the debt).

If you’re going with a payment plan, take care that the total of all payments offered should be no more than 75% of what you think you can afford, and no more than 20% of the full debt amount.

- I recommend that the first payment be at least double the size of the follow-up payments. For example, if the total amount of your offer with all payments is $800, the first payment might be $200 and the six remaining payments would be $100 each. If you can make the first payment a little larger, say two and a half or three times the size of the additional payments, so much the better.

The more you can “front load” your payment plan, the better settlement you’ll make for yourself. All creditors are looking for money sooner rather than later. Make sure you leave yourself some room to sweeten the deal by increasing the initial payment in a second or third offer.

- Remember that you’re working with more than one variable when you propose a payment plan. You have to expect that you’ll get a counter
offer in response to your first letter, and you need to be thinking now about how you’ll respond to it.

- If you want to answer a counter offer by increasing the number of payments in your second or third offer, keep the number of payments in this first offer low (maybe four to six).

- If you’re going to be more comfortable increasing the amount of the payments instead of the number, keep the amounts down and the number higher (in the seven to nine range).

- You might want to split the difference and leave yourself room to later increase both the amount and the number of these follow-up payments.

**Some Tips and Points that Apply to all Your Letters.** Here are some general points to keep in mind as you proceed through your negotiations:

1. Always use a letterhead. It should include your full name and your current mailing address.

2. Always use certified mail, return receipt requested. This insures that at least one real live person will see your letter because someone will have to sign for it. The signed receipt you get back will provide bullet proof evidence that the creditor got your letter.

3. Always place a time limit on any offer. You can’t afford to have it just sitting out there forever. Thirty days from the date of the offer is a good “rule of thumb” expiration date; but you might want to use a longer period if you’re dealing with a creditor that you believe is responsible, but just painfully slow in communicating.

4. Don’t forget to attach a copy of any letter that you reference in your current letter. The creditor might need the previous letter to understand and respond to your current letter, and you want to make it as easy as possible for them to digest what you’re saying.

5. Make sure to include a copy of your letter so they have something to sign and return to you. Include a self-addressed, stamped envelope for them
to use.

6. If you have the name of a specific person to write to, use it. This greatly increases the likelihood of a prompt response.

7. Don’t just print out these letters and fill in the blank spaces by hand. If you do this your creditors will see that you’re using pre-printed forms and it will weaken your bargaining position.

Believe me when I tell you that these letters are very different from the form letters generally available on the internet, and your creditors have not seen them before. Take advantage of this. Take the time and effort to retype them, or copy them into a word processor, and then adapt them to your style. Regardless of how you do it, make sure that the only handwriting on your letters is your signature.

**What to Do if You Get No Response**

The strong likelihood is that your creditors will respond to your written proposal, if not within 30 days then by the end of the second month after you send out the offer. But of course there is always the possibility that one or more of them won’t do anything at all. It might seem like you just threw your offer into a bottomless pit.

If this happens to you, if 45 to 60 days goes by and you have heard nothing, follow up with this letter—*Sample Follow-Up if No Response*.

- Make sure you send a fresh signed original of your previous offer along with this letter.

- I recommend leaving a fairly short time for the creditor to respond to this letter. You want to create a sense of urgency here, so don’t let them have another 30 days to decide what to do. Two weeks is a reasonable period. To get the date for the second paragraph, figure maybe five days for delivery of your letter and add another 14 days. Using this guideline, if you’re writing on the 1st of the month, your deadline would be the 19th.

Understand that if the creditor does respond to this letter, it probably will be to make some kind of counter offer. The creditor is not likely to just sign your
enclosed offer letter. If you get a counter offer, you’ll then move on to the next phase of negotiations.

**Your Second Offer**

**Round Two.** If a creditor accepts your first offer, then great; but that isn’t likely. The great probability is that one of two things will happen:

1. The creditor will respond but refuse to negotiate at all. If you get this response, you probably have not missed enough payments. You’ll have to bide your time, miss some more payments, and try again later.

2. The creditor will make some kind of offer in compromise. It might be a substantial concession, or it might be just a token proposal (like offering to forgive the last three late fees if you pay the full amount due right now).

**Don’t Give Up Hope.** If the creditor comes in with a counter offer that is much higher than you can afford, don’t take it personally. Don’t let it get you down. All is not lost.

- Understand that your creditors (especially the CAs) do this kind of thing all the time. They know that negotiating is a process, not an event.

- They are using their first compromise offer to test you. They want to find out how serious you are. They want to know what your settlement range really is. They’re trying to get a sense of whether your financial story is true or just a bargaining ploy.

- Their way of acquiring this information is to set the settlement bar high and then see how far you move toward it.

**Hold Your Ground.** So your second offer has to recognize these realities. You want to move a little, to show that you’re in earnest and that you’re trying; but you don’t want to move too much.

At this stage, I recommend that you come up no more than half way toward the maximum that you can afford. If you started at $600 and your max is $800, don’t go higher than $700 in this second round.
**Offering Proof of Finances.** There is one final issue that might come up at this second offer stage, if it hasn’t already. Your creditor might ask you for documentation to prove your financial situation.

If you’re like most people you’re going to be reluctant to do this, and that’s understandable; but consider this—if you really are in serious financial difficulty, then you don’t have much to lose by providing some proof. Depending on the creditor, a few documents might be all that stand between you and the settlement agreement you want.

So here’s what I recommend:

- Don’t offer any documents unless the creditor asks for them, either on the phone or in writing. Once they request documents, your failure to provide them will be a stumbling block to any real progress in negotiations.

- On the income side, you can provide copies of pay stubs or paychecks. There is some risk here, but it is small. A creditor cannot garnish your wages without filing suit first and asking the court’s permission to do it. Yes, I know if the negotiations don’t pan out you might get sued (if the debt is large enough), but wage garnishment is still unlikely and the creditors can find out where you work if they really want to.

- On the expense side, you can provide a simple list of expenses (use the tools in the Appendix as a guide to make sure you list everything). You can supplement this list with copies of bills, especially big bills that are partly responsible for your troubles (like big medical bills), lease agreements, mortgage invoices, and the like. You won’t be able to document everything (like your food bill, for example), but that’s probably OK. Your creditors know you have certain expenses, like rent and groceries.

- You should avoid providing information about retirement accounts, investments, checking accounts, home equity, and the like. You might not have any of these assets, but if you do I think it’s best to make the best deal you can without providing information about them. This is because the creditor is likely to freeze up and insist that you liquidate them before negotiations proceed. You might have to liquidate them
anyway, to fund the settlement, but it’s better to make the settlement deal first.

Providing this information can feel like an invasion of privacy, but try not to let it bother you. Don’t let them see that resent the request for proof, even if you do. The message you want to send, along with the documents, is this: “Of course I’m happy to provide the requested information.”

I’ve included some optional language in the second offer letter in case you’re sending along some financial documents with the letter. Here it is—Sample Second Offer Letter.

**Your Third Offer**

If you’re several payments behind at this point, you might find that you have a deal as a result of your second offer. If not, don’t despair. Just move on to Round Three.

You probably got one of two responses to your second offer:

1. Your creditor lowered its demand only slightly. If this is what happened, it might have been just an effort to squeeze you a bit more to see what you’re made of (to further test your resolve), or it might have simply reflected an unwillingness to settle with you. There’s really no way for you to know for sure.

2. Your creditor lowered its demand quite a bit. If this happened it’s probably a signal that there is more room to negotiate and they want to settle with you.

Regardless, nothing your creditor said or did has affected how much you can afford, and it’s what you can afford that matters to you. It’s your capacity to live up to any agreement you make, not the size of your creditor’s most recent demand, that has to dictate what you do next.

Remember that you went to a lot of trouble to figure out your settlement range, and this is no time to abandon all that hard work. Now is the time to come up close to your maximum settlement amount and put it on the table.
• I say “close to” your max because even though you state in your letter that you have no more room to negotiate, there is still a good chance that your creditor will come back at you and try to squeeze a few more dollars out of you.

• If you need to come up with a couple of extra dollars, or an extra payment, to put your deal together, you want to be able to do it and still not exceed what you have already determined you can actually afford to pay.

Here’s your letter—Sample Third Offer Letter.

A “Mile High” View of Negotiations.

It’s a fact of life that things don’t always go according to plan. This is true even when you are fully in control of a situation, and you’re not going to be able to fully control your negotiations with your creditors. You’re going to face some twists and turns, and questions will come up that are unique to your special situation. In the following paragraphs, I’m going to offer you some general recommendations and thoughts on this process that I think will help you work your way through it.

Document, Document, Document

Never, never, never pay a dime in settlement until you have in your hands a document signed by your creditor that locks them into the deal.

• The letters you’ll find in the appendix should serve you well, as far as documenting your agreement goes, and I think they cover the important points of a debt settlement.

• But I’m not a lawyer and you should not take anything in this book, including the sample letters, as legal advice. If you have an attorney and she disagrees with anything I say, I defer to her. Follow her advice.

• Some individual states have consumer protection and debt collection laws that apply only in those states. It’s impossible for me to deal with all of them, but you should know that they exist. For the most part, they won’t
matter; but depending on where you live, you might have rights or obligations that I don’t cover in this book.

- Don’t forget to keep copies of everything, always.

- On lump sum settlement payments, it’s a good idea to use a cashier’s check or a money order. Though it’s a hassle, this is also a good idea on monthly payments made as part of a payment plan. You can’t be too careful, and even though you have a signed agreement in hand, there is no good reason to send any of these people a personal check that identifies, by bank and account number, an account that belongs to you and has money in it.

**Cleaning Up Your Credit Report**

An important part of this process is to purge your credit report of negative references to the extent possible. Understand, however, that it might not be possible to accomplish this in every case.

1. Collections agencies can control the information they give to the credit reporting agencies, but they can’t control what the original creditor reports.

2. If you’re dealing with an account that has gone to collections, your original creditor has probably reported it as “in collections” or charged off. Once the CA gets the account, they too will eventually report the account as a collections matter. As part of their agreement with you, the CA can agree to get rid of the negative reference that they placed on your report, but they won’t be able to erase the reference placed earlier by the original creditor.

3. So the “credit report purging” piece of this process isn’t perfect. If you’re dealing with several accounts, you’ll probably be able to clean up your report to some extent, but once you finish and settle with everyone, you’ll have more work to do.

4. To learn much more about improving your credit, you can go to my website and check into my program for whipping your credit into shape. There I get into the details of all the things you can do to improve
your credit score in a short time. These techniques work even when your score has taken a serious hit (as yours no doubt has).

While we’re on the subject of credit reports, remember your validation letters? When you sent them out, you set a 30- day deadline by which the CA was required to send you documentation substantiating the debt. If you didn’t receive it, this provides very good leverage for negotiating with the CA. I’m assuming that this debt is legitimate and that you owe it. If that is the case, don’t hesitate to include something in your offer letters to the effect that

1. The CA failed to meet the validation requirements of the FDCPA,

2. In light of this failure you cannot be sure the debt is valid, and

3. Even so, you are willing to offer $__________ in full settlement to resolve the matter.

What about Holdouts?

Surprise, surprise—not all of your creditors will behave the same way. Different companies have different policies toward compromise and settlement. Some might seem eager to work with you; others might be difficult or even impossible to handle.

- This means that you almost certainly will have to decide whether to settle with certain individual creditors without knowing for sure whether you’ll be able to make deals with the others.

- To say the least, this can feel risky. In the end, you’ll have to make a judgment based on your relations with the individual companies and how things go in the early stages of negotiation. If you’ve done well with most of your creditors, you might have enough left to satisfy the demands of any holdouts. If you don’t, you might have to file Chapter 7 (which, if you are in really serious trouble, was always a possibility).

Maybe You’re Not Chapter 7 Material

I’ve talked a lot about using bankruptcy as a negotiation tool, but what if your income is too high and you know you are not going to qualify for Chapter 7.
What do you do then? Can you still threaten bankruptcy? Should you?

- In my opinion, you can still threaten bankruptcy; you just can’t refer to Chapter 7 in any of your letters. You can always file bankruptcy under Chapter 13, which is available to anyone who can’t pay his debts. The difference between Chapter 7 and Chapter 13 is that unsecured debts in Chapter 13 are not discharged. Instead the court forces you and the creditors into court-ordered payment plans that insure that the creditors get at least something.

- Though they prefer it to Chapter 7, creditors don’t like Chapter 13 at all. It still carries with it the automatic stay (which they hate), it forces them to wait a long time for what will surely be a very reduced payout, and they have to deal with the court-appointed bankruptcy trustee (which I can assure you they don’t like to do).

- So all in all, threatening bankruptcy of any kind provides some substantial leverage. If you think you’ll be limited to Chapter 13, just generally refer to “bankruptcy” in your communications with your creditors instead of to “Chapter 7.”

**Another Factor Affecting Settlement**

As I’ve already said, the biggest single factor in determining the size of a settlement (the percentage of the total amount owed) is the number of payments you’ve missed. The next most important factor is whether you are able to convince your creditors that you can, and will, file bankruptcy if they don’t take your offer.

There is a third factor that is also important—the nature of the relationship between the account and the party with whom you’re negotiating. There is a sliding scale at work here.

- **Original Creditor.** If you’re dealing with the original creditor, they will be the most difficult to handle when it comes to negotiating large reductions. The reason is simple: They paid a lot for the account.

  - By that I mean that they paid the credit card charges or loaned you the principal in real, undiscounted dollars. They are just naturally going to be reluctant come down into the range where you
probably need for them to be.

- If you are trying to settle all your debts and one or two of your accounts are still with the original creditors, you can expect to pay them a little bit extra. You’ll need to factor this in when you figure out your distributions, and maybe go a little light on the CA accounts.

- **Collections Agency Working for the Original Creditor.** If your account is in collections but is still owned by the original creditor, that’s better, but still not first prize. The collections agency might want to make a quick and dirty deal with you, but it still has to consider the point of view of its customer—the original creditor. This can cause resistance to a deal that the CA might be willing to make if it owned the account.

- **Junk Debt Buyer.** If the original creditor has sold your account to a collection agency (CAs that buy these accounts are often called junk debt buyers) then you’re most likely to get a favorable settlement.

  - Again, the reason is simple. You can be certain that the CA paid only pennies on the dollar for the account. If the full amount of the debt is $1,000, for example, they paid a tiny fraction of that amount—maybe as little as $20 or $30.

  - This means, of course, that they have tons or room to make a deal with you and still pocket an enormous profit.

  - If you know you are dealing with a junk debt buyer on one of your debts, you can realistically shave some money from that settlement offer and add it to your offer on a debt still owned by an original creditor.

**Conclusion**

If you’ve reached this point in the book after working through all the exercises and negotiations involved, then you’ve really accomplished something. Settling your debts for substantially less than you owe isn’t easy. It takes a lot of work, dedication and tenacity; and not everyone is up to the job.
I sincerely hope that you have been successful. My guess is that you have been, or that you soon will be. I have tried to help you in a couple of important ways: I wanted to show you how to improve your immediate financial situation by settling your debts; and I also have provided some tools that allow you to keep your fiscal house in order well into the future. These tools can serve you well long after you have settled with your current creditors. They can have lasting value for you and I hope you use them.

I wish you the best of luck and I congratulate you on your efforts.
### Debt Inventory Checklist

<table>
<thead>
<tr>
<th>Bill or Debt</th>
<th>Document Date</th>
<th>Next Payment Amount</th>
<th>Comments</th>
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<td><strong>Home</strong></td>
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<td>Mortgage/Rent</td>
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<td>2&lt;sup&gt;nd&lt;/sup&gt; Mortgage</td>
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<td>Property Taxes</td>
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<td>Association Dues</td>
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<td>Maintenance</td>
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<td><strong>Transportation</strong></td>
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<td>Car #2 Loan</td>
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<td>Maintenance/ Repairs</td>
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<td>Registration/ License</td>
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<td>Insurance</td>
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<td>Gas/ Oil</td>
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<td>Tolls/ Parking</td>
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<td>Bus/ Rail Pass</td>
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<td>Groceries</td>
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<td>Dining/ Fast Food</td>
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<td>Alcohol/ Tobacco</td>
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<td>Clothing</td>
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<td>Grooming</td>
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<td>Gym/ Health Club</td>
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<td>Dry Cleaning</td>
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<td>Movies/ Theatre</td>
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<td>DVDs/ CDs</td>
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<td>Bill or Debt</td>
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<td>Medical Bill #6</td>
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</table>
Debt Memo

DEBT MEMO

(No Bill or Invoice Available)

________________________________________________________________________
(Creditor Name)

For: __________________________________________________________________

Due Date: ________________________ Frequency: ______________

Total Amount Due: ______________ As of Date: ______________

Minimum Amt. Due: ______________

Phone: __________________________________________________________________

Email: __________________________________________________________________

Website: __________________________________________________________________

Mailing Address: __________________________________________________________________

________________________________________________________________________

Comments: _____________________________________________________________

________________________________________________________________________

________________________________________________________________________
Balance Inquiry Phone Script

You:

“Good morning/afternoon. My name is _____________ and I’m calling about the status of my account.

My account number is _____________.”

Creditor:

“Let me find your account. One moment.

I have your account on screen. I see here that your account is past due. Are you calling to make a payment right now?”

You:

“No. The purpose of my call today is to make sure I have accurate information about where I stand with this account.”

Creditor:

“You understand that if you don’t make a payment by ____________ we will have to ____________________ (cut off service, impose a penalty, or whatever).”

You:

*Ignore any threats or statements about what the creditor will do if you don’t agree to make an immediate payment. Don’t take the bait. Follow this script:*

“I’m not able to make any payment right now. I’m trying to get my finances in order, and I need to make sure I have accurate information about where this account stands.

I would appreciate it if you could tell me

- What my current balance is, including interest, penalties and any fees,
- When my next payment is due,
- What the minimum payment is *(if it’s a credit card)*,
- What penalties I might face in the future if I am not able to make a payment soon, and...
When any penalty will be imposed."

*If the creditor provides the information you ask for, then write it down, confirm it, and end the conversation along these lines:*

**You:**

"Thank you very much. I appreciate this information. Have a good day."

*If the creditor makes another attempt at obtaining a payment without providing the information you ask for, then respond as follows:*

**You:**

"I’m sorry, but what you ask is beyond the purpose of my call. I’m not able to agree to anything today. I’m just trying to get accurate information about my account. I’m hoping you will provide it. *If necessary, go through the list of things you want to know again.*"

*If the creditor makes yet another attempt at obtaining a payment or refuses to provide the information, use this response:*

**You:**

"As I said, I’m not in a position to agree to do anything today. I’m only calling to get information that I believe you have an obligation to provide, and I’m not going to do anything on this account until I have that information.

If you can’t provide it now, then I’ll make my request in writing. Perhaps you could tell me your name and the name and mailing address of the person to whom I should mail my request."

*This should do the trick. If it doesn’t, follow up with a written request. Once you get the information, don’t forget to confirm it. Then thank the representative (regardless of how they’ve behaved) and politely end the call.*
# Personal Budget Form

<table>
<thead>
<tr>
<th>Income</th>
<th>Jan</th>
<th>Feb</th>
<th>Mar</th>
<th>Apr</th>
<th>May</th>
<th>Jun</th>
<th>Jul</th>
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**Other Loans/ Credit Card Balances**

- Install. Loan #1
- Install. Loan #2
- Install. Loan #3
- Credit Card #1
- Credit Card #2
- Credit Card #3
- Credit Card #4
- Credit Card #5
- Medical Bill #1
- Medical Bill #2
- Medical Bill #3
- Medical Bill #4
- Medical Bill #5
- Medical Bill #6

<p>| Tot. Loans/ Cards |     |     |     |     |     |     |     |     |     |     |     |     |        |</p>
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<th>Jun</th>
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</tbody>
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*Any income you list should be take-home income, which is the amount you get when you cash your paycheck. If you are self-employed, don’t forget to deduct for estimated income taxes.*
# Expense Reduction Worksheet

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<th>R</th>
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<td>Total of All “C” Items</td>
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<tr>
<td>Total of All “R” Items (New Amounts)</td>
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<td>Add “C” and New “R” Items</td>
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<td><strong>New Cash Flow Projection</strong></td>
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<td>Total Income (From Personal Budget)</td>
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<td>Total “C” and New “R” Items</td>
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<td>New Monthly Cash Flow</td>
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</table>
Sample Validation Letter to CA

(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

Date: _____________

Debt Collector Name: ________________________________
Debt Collector Address: ______________________________

Re: Creditor Name: ____________________________
   Acc. # ________________________

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam,

Your company has contacted me in an attempt to collect the debt identified above. I am writing to you to exercise my rights under federal law.

I dispute this debt and your right to collect it. I hereby request that you provide me with written validation of this debt in accordance with the provisions of The Fair Debt Collection Practices Act. This validation must include

- The name and address of the original creditor,
- Documentation obtained from the creditor proving that I have a legal obligation to pay,
- Documentation proving that the amount of the debt has been properly and accurately calculated,
- Documentation proving that you have the legal authority to collect, and
- All other notices required by law.

I also require that you communicate with me only in writing, and only at the address provided above. You may not contact me by phone at any time, for any reason.

To verify my ID and my address, I am enclosing copies of (here describe a government-issued identification, such as a state drivers’ license or a passport) and a recent (here describe a utility bill, such as a phone bill or an electric bill, that shows your current mailing address).

Sincerely yours,

_____________________________________

112
Median* Annual Incomes by State

Divide the numbers below by 12 to calculate the monthly income.

<table>
<thead>
<tr>
<th>State or Territory</th>
<th>1 Person</th>
<th>2 People</th>
<th>3 People</th>
<th>4 People *</th>
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<td>$46,025</td>
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<td>Alaska</td>
<td>$52,611</td>
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</tr>
<tr>
<td>Massachusetts</td>
<td>$53,496</td>
<td>$64,174</td>
<td>$80,337</td>
<td>$99,067</td>
</tr>
<tr>
<td>Michigan</td>
<td>$43,677</td>
<td>$50,079</td>
<td>$58,467</td>
<td>$70,237</td>
</tr>
<tr>
<td>Minnesota</td>
<td>$46,161</td>
<td>$61,170</td>
<td>$71,784</td>
<td>$84,251</td>
</tr>
<tr>
<td>Mississippi</td>
<td>$33,126</td>
<td>$41,601</td>
<td>$45,536</td>
<td>$54,765</td>
</tr>
<tr>
<td>Missouri</td>
<td>$38,895</td>
<td>$50,603</td>
<td>$58,355</td>
<td>$67,255</td>
</tr>
<tr>
<td>Montana</td>
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<td>$49,743</td>
<td>$56,308</td>
<td>$68,313</td>
</tr>
<tr>
<td>Nebraska</td>
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<td>$55,519</td>
<td>$64,700</td>
<td>$71,247</td>
</tr>
<tr>
<td>Nevada</td>
<td>$43,146</td>
<td>$55,573</td>
<td>$60,855</td>
<td>$65,179</td>
</tr>
<tr>
<td>New Hampshire</td>
<td>$51,550</td>
<td>$61,679</td>
<td>$79,349</td>
<td>$91,750</td>
</tr>
</tbody>
</table>
The numbers in this chart are taken from United States Census Bureau figures and they are current as of the date of publication of this book. The Census Bureau updates the chart from time to time, and you can [click here](http://www.justice.gov/ust/eo/bapcpa/20111101/bci_data/median_income_table.htm) to see the most recent numbers. The following web address will take you to the same page at the Department of Justice website:
So what is the “median” income, as opposed to the “average” income? Are they the same? No, not quite. To get the average income in a state, you would add up all the incomes and divide by the number of families. The median income, on the other hand, is the income level that is at the middle of the range. Half of the families in the state have incomes above the median, and the other half have incomes below that number.
## Settlement Offers Worksheet

### Total Up Your Unsecured Debts to be Negotiated

<table>
<thead>
<tr>
<th>Creditor</th>
<th>Monthly Pmt.</th>
<th>Current Balance</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Installment Loan #1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installment Loan #2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Installment Loan #3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Bill #1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Bill #2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Bill #3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Medical Bill #4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card #1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card #2</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card #3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card #4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card #5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Totals for Unsecured Debts</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Calculate Your Life After Settlement

<table>
<thead>
<tr>
<th>Cash Flow (Your LASCF)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New Monthly Cash Flow</td>
<td></td>
</tr>
<tr>
<td>(From Expense Reduction Worksheet)</td>
<td></td>
</tr>
<tr>
<td>Total Monthly Payments</td>
<td></td>
</tr>
<tr>
<td>for Unsecured Debts</td>
<td></td>
</tr>
<tr>
<td><strong>Add First and Second Lines to get Your LASCF</strong></td>
<td></td>
</tr>
</tbody>
</table>

116
Original Creditor Pre-Offer Phone Script
(For use only when you are several payments behind and you’re ready to start negotiations)

You:

“Good morning/afternoon. My name is ____________ and I’m calling about the status of my account.

My account number is _______________."

Creditor:

“Let me find your account. One moment.

I have your account on screen. I see here that your account is _____ months past due. Are you calling to make a payment right now?”

You:

“No. I’m calling today to personally let you know that I’m having very serious financial problems. Because of these problems, I just have not been able to pay, and things are not likely to get better.”

Creditor:

“What are these problems?”

You:

Here explain what has happened in your life that has severely changed your financial situation: Lay-off, business failure, medical problems, etc. It’s very important to say why things are not likely to improve any time soon. Fill in these blanks with notes to yourself to help you cover everything at this stage of the call:

If you income has dropped, explain what happened and why: __________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________
If your expenses have jumped up because of factors beyond your control (medical bills, for example), explain what happened and why:

_______________________________________________________________________
_______________________________________________________________________
_______________________________________________________________________

Now explain why you believe things are not going to get better (you can’t find work that pays what your old job paid, you’re now disabled and you can’t do the kind of work you used to do, or whatever):

_______________________________________________________________________
_______________________________________________________________________
_______________________________________________________________________
_______________________________________________________________________

When you finish these points, add this:

“Because of these problems, I just can’t pay everybody. It’s obvious to me that I won’t be able to pay anything close to the full amount on any of my accounts, including this one. My expenses and my debts are just too much for me to handle with my income.”

At this point the creditor might try to get into specifics, like how much your income is, and how much you owe to other creditors. You want to avoid discussing these issues. At this stage of the conversation, you need to cover these points:

You:

“I haven’t worked out all the numbers for everything, but I know that my expenses are a lot more than I’m bringing in.

At this point I have to consider Chapter 7 bankruptcy. I’ve looked into it and I believe my income qualifies me to file if I have to. If you have already talked to an attorney and confirmed this, say so.

I want to avoid bankruptcy if I can, but I might not be able to.”
The only way to avoid it, that I can see, is to work out settlements with all my creditors, including you. Right now I’m working on a plan that I hope will allow me to avoid bankruptcy.

Within the next few days, I want to send you a written offer to settle this account. It won’t be much, but it will be all I can do.

I would appreciate it if you could give me the name and mailing address of the person who should receive this offer.” (Make sure you write this name and address down along with your other notes of this conversation.)

Depending on how far behind you are, the creditor might make an offer at this point. If that happens, make sure you understand it, get the creditor to confirm it, and write it down. Then respond as follows:

You:

I appreciate your willingness to try to help me, but I’m not able to respond to any offer at this point. I have several creditors, and I have to figure out what I can realistically pay to each one and still stay out of bankruptcy. I haven’t finished doing this yet.

As soon as I do, I’ll send you a written offer.

Or, the creditor might threaten you with collections or other actions the creditor might take if you don’t agree to an immediate payment. Don’t take the bait. Follow this script:

You:

“I’m not able to make any payment right now, and I won’t ever be able to make a payment unless it is part of a settlement agreement that will keep me out of bankruptcy.

I don’t even know at this point if staying out of Chapter 7 is realistic. I hope it is, and I’m trying to put together a plan. I’ll soon be back in touch with you in writing.”

Regardless of what the creditor says at this point, you’ve accomplished your purpose. It’s time to politely end the call.
Collection Agency Pre-Offer Phone Script

(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

(For use only when the Collection Agency calls you for the first time, you are already several payments behind, and you’re ready to start negotiations)

Collection Agent:

“Hello, I’m calling for (your name) _______________________. Are you ____________?”

You:

“Yes.” (It’s OK to confirm your name and mailing address. The agent has to make sure of your identity for privacy reasons.)

Collection Agent:

“My name is ____________ and I am with ______________________ (name of collection agency). I’m calling about Account # ____________, which is several months past due, and which _____________________ (original creditor) has placed with my company for collections.”

Exactly what the collection agent says to get things started can vary, of course, but she must provide certain information under the FDCPA. Before you allow the agent to proceed beyond this point, make sure you get the following information (and write it all down):

- The name and mailing address of the collection agency (critically important because you’re going to write to them later),
- The name and direct line phone number of the caller (the individual agent),
- The name of the debtor (that’s you),
- The name of the original creditor,
- The original creditor’s account number,
- The collection agency’s account number or file number,
- The amount the agency claims you owe.
Once you have this information, the agent is going to start asking questions and make various attempts to box you in and get you to agree to certain points. Some of these might seem obvious, and harmless, but THEY ARE NOT HARMLESS.

Don’t agree to anything, and don’t answer questions other than to confirm who you are.

Here is a good way to deflect these questions:

You:

“Look I appreciate you calling, and I understand that you have a job to do; but you’re sort of catching me by surprise today. I’m not able to answer any questions or make any kind of commitment at this point.

If you don’t mind, though I would like to tell you about what has happened to me (or to my family) because I think this will explain the serious financial problems I’m having.

Here explain what has happened in your life that has severely changed your financial situation: Lay-off, business failure, medical problems, etc. It’s very important to say why things are not likely to improve any time soon. Fill in these blanks with notes to yourself to help you cover everything at this stage of the call:

If you income has dropped, explain what happened and why:__________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

If your expenses have jumped up because of factors beyond your control (medical bills, for example), explain what happened and why:

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________

_______________________________________________________________________
Now explain why you believe things are not going to get better *(you can’t find work that pays what your old job paid, you’re now disabled and you can’t do the kind of work you used to do, or whatever)*:

_________________________________________________________________________

_________________________________________________________________________

_________________________________________________________________________

_________________________________________________________________________

When you finish these points, add this:

“Because of these problems, I just can’t pay everybody. It’s obvious to me that I won’t be able to pay anything close to the full amount on any of my accounts, including this one. My expenses and my debts are just too much for me to handle with my income.”

*At this point the CA agent might try to get into specifics, like how much your income is, and how much you owe to other creditors. You want to avoid discussing these issues. At this stage of the conversation, you need to cover these points:*

**You:**

“I haven’t worked out all the numbers for everything, but I know that my expenses are a lot more than I’m bringing in.

At this point I have to consider Chapter 7 bankruptcy. I’ve looked into it and I believe my income qualifies me to file if I have to. *If you have already talked to an attorney and confirmed this, say so.*

I want to avoid bankruptcy if I can, but I might not be able to.

The only way to avoid it, that I can see, is to work out settlements with all my creditors, including you. Right now I’m working on a plan that I hope will allow me to avoid bankruptcy.

Within the next few days, I want to send you a written offer to settle this account. It won’t be much, but it will be all I can do.

*Depending on how far behind you are, the CA agent might make an offer at this point. If that happens, make sure you understand it, get the agent to confirm it, and write it down. Then respond as follows:*
You:

I appreciate your willingness to try to help me, but I’m not able to respond to any offer at this point. I have several creditors, and I have to figure out what I can realistically pay to each one and still stay out of bankruptcy. I haven’t finished doing this yet.

As soon as I do, I’ll send you a written offer.

*Or, the creditor might threaten you with further collections or legal action if you don’t agree to an immediate payment. Don’t take the bait. Legal action is extremely unlikely at this early stage. Follow this script:*

You:

“I’m not able to make any payment right now, and I won’t ever be able to make a payment unless it is part of a settlement agreement that will keep me out of bankruptcy.

I don’t even know at this point if staying out of Chapter 7 is realistic. I hope it is, and I’m trying to put together a plan. I’ll soon be back in touch with you in writing.”

*Regardless of what the CA agent says at this point, you’ve accomplished your purpose. It’s time to politely end the call.*
Sample Pre-Offer Letter to CA

(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

(For use only when the Collection Agency has called you, you’ve sent your Validation Request, some time has gone by and now you’re ready to start negotiations)

Date: _______________

Debt Collector Name: __________________________________
Debt Collector Address: ______________________________________________

Re:  Creditor Name: ____________________________
    Acc. # ______________________

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam,

Your company recently contacted me about the account identified above. Shortly thereafter I sent you a letter dated: _______________ (date of your Validation Request Letter). I am writing today to provide you with some additional information and to explain my situation.

(Here explain in your own words what has happened in your life that has severely changed your financial situation: Lay-off, business failure, medical problems, etc.)

(If your income has dropped, explain in your own words in two or three sentences what happened and why.)

(If your expenses have jumped up because of factors beyond your control--medical bills, for example--explain what happened and why.)

(Now explain in two or three sentences why you believe things are not going to get better--you can’t find work that pays what your old job paid, you’re now disabled and you can’t do the kind of work you used to do, or whatever.)

(When you finish these points, add this.)

“Because of these problems, I just can’t pay everybody. It’s obvious to me that I won’t be able to pay anything close to the full amount on any of my accounts, including this one. My expenses and my debts are just too much for me to handle with my income.

I haven’t worked out all the numbers for everything, but I know that my expenses are a lot more than I’m bringing in.
At this point I have to consider Chapter 7 bankruptcy. I’ve looked into it and I believe my income qualifies me to file if I have to. *(If you have already talked to an attorney and confirmed this, say so.)*

I want to avoid bankruptcy if I can, but I might not be able to. The only way to avoid it, that I can see, is to work out settlements with all my creditors, including you. Right now I’m working on a plan that I hope will allow me to avoid bankruptcy.

Within the next few days, I want to send you a written offer to settle this account. It won’t be much, but it will be all I can do.

Sincerely yours,
Sample First Offer Letter

(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

(For use with an Original Creditor or a Collection Agency.)

Date: ______________

(If to the Original Creditor)
Name of Original Creditor Contact Person (if any): ________________________________
Original Creditor Department (if any): ________________________________
Original Creditor Name: ________________________________
Original Creditor Address: ________________________________

Re: Acc. # ______________________

(If to a Collection Agency)
Name of Collection Agent (if any): ________________________________
Collection Agency Name: ________________________________
Collection Agency Address: ________________________________

Re: Original Creditor Name: ________________________________
    Acc. # ______________________

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam (or Mr./Ms _______________ if you have a name),

(If you sent your pre-offer message in writing, use this.)
I recently wrote to you on ___________________ (date of pre-offer letter). A copy of that letter is attached. As I said in that letter, I want to avoid bankruptcy if I can.

(If you delivered your pre-offer message in a phone call, use this instead.)
I recently spoke with you (or name the person you spoke with if you’re now writing to a different person) on _______________ (date of pre-offer phone call). As I said in that phone call, I want to avoid bankruptcy if I can.

(If you are making a lump sum offer, use this paragraph and the four numbered settlement terms that follow it.)
Since then I have worked through my finances and determined that avoiding bankruptcy will only be possible if I am able to settle with each of my creditors for a small percentage of the amount claimed. The purpose of this letter is to offer to settle the account identified with the very limited funds I have available.

Here are the terms. We have no settlement unless you agree to all of them.

1. **Payment**: I will pay you a single, lump sum of $______________.
2. **Effect of Payment:** This payment will reduce my account balance to zero and close the account. You will accept this payment as full settlement of all amounts charged to this account, including all principle, interest, late charges, penalties and assessments. You will make no further effort to enforce or collect on this account.

3. **Credit Reporting:** You will notify all credit reporting bureaus that this account has been paid as agreed, and you will remove from my credit report any and all negative references, including references to late payments, charge offs, or collections.

4. **Successors and Assignees:** This agreement is binding on the parties, their successors and their assignees.

*(If you are making a payment plan offer, use this paragraph and the five numbered settlement terms that follow it.)*

Since then I have worked through my finances and determined that avoiding bankruptcy will only be possible if I am able to settle with each of my creditors for a small percentage of the amount claimed. The purpose of this letter is to offer to settle the account identified. I do not have enough money available to make a lump sum offer, so I am proposing a payment plan.

Here are the terms. We have no settlement unless you agree to all of them.

1. **First Payment:** I will make an initial payment in the amount of $_____________.

2. **Additional Payments:** I will make _______ more monthly payments beginning one month after the first payment. These follow-up monthly payments will be in the amount of $____________ each.

3. **Effect of Payments:** These payments will reduce my account balance to zero and close the account. You will accept these payments as full settlement of all amounts charged to this account, including all principle, interest, late charges, penalties and assessments. You will make no further effort to enforce or collect on this account.

4. **Credit Reporting:** You will notify all credit reporting bureaus that this account has been paid as agreed, and you will remove from my credit report any and all negative references, including references to late payments, charge offs, or collections.

5. **Successors and Assignees:** This agreement is binding on the parties, their successors and their assignees.

*(Now close your part of this letter as follows:)*

This offer expires in _____ days from the date of this letter. If you agree to these terms, then please date and sign where indicated below and return the original to me in the enclosed self-addressed, stamped envelope. I have included a signed copy for your records. Once I receive the dated and signed original, I will send payment as agreed.

Sincerely,

__________________________________________

*(Type your name and sign here)*
ACCEPtANCE OF SETTLEMENT OFFER

(Use this paragraph if you are dealing an Original Creditor.)
By signing below, I attest that I am the authorized representative of _______________________, the original creditor and current owner of the account identified above. I have full legal authority to settle this account. This letter accurately states the terms of a settlement agreement that I approve and accept.

(Use this paragraph if you are dealing with a Collection agency working on behalf of an Original Creditor.)
By signing below, I attest that I am the authorized representative of _______________________, a collection agency hired by the original creditor, _______________________, to collect the account identified above. I have full legal authority to settle this account on behalf of the original creditor. This letter accurately states the terms of a settlement agreement that I approve and accept.

(Use this paragraph if you are dealing with a Collection Agency that has purchased the account and now owns it.)
By signing below, I attest that I am the authorized representative of _______________________, a collection agency that has purchased and is now the owner of the account identified above. I have full legal authority to settle this account. This letter accurately states the terms of a settlement agreement that I approve and accept.

Dated: ____________________________ ____________________________
Authorized Representative
Sample Follow-Up if No Response

(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

(For use with an Original Creditor or a Collection Agency.)

Date: _______________

(If to the Original Creditor)
Name of Original Creditor Contact Person (if any): ____________________________________
Original Creditor Department (if any): _____________________________________________
Original Creditor Name: _______________________________________________________
Original Creditor Address: _____________________________________________________

Re: Acc. # ____________________________

(If to a Collection Agency)
Name of Collection Agent (if any): ______________________________________________
Collection Agency Name: ______________________________________________________
Collection Agency Address: ____________________________________________________

Re: Original Creditor Name: ____________________________
    Acc. # ____________________________

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam (or Mr./Ms _____________ if you have a name),

I recently wrote to you on ________________ (date of most recent offer letter). A copy of that letter is attached. As you can see, my financial situation is desperate, and I am trying to avoid bankruptcy. That won’t be possible if I can’t reach settlement agreements with all my creditors, including you.

If you are interested in my offer, please date and sign the attached letter. The offer has now expired, but if you date and sign the agreement letter before ________________, I will honor it. If I don’t hear from you by that date, I’ll assume you have no interest. Please understand that if I am not able to settle with all creditors, I believe bankruptcy will be my only option.

Sincerely,

________________________________________
(Type your name and sign here)
Sample Second Offer Letter
(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

(For use with an Original Creditor or a Collection Agency.)

Date: _______________

(If to the Original Creditor)
Name of Original Creditor Contact Person (if any): __________________________________
Original Creditor Department (if any): _____________________________________________
Original Creditor Name: _______________________________________________________
Original Creditor Address: _____________________________________________________
Re: Acc. # ________________________

(If to a Collection Agency)
Name of Collection Agent (if any): _______________________________________________
Collection Agency Name: _______________________________________________________
Collection Agency Address: ____________________________________________________
Re: Original Creditor Name: ____________________________________________________
    Acc. # ________________________

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam (or Mr./Ms _______________ if you have a name),

Thank you for your response to my written settlement offer dated _______________ (date of your offer letter). I appreciate your willingness to try to help me through my financial troubles, but unfortunately the amount you’re requesting is far more than I can pay. There is no way I can come up with that kind of money, settle with my other creditors, and avoid bankruptcy, which I still hope to do. If your creditor has asked for documentary proof of your financial situation, add this sentence: As you can see from the attached documents, which you have requested and I am happy to provide, my financial situation is extremely difficult.

Here are the terms of a counter offer to resolve this account. As before, we have no settlement unless you agree to all of them.

(If you are making a lump sum offer, use these four numbered settlement terms.)

1. **Payment:** I will pay you a single, lump sum of $______________.

2. **Effect of Payment:** This payment will reduce my account balance to zero and close the account. You will accept this payment as full settlement of all amounts charged to this account, including all principle, interest, late charges, penalties and assessments. You will make no further effort to enforce or collect on this account.

3. **Credit Reporting:** You will notify all credit reporting bureaus that this account has been paid as agreed, and you will remove from my credit report any and all negative
references, including references to late payments, charge offs, or collections.

4. Successors and Assignees: This agreement is binding on the parties, their successors and their assignees.

(If you are making a payment plan offer, use these five numbered settlement terms.)

1. First Payment: I will make an initial payment in the amount of $____________.

2. Additional Payments: I will make ______ more monthly payments beginning one month after the first payment. These follow-up monthly payments will be in the amount of $____________ each.

3. Effect of Payments: These payments will reduce my account balance to zero and close the account. You will accept these payments as full settlement of all amounts charged to this account, including all principle, interest, late charges, penalties and assessments. You will make no further effort to enforce or collect on this account.

4. Credit Reporting: You will notify all credit reporting bureaus that this account has been paid as agreed, and you will remove from my credit report any and all negative references, including references to late payments, charge offs, or collections.

5. Successors and Assignees: This agreement is binding on the parties, their successors and their assignees.

(Here add a paragraph explaining how your new offer improves on your previous offer.)

For example: Please note that I am raising the single lump sum payment from $__________ to $__________.

Or,

Please note that I am raising my initial payment from $__________ to $__________ and proposing two additional payments of $__________ each.

(Now close your part of this letter as follows:)

This offer expires in ______ days from the date of this letter. If you agree to these terms, then please date and sign where indicated below and return the original to me in the enclosed self-addressed, stamped envelope. I have included a signed copy for your records. Once I receive the dated and signed original, I will send payment as agreed.

Sincerely,

__________________________________________

(Type your name and sign here)

==================================================================

ACCEPTANCE OF SETTLEMENT OFFER

(Use this paragraph if you are dealing an Original Creditor.)

By signing below, I attest that I am the authorized representative of ________________________, the original creditor and current owner of the account identified
above. I have full legal authority to settle this account. This letter accurately states the terms of a settlement agreement that I approve and accept.

(Use this paragraph if you are dealing with a Collection agency working on behalf of an Original Creditor.)

By signing below, I attest that I am the authorized representative of ________________________, a collection agency hired by the original creditor, ________________________, to collect the account identified above. I have full legal authority to settle this account on behalf of the original creditor. This letter accurately states the terms of a settlement agreement that I approve and accept.

Use this paragraph if you are dealing with a Collection Agency that has purchased the account and now owns it.)

By signing below, I attest that I am the authorized representative of ________________________, a collection agency that has purchased and is now the owner of the account identified above. I have full legal authority to settle this account. This letter accurately states the terms of a settlement agreement that I approve and accept.

Dated: _________________________

________________________________________
Authorized Representative
Sample Third Offer Letter

(Use your own letterhead, which should appear at the top and must include your full name and current mailing address.)

(For use with an Original Creditor or a Collection Agency.)

Date: _______________

(If to the Original Creditor)
Name of Original Creditor Contact Person (if any): ________________________________
Original Creditor Department (if any): ___________________________________
Original Creditor Name: ________________________________________________
Original Creditor Address: ________________________________________________

Re: Acc. # ________________________

(If to a Collection Agency)
Name of Collection Agent (if any): _________________________________________
Collection Agency Name: _________________________________________________
Collection Agency Address: ______________________________________________

Re: Original Creditor Name: _________________________________
    Acc. # ________________________

CERTIFIED MAIL; RETURN RECEIPT REQUESTED

Dear Sir or Madam (or Mr./Ms _____________ if you have a name),

Thank you for your response to my most recent settlement offer dated ______________ (date of your latest offer letter). Again, I appreciate your willingness to compromise, but you’re still asking for money I just don’t have. I still want to avoid Chapter 7, but I’m losing hope. In a last ditch effort to stay out of bankruptcy court, I’m making one last attempt to resolve this account.

Here are the terms of my final offer. As before, we have no settlement unless you agree to all of them.

(If you are making a lump sum offer, use these four numbered settlement terms.)

1. **Payment:** I will pay you a single, lump sum of $_____________.

2. **Effect of Payment:** This payment will reduce my account balance to zero and close the account. You will accept this payment as full settlement of all amounts charged to this account, including all principle, interest, late charges, penalties and assessments. You will make no further effort to enforce or collect on this account.

3. **Credit Reporting:** You will notify all credit reporting bureaus that this account has been paid as agreed, and you will remove from my credit report any and all negative references, including references to late payments, charge offs, or collections.
4. **Successors and Assignees:** This agreement is binding on the parties, their successors and their assignees.

*(If you are making a payment plan offer, use these five numbered settlement terms.)*

1. **First Payment:** I will make an initial payment in the amount of $_____________.

2. **Additional Payments:** I will make _______ more monthly payments beginning one month after the first payment. These follow-up monthly payments will be in the amount of $____________ each.

3. **Effect of Payments:** These payments will reduce my account balance to zero and close the account. You will accept these payments as full settlement of all amounts charged to this account, including all principle, interest, late charges, penalties and assessments. You will make no further effort to enforce or collect on this account.

4. **Credit Reporting:** You will notify all credit reporting bureaus that this account has been paid as agreed, and you will remove from my credit report any and all negative references, including references to late payments, charge offs, or collections.

5. **Successors and Assignees:** This agreement is binding on the parties, their successors and their assignees.

*(Here add a paragraph explaining how your new offer improves on your previous offer.)*

*For example: Please note that I am raising the single lump sum payment from $__________ to $__________. Or,*

*Please note that I am raising my initial payment from $__________ to $__________ and proposing two additional payments of $____________ each.*

*(Now close your part of this letter as follows:)*

This offer expires in ______ days from the date of this letter. If you agree to these terms, then please date and sign where indicated below and return the original to me in the enclosed self-addressed, stamped envelope. I have included a signed copy for your records. Once I receive the dated and signed original, I will send payment as agreed.

Sincerely,

__________________________________________

*(Type your name and sign here)*

==================================================================

**ACCEPTANCE OF SETTLEMENT OFFER**

*(Use this paragraph if you are dealing an Original Creditor.)*

By signing below, I attest that I am the authorized representative of __________________________, the original creditor and current owner of the account identified above. I have full legal authority to settle this account. This letter accurately states the terms of a settlement agreement that I approve and accept.
(Use this paragraph if you are dealing with a Collection agency working on behalf of an Original Creditor.)
By signing below, I attest that I am the authorized representative of _______________________, a collection agency hired by the original creditor, _______________________, to collect the account identified above. I have full legal authority to settle this account on behalf of the original creditor. This letter accurately states the terms of a settlement agreement that I approve and accept.

(Use this paragraph if you are dealing with a Collection Agency that has purchased the account and now owns it.)
By signing below, I attest that I am the authorized representative of _______________________, a collection agency that has purchased and is now the owner of the account identified above. I have full legal authority to settle this account. This letter accurately states the terms of a settlement agreement that I approve and accept.

Dated: _________________________   __________________________________________
Authorized Representative