Debt Relief — Why Most Programs Have A 75% Failure Rate

Debt consolidation, equity loans, credit counseling, debt management plans, even Chapter 13 bankruptcy it doesn't matter which of these debt programs you're talking about. They all suffer from one fatal flaw, the number one problem that causes most people to fail at eliminating their debts through these techniques. Can you guess the problem?

It's probably not what you're thinking. It's not the fees, interest rates, or the quality of the companies behind these debt solutions. No, the number one problem with most debt programs is that they require FIXED monthly payments without exception. This major flaw is the main reason that very few people make it through a credit counseling program or a Chapter 13 bankruptcy plan.

Do you make exactly the same amount of money each and every month? If you are like most people, the answer is probably NO. It's easy to understand why. Salespeople, for instance, often experience ups and downs based on how much commission they earn from one month to the next. Seasonal workers experience boom and bust times depending on the time of the year (think retail workers getting lots of overtime around the holidays). Overtime hours come and go depending on company workloads. Part-time jobs may offer hours that vary widely from week to week. And so on.

Now, what about your expenses? Do you spend exactly the same amount of money each and every month? Sure, your mortgage or rent and your car payments are a set amount each month. But doesn't your utility bill go up and down depending on the weather? What about your phone bill? How much will you spend on car repairs over the next 6 months? Medical bills? Dental bills? Can you predict such variable expenses with any accuracy?

If you have lots of room in your budget, with money left over at the end of the month, then fluctuating income and expenses are probably not a major issue for you. However, if you are struggling to make ends meet, living from one paycheck to the next, then an unexpected expense can destroy your monthly budget.

People enter debt relief programs with the best of intentions. Take credit counseling, for example. You enter a program to get some help in bringing your credit card debts under control. The monthly payment of $500 sounds good. You're humming along just fine for a few months, then wham! The water heater blows up. Time to shell out $800 for a new one. Unless you like cold showers, you'll need to skip the $500 payment to the agency this month, and part of next month's payment as well. Where does that leave you with the credit counseling program? Back on the street, that's where. You simply CANNOT miss payments into that type of plan and expect anything but failure.

Or look at Chapter 13 bankruptcy, where the court requires you to pay a set monthly amount to your creditors over a 3-5 year period. Even before the drastic new law went into effect, 2 out of every 3 people failed at Chapter 13 bankruptcy. It will get much worse under the new law, because the court will set your monthly budget for you, based on what the IRS says it should be for your state and county. This is simply unrealistic, and once people realize how bad the new law is, they will run in the other direction from Chapter 13. (Forget about Chapter 7, where you wipe the debts away. The new law will make it very difficult to qualify for the old Chapter 7 fresh start.)

Again, the big problem with most debt relief programs is lack of flexibility. You cannot call your loan officer, the credit counseling agency, or the court trustee and say, "Hey, my kid broke his leg ***dead sea mud mask***

and I had to pay the hospital $500 to cover my insurance deductible, so I'll need to skip my debt payment this month." If you could, then these plans might have a chance of working. But such inflexible programs simply do not reflect the unpredictable nature of the average household budget.

So is there any debt program that does provide this flexibility? Yes. It's called debt settlement, or debt negotiation.

It's certainly not for everyone. Debt settlement is an alternative to bankruptcy. It's not for people who can pay their bills in full without hardship. But it can be a real blessing for those seeking relief from a crushing debt burden.

The reason debt settlement is so flexible is simply because YOU control the cash. You build up money in a separate savings account until you have enough to make a reasonable offer to one or more of your creditors. Like any debt program, debt settlement has its downside and its risks, but no other program provides this level of flexibility. Because the monthly payment is going into a negotiation fund that you set up and control, a bad month simply means you have less money to settle with. If you can make it up later, that's great. If not, that's life. When you have enough to settle ONE account (usually between 35% and 50% of the balance owed), then you make an offer. If your creditor takes the deal, then you start building up funds to knock out the next debt, and so on. It's the only program out there that recognizes a basic reality: Your budget should set the pace for your debt elimination program, not the other way around!

Again, debt settlement is not a magic bullet. It won't cure every debt problem. But if you need to skip a month, or adjust up or down a little to reflect what's going on in the real world, it doesn't mean the end of the program. It's truly a shame that the financial "experts" who have set up the bankruptcy rules, consolidation loan terms, credit counseling plans, and debt management programs haven't figured this out yet. If they would just recognize this fundamental problem, then the success rate on their programs would increase dramatically and they could stop misleading the public about what works and what doesn't in the world of debt relief.