

Weathering Debt

A Self-Help Guide to Complete Debt Resolution



© 2009 Bright Origins, LLC. All rights reserved.

CONTENTS

Disclaimer.....	4
Forward.....	5
Definitions.....	9
Acronyms.....	14
About your Creditors.....	15
About your Collectors.....	17
Balance Transfers.....	19
Budget.....	21
Setting up your Budget.....	22
Start Saving.....	24
Set Goals.....	25
Understanding your credit report.....	27
Getting set up and using the sample letters.....	30
Paying down debts.....	34
Disputing your debts.....	42
Method of Verification (MOV).....	50
Validation of Debt (VOD).....	79
Statute of Limitations method (SOL).....	82
Statute of Limitations by State.....	86
Reinsertion of an account.....	90
Removing inquiries from your credit report.....	95
Dealing with the FI.....	95
Dealing with the CRA.....	96
Pay for delete.....	98
Filing Complaints.....	108
Federal Trade Commission (FTC).....	108
State Attorney General.....	108
Things to know for filing suit.....	111
Can I represent myself?.....	111
Filing suit against a collection agency in small claims court.....	113
Filing suit in a federal or state court.....	114
Whether your case is suitable for filing.....	114
Collecting your evidence.....	114
Suing the agency involved.....	115
Serving the agency involved.....	115
Life after Credit Cards.....	117

APPENDIX CONTENTS

CONTACTING THIRD PARTY.....	119
HARDSHIP LETTER.....	122
CEASE AND DESIST.....	124
HARASSMENT.....	127
INTENT TO SUE LETTER FOR WILLFULL NONCOMPLIANCE.....	129
DISPUTE NO NOTICE W/ CRA.....	132
DISPUTE NEGATIVE LISTING BY OC/INITIAL REPORTING VIOLATION.....	134
INTENT TO FILE COMPLAINT FOR WILLFUL NONCOMPLIANCE.....	138
RESPONSE TO AGENCY THAT CLAIMS FRIVOLOUS DISPUTE.....	141
DISPUTE CRA.....	144
FAILURE TO VERIFY DISPUTE CRA.....	146
FAILURE TO VERIFY DISPUTE CRA – INTENT TO FILE COMPLAINT.....	148
FAILURE TO VERIFY CRA – INTENT TO FILE SUIT.....	151
REQUEST METHOD OF VERIFICATION.....	154
DISPUTE CRA LISTING WITH FI.....	157
REQUEST RE-INVESTIGATION OF ACCOUNT.....	161
REQUEST COPY OF RECORDS.....	163
VALIDATION OF DEBT.....	165
ALTERNATE VALIDATION OF DEBT.....	168
REINSERTION TO CREDIT REPORT FOR FI.....	171
REINSERTION TO CREDIT REPORT FOR OC.....	175
REINSERTION TO CREDIT REPORT FOR CRA.....	180
REQUEST TO REMOVE INQUIRIES FI.....	183
FI INQUIRY AUTHORIZATION AMBIGUITY.....	185
REQUEST TO REMOVE INQUIRIES CRA.....	187
PAY FOR DELETE.....	189
FDCPA.....	192
FCRA.....	207
Disclaimer and Limitations.....	287
Agreement.....	287

DISCLAIMER

***Legal notice:** This Guide is not intended to be construed as legal advice. The information we provide is educational information only. Since some of this information could possibly be used to abuse an already overworked system we must state here that if you use this information to attempt to “cheat the system”, we can not nor will we be held accountable for your choice. Please consult a qualified attorney if needed. By reading this book, you have read and agree to the disclaimer.*

The FTC provides a Consumer Alert on their website that states what to be watchful for in credit repair as well as what you can do for yourself. We made a point of using this information as a basic template to create this guide and we believe that this information is as important as any we provide. Here is the link to that Consumer Alert;
<http://www.ftc.gov/bcp/edu/pubs/consumer/alerts/alt097.shtm>

We cannot stress enough how important it is to educate yourself instead of trying to find the “easy way out”. The “easy way out” got you here to begin with, chalk it up as one of life’s “mistakes” and choose to be better. Take the time to read this guide thoroughly before getting started; there are many things you will want to know so that you can avoid pitfalls.

“In life there is no such thing as failure, only a series of choices that we can either choose to learn from or run from. Successful people choose to learn and grow from their failures. We choose success.”

FORWARD

Once upon a time, we thought we had a good understanding of how the financial world and credit industry worked... we had bought into what we had been spoon fed for years, until...

Our car broke down and we decided it was the last time we were going to have to pay out the nose to get our old junker fixed, so we decided we were going to go down to the dealership and buy a new car. The salesman was friendly, well educated about the car we wanted and was so anxious for the sale that he was even going to knock a couple thousand off of the price of the car. So we sat down, filled out all the paperwork and sent it in. While we waited for the response from the bank, we chatted about life, kids and dream cars... it was a beautiful day and we felt wonderful! Then it happened. The response from the bank came back.

DENIED.

When we asked what the problem was, the salesman said that it was our credit rating and informed us that we only had a score of 405. WOW, we had no idea that our credit was in such bad shape! As the clouds began to gather over the sky of our beautiful day, and as the sensation of thunder and lightning shot through our stomachs, we could feel the weight of our credit issues on our shoulders and became seriously depressed.

With our smiles gone and with what little strength we could muster, we apologized to the salesman for wasting his time and tried to fumble through an explanation that we really had no idea what was wrong... we had never had a problem like this before. He responded with a bright winning smile that only a car salesman could muster in a time like this and told us that it wasn't really that big of a deal, that about 1 in 4 applicants are turned down due to credit score problems and that it really isn't uncommon. He also told us that he had been there before himself and that it wasn't that difficult to clear up.

He mentioned that since we had been denied credit, we were entitled to a free credit report and that we should get ours and look at it to be sure that there aren't things there that shouldn't be. He mentioned that he hadn't even realized that he had been a victim of identity theft until he had been denied credit, and that there were several other things on his report that didn't belong as well. Things like old negative marks that were outside the statute of limitations to report, mistakes in accounting on the part of some of his creditors, another person's old charged off debts being listed on his reports because they had similar names, and the list went on and on.

He told us that after checking into a few "credit repair" companies and educating himself on the laws and the processes, he realized that the most efficient and effective way to handle cleaning up his credit was to do it himself. So he told us that he would make us a

deal. He told us that if we would promise to come back to him, and only him, to buy our new car, he would help walk us through the process of cleaning up our credit.

Although this seemed a bit odd, we were feeling excited at the prospect of having someone help us. There were only two questions... “Why would you help us with this and how can we be sure that you know what you are doing?” He responded simply with, “I am not going to do this for you, I am going to show you how to educate yourself and how to do this for yourself, that is all I can do for you and you can decide for yourself if there is any value in what I have to offer. But if I help you clean up your credit, and you buy a new car from me, it helps me as well. In effect, we are going to be helping each other.”

So we contacted the credit reporting agencies and proceeded to learn about our credit and the laws that surrounded it. All there is to say is WOW.... What a mess!! Sure enough, there was a listing for a cable bill to the tune of \$1800.00 that wasn't even ours! Someone had gotten hold of one of our social security numbers and used it to purchase a contract with a cable company in a state we had never even visited, let alone had lived in. So we began the clean up process... we started by filing a police report and then got down to business with the credit reporting agencies.

We had no idea that it was going to be so difficult, we were very happy to have the guidance of someone who had been there to help us along the way.

We spent several years paying down debts, learning our rights, and working through our credit mess and when it was all said and done, we realized that we can all help each other. In a time of financial crisis and turmoil, we have found that there is very little REAL help to be found and most everyone is trying to line their pockets by taking advantage of the misery of everyone else. Our goal is to create a Win-Win situation where everyone benefits.

We learned some interesting things along the way about having other people do this for us. First and foremost, letting someone else do it, doesn't teach us how to not get back to the same place we started after the mess is cleaned up. Second, there isn't a company out there that will take the same care to do the job as well as we can ourselves, they have no vested interest other than the payments they receive and third, letting another organization do the same thing we can do ourselves is looked upon by new creditors as a problem. We found out along the way that using a credit clean-up/management/counseling agency is viewed as badly as a bankruptcy. It shows that we, as individuals, are incapable of handling it ourselves and therefore are a high risk. It is virtually impossible to find a company that is trustworthy enough to tell you these things, but it is the absolute truth.

We have worked diligently to compile and streamline a process that otherwise could be very difficult to accomplish without “professional” help. This may not be the best course of action for some, but we can tell you that we took a great deal of comfort from having the knowledge that we were in control and educating ourselves so that we didn't find

ourselves there again. It is our sincerest hope that you will find the value in that and do the same. So that is what this is about, us helping each other.

Over the course of our “adventure” we learned a great deal and found that most people aren’t even aware of their rights or how much protection we actually have! While there are MANY sites that have some really good info, we realized that there are NONE that put it together in a simple, easy to use, step by step format for the consumer to be able to utilize efficiently. We as a society need to help each other if we are ever going to rise above the current financial crisis we are experiencing. The answer isn’t in how MUCH money we make, but in how RESPONSIBLE we ARE with that money and educating ourselves on how to better handle our finances.

The information that we have gathered here and put together is simply that: information. It isn’t a means to cheat or beat the system, it is simply utilizing the system the way it was meant to be done and streamlining a process that would ordinarily be quite arduous. We include as much information as we believe is reasonable to the purpose at hand, but there is more to be found in abundance. It is our recommendation that if you are at all like us and a bit leery, then don’t just take what you see here for granted... by all means, do the research!

You deserve the peace of mind that comes from knowing that you are in control of your life and not dependant on some “snake-oil” salesman trying to line his own pockets at your expense. We truly hope that the value you find here is in the ease of which this kit allows you to cope with your credit issues, in an easy and efficient manner, while making your financial life less stressful.

The Federal Trade Commission has a statement regarding the “credit repair scams” that are out there and states that the consumer is much better off trying to clean up their credit themselves. We agree completely. Here is the link that will take you to the FTC’s own words on the subject; <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre13.shtm>

An important personal note; in light of today’s economy there are many people in need of help financially. We have noticed that people tend to lose sight of what is truly important in life when money becomes an issue for them. Please, don’t let your financial situation affect your ethics and morals. Don’t do something like trying to cheat the system that you might regret later. Who you are as a person will be with you for the rest of your life, debt and financial crisis will come and go. If you choose to sacrifice your morals and ethics now for a hopeful, quick fix, it is very likely you will regret it. Make choices now to make permanent changes in your life that you can feel good about for the rest of your life These instructions and sample letters are designed to be used for legitimate issues with a credit report, if you try to use them to cheat the system, you will likely end up making a bigger mess of things than where you already are. If you are looking for an easy way out, this is NOT it, nor is any other debt negotiation, consolidation or resolution method, company, agency etc. etc. an easy way out.

You got here, just like the rest of us, through ignorance and there is only one way out: through education and growth. Respect yourself enough to not just clean up the mess that you made, but to also rise above and become a better person. Too many people in our world use “the system” to try to find a way to make money at the cost of someone else. This, we believe, is a major part of the reason why our country is in such great financial trouble.

If you truly are in financial trouble with open accounts, not wanting to file bankruptcy and just looking for a way to try to clean up a mess, then you should carefully read the section for budgeting and paying down debts before proceeding with the section for cleaning up your credit reports.

We recommend reading this entire book before getting started so you can have a “game plan” in place. Take the time to read through all this information and educate yourself before trying to tackle this, it will help you avoid some of the pitfalls that could occur and also help you decide which method will work best for each debt you are dealing with.



DEFINITIONS

Before we go much further, it is important to remember that nothing in life is so horrible that we can't find a way to laugh at it. Here we have listed some definitions to help you understand some of the terms you will see as well as some acronyms that we use in the book. Our definitions are a bit tongue-in-cheek and for the sole purpose of helping to find the humor in this otherwise trying time. Feel free to write in your own... it may help ease the process of ownership and alleviate some stress.

Term	True Definition	Our Definition	Your Definition
Budget	Dictionary.com: an itemized allotment of funds, time, etc., for a given period; the total sum of money set aside or needed for a purpose.	A financial plan to control where your money goes, so it doesn't go without you.	
Capital Gains Tax	Wikipedia.org: A tax charged on capital gains, the profit realized on the sale of a non-inventory asset that was purchased at a lower price.	What you get stuck with if you settle a debt for less than it is worth even though you are getting screwed to begin with. See "Debt Settlement".	
Collector	Dictionary.com: a person employed to collect debts, duties, taxes, etc.	The source of your gray hair. The one that calls you everyday to see if you have more money than you did yesterday. See "Gluttonous".	
Creditor	Dictionary.com: a person or firm to whom money is due (opposed to debtor).	The companies you wish you hadn't met. The ones that forget to include in their advertisements that you will be a slave to them. See "Gluttonous".	
Credit report	Wikipedia.org: a record of an individual's or company's past borrowing and repaying, including information about late payments and bankruptcy.	The records about your past that you wish never existed and hope to someday not have to ever worry about again. The records that include the most embarrassing financial moments of your life.	

Term	True Definition	Our Definition	Your Definition
Credit reporting agency	Wikipedia.org: a company that collects information from various sources and provides consumer credit information on individual consumers for a variety of uses. This helps lenders assess credit worthiness, the ability to pay back a loan, and can affect the interest rate and other terms of a loan. Interest rates are not the same for everyone, but instead can be based on risk-based pricing, a form of price discrimination based on the different expected risks of different borrowers, as set out in their credit rating.	A company that makes their money by collecting and publishing reports of only the worst about a person's financial status and thrives on the misery and misfortune of others. This report helps the predatory lenders ascertain who will be their next victim, gives the credit card companies just the excuse they were looking for to hike your rates AGAIN and gives insurance companies yet another excuse to charge ridiculous fees for people who might otherwise have the lowest insurance rates on the planet. See "Gluttonous".	
Debt	Dictionary.com: something that is owed or that one is bound to pay to or perform for another; a liability or obligation to pay or render something.	The probable reason you are reading this. The concept that keeps you up at night. The gum stuck on the bottom of your shoe that only dynamite will get rid of.	
Debtor	Dictionary.com: a person who is in debt or under financial obligation to another (opposed to creditor).	You. The one who got duped into the fantasy of living on credit. The one who now walks around with bills in one pocket and lint in the other while making the credit industry rich.	
Debt Settlement	Wikipedia.org: the process of negotiating with a creditor to pay off a percentage of a balance owed on old bills, invoices, lawsuits, liens, medical bills, utility bills, and judgments.	A scam created to lead you to believe that you can get out from under your debts with virtually no consequences for a small amount of money. See "Capital Gains Tax" for more information.	
Discipline	Dictionary.com: behavior in accord with rules of conduct; behavior and order maintained by training and control; activity, exercise, or a regimen that develops or improves a skill.	The mindset of being goal-oriented; not letting anything get in the way; maintaining your path to reach the reward of financial freedom. The act of doing what it takes.	

Term	True Definition	Our Definition	Your Definition
Dispute	Dictionary.com: to engage in argument or debate; to argue vehemently; to question the truth or validity of; argue against; contest; oppose.	It's not mine; your information is wrong; I don't owe that much. See "Validation and Verification".	
Dunning Notice	Wikipedia.org: Dunning is the process of methodically communicating with customers to ensure the collection of accounts receivable.	The letters that you receive almost daily trying to get you to give money you don't have from the company that you would swear has a personal vendetta against you.	
Duplicious	Dictionary.com: acting in bad faith; deception by pretending to entertain one set of intentions while acting under the influence of another; speaking or acting in two different ways concerning the same matter with intent to deceive.	The behavior of the majority of the credit industry and their cronies; what you can expect when dealing with a creditor, collector, credit reporting agency; "Yes, we will be happy to (insert any promise here) if you will just send us a payment."	
Furnisher of Information	FCRA: A person who regularly and in the ordinary course of business furnishes information to one or more consumer reporting agencies about the person's transactions or experiences with any consumer.	The little creep that is in cahoots with the credit reporting agency to destroy your financial life by telling everyone all the dirty little secrets you wish you didn't have about your financial life.	
Gluttonous	Dictionary.com: greedy; insatiable; Indulging in something, such as an activity, to excess; voracious.	The attitude of the Credit Industry; the behavior of taking more than is needed or deserved; the fat CEO of that credit card company that sits on his yacht eating prime rib while you are struggling to keep the lights on and feed your family macaroni and cheese.	
Hardship	Dictionary.com: A state of misfortune or affliction; something hard to endure.	The situation in your life that is preventing you from having the money those people with the vendetta against you want.	

Term	True Definition	Our Definition	Your Definition
Inquiry	Dictionary.com: A close examination of a matter in a search for information or truth; a systematic investigation of a matter of public interest.	A request for specific information from your credit report; a means of asking for information that is likely none of their business while systematically lowering your credit score so they can charge a higher interest rate.	
Investigation or Reinvestigation	Dictionary.com: a searching inquiry for ascertaining facts; detailed or careful examination.	What is supposed to happen but instead is simply a cross reference of data on computer files. Credit Reporting Agency; "Oh! You mean we are supposed to actually check REAL records??" See "Method of Verification".	
Method of Verification	FCRA: a description of the procedure used to determine the accuracy and completeness of the information (being reported).	The method that the Credit Reporting agency uses to verify that the information on your report is complete and accurate, generally a cross reference of data on computer tapes (files) instead of actually checking for true facts. See "Investigation".	
Motivation	Dictionary.com: something that motivates; inducement; incentive'	A wonderful tool to keep you focused and disciplined; think "freedom".	
Predatory Lending	Wikipedia.org: the practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, or systematically violating those terms in ways that make it difficult for the borrower to defend against.	The typical creditor. The same people that make commercials showing how much better your life will be when you pay them to use your own money.	
Reinsertion	Dictionary.com: The act of reinserting; To put or set into, between, or among; To put or introduce into the body of something.	The duplicitous act of inserting information after it has been removed from your credit report, generally without proper verification of facts.	
Secured Debt	TheFreeDictionary.com: Debt backed or secured by collateral to reduce the risk associated with lending.	Your house and your car that you still owe money on or have used as collateral for a loan.	

Term	True Definition	Our Definition	Your Definition
Statute of Limitations	Wikipedia.org: a statute in a common law legal system that sets forth the maximum period of time, after certain events, that legal proceedings based on those events may be initiated.	The amount of time a Collection Agency has to file suit and a Credit Reporting Agency is allowed to report information on your report; WOOOHOOO! You can't touch me anymore!!	
Unsecured Debt	Wikipedia.org: a debt that is not connected to any specific piece of property and instead the creditor may satisfy the debt against the borrower rather than just the borrower's collateral.	Your unpaid credit card bills or any other bill for intangibles that can't be repossessed. Likely, the things that have kept you up at night for no really good reason.	
Validation	Dictionary.com: To make valid; substantiate; confirm; to give legal force to; legalize; to give official sanction, confirmation, or approval to.	To make them do what they were supposed to do to begin with; prove it; prove it; prove it. See "Verification and Dispute".	
Verification	Dictionary.com: The act of verifying; the state of being verified; evidence that establishes or confirms the accuracy or truth of something; a formal assertion of the truth of something, as by oath or affidavit.	The act of demanding that the people who are destroying your financial life had better do their job and provide evidence of the facts before they slander you. See "Verification and Dispute".	
Willful Non Compliance	Dictionary.com: (willful) deliberate, voluntary, or intentional; (noncompliance) failure or refusal to comply, as with a law, regulation, or term of a contract.	The words you will likely be saying often when dealing with the credit industry; the typical behavior of the credit industry; your battle cry when dealing with the credit industry.	

ACRONYMS

Acronyms	Explanation
CA	Collection Agency
CMRRR	Certified Mail, Return Receipt Requested
CR	Credit Report
CRA	Credit Reporting Agency
FACTA	Fair and Accurate Credit Transactions Act
FCRA	Fair Credit Reporting Act
FDCPA	Fair Debt Collections Practices Act
FI	Furnisher of Information
FTC	Federal Trade Commission
MOV	Method of Verification
OC	Original Creditor
PFD	Pay for Delete
SOL	Statute of Limitations
VOD	Validation of Debt

ABOUT YOUR CREDITORS

Ok, let's talk about the money you owe and we will be specifically referring to your "unsecured debt". Your "Creditor" is the original company that you signed a contract with that issued you a line of "credit". "Credit" is an intangible idea that leads you to believe that you can spend a certain amount of money and be able to pay it all back. "Money" is often an invisible concept that adds up to something unfathomable.

Think about this: most likely you have never seen an alien, but you've surely tried to imagine what one would look like. If you ever get the chance to see one, do you think it will resemble in the slightest what you imagined? Hollywood is able to thrill us into buying a ticket because they created an image that is somewhere just beyond the boundary of our imagination but good enough to seem real.

Your creditors snared you the same way. The average American consumer has a credit card debt just shy of \$10,000. Have you ever seen ten thousand dollars in CASH? You may have seen that number occur on your bank account statements or credit card statements, but those are just figures to represent a stack of cash that you haven't actually *seen*. What does \$10,000 in CASH *look* like? How much space will it fill? How tall does a stack of 10,000 one-dollar bills stand? How heavy would 100 one hundred dollar bills feel in your hand? What size of a floor could 2,000 five dollar bills cover? We can do the math and figure out how many packages of diapers you can buy with \$10,000, or how long that amount will feed our family or how many house payments it will make, but most of us have not actually laid our eyes on that much cash. Therefore, money is an all-to-easily sold concept to an average American consumer.

A creditor hands you a little plastic card that fits so easily in your wallet, (is it coincidence that you can slip it into your back pocket and it causes no discomfort?) and they sell you this false sense of security that when you're in a jam and don't have any cash, you have this extra stash of invisible money within reach to pay for the things you can't afford. No problem, you can just pay it back later a little bit at a time. The average monthly payment is 2.1% of your outstanding balance. On a loan of \$10,000, a monthly payment would be about \$210. What is a \$210 per month payment when you have \$10,000 extra to spend right now?

The problem for the consumer lies in not being able to fathom the **WHOLE** picture. Let's take a look at just the principle alone. The principle is the amount of the "loan" or "credit" that you signed up for. You agreed to have an extra \$10,000 to spend now and pay it back at \$210 a month. That will take 47 months to pay back. So in four years, you might make the final payment and still remember what it was that you wanted to buy with that invisible money.

But now we get to include the interest on the principle of that loan. A bank surely isn't going to give you money for free, right? Oh no, they're not in it for nothing. They had

you sign a contract agreeing to pay them back the loan amount, plus a percentage of the loan. The average credit card interest rate is 19%. But the credit card companies aren't just going to tack it on at the end and say that the total amount you pay back is \$11,900. If that were the case, there probably wouldn't be \$700 BILLION in American consumer credit card debt. The truth is, every month that you have an outstanding balance on your credit card bill, the credit card company *again* charges you the interest rate on that outstanding balance. In short, if you only send in that \$210 payment on your \$10,000 credit card loan, it will take you approximately 42 years and 9 months to pay off, and the total amount that you will end up paying is approximately \$26,276.59. And, if you're still alive when you make that final payment, good luck remembering whatever it was that you spent that money on.

It's a bit overwhelming. So overwhelming that of the 272.5 million credit card holders, 60% (163.5 million) have a hard time keeping up and over 1.1 million consumers have declared bankruptcy in a single year (2006). With the state of our country's financial climate since then, it isn't likely that those numbers are going to get better.

In addition to just trying to stay on top of paying off the credit card companies, events may occur that force people into circumstances where they have no choice but to watch their debt spiral out of control. Unfortunately, creditors aren't sympathetic to such events as job loss, family death or crippling accidents. There are no grievance periods. When things get tough, your creditors don't care about much except getting their money.

Being behind even a little bit on your payments can cause a cascade effect on everything. Most unsecured debt contracts have a general default clause that states if you are late or in default with any one of your creditors, they all have the right to raise your interest rates to the highest allowable rates and most do exactly that. You must remember, these companies are in the business of making money and no matter what kind of propaganda they sell in their commercials, if they can make more money, they will... often at the expense of YOU, the consumer. It is not uncommon to have a credit card company look at your credit history and debt to income ratio, see that you are already maxed out yet still offer you more credit. Why would they do this? Because in today's society they are going to make money from it even if you are in default and, for that matter, they are likely going to make *more* from you if you are in default.

The credit industry isn't interested in a person who pays their bills off at the end of the month or pays off a loan more quickly than originally anticipated... why do you think there are usually prepayment penalties? Why do you think the credit card you use will include on the bill what the minimum monthly payment is instead of what you could do to pay it off quicker? It is in *their* best interest to have it dragged out as long as possible. Your FICO score is not about who you are as a person; it is not about whether or not you have integrity, it is not about whether or not you have sense where money is concerned. It is about one thing ONLY... it is the credit industry's score for how much money they can expect to make from you.

ABOUT YOUR COLLECTORS

When you default on your payments to your creditor, after a period of time they will hand your account over to a third party. This third party is called a “Collector” or, among other things, a “Collections Officer” or “Collection Agency”. The Collector is sometimes a company hired by your creditor to obtain payment on your debt. A popular collection agency that may work for your creditor advertises on their website that their fee for their collection services is 10% of the debt versus the “30-50%” that other companies may charge. Sometimes the Collector is a company that purchased your debt from your creditor—they paid a percentage of the debt you owe to your creditor, and they will make their money by collecting the whole debt from you. The collectors are tenacious. They have new tools that make it easier to monitor telephone and mail contacts with consumers to track down debtors.

Let’s go back to that \$10,000 you borrowed from your creditor. When you defaulted on your payments after attempting to pay the debt off for five years, the creditor will continue adding interest to the amount you owe, and adding insult to injury, continue charging late fees and other penalties. After five years of the minimum monthly payment, you’ve paid back the amount you borrowed *plus* another \$2,600. The creditor of course still wants to get all the money they can but if you just quit paying and another company offers to buy your debt from them, then they’ve got their money back, and another \$2,600 they got from you, PLUS whatever the offer for your debt was.

The offer for your debt was only a percentage of the total amount you still owe. Let’s say that of the \$26,276.59 you would end up paying for your debt, you stopped paying after you’ve already paid \$12,600 of the balance, leaving \$13,676.59 that you still owe. The collector offers the creditor 30% to purchase the debt, meaning they pay the creditor \$4,102.98 for your debt and have a potential profit margin of \$9,573.61, and the creditor made a \$6,702.98 profit. Not a bad return, huh? It’s all a big profit game on your name, your credit, your money, your financial welfare and overall wellbeing.

Using the numbers that we’ve already been playing with where the collector paid \$4,102.98 for your debt, if you strike a deal with the collector to settle your debt for 50% of what you owe, then you can be out of debt for only \$6,838.30, and the collector still makes a profit of \$2,735.31. They just want to make money, and yours isn’t the only account that they are attempting to collect on. According to OhioBiz.com, a small but common collection agency named Capital Recovery Systems employs less than 20 people, but reports annual estimated sales of \$1-2.5 Million! That is strictly money that they are making off of other people’s debts.

Also consider the person that is on the other end of the phone that is trying to get you to give them money. Most people employed as a debt collector work on commission. The more money they can collect from a debtor, the healthier their paycheck is. They aren’t motivated to stick within the guidelines of the law to earn their commission. According

to Kaulkin Ginsberg's research, debt buyers acquired an estimated \$158 billion dollars in face value of consumer debt worldwide in 2006. The firm has noted a trend toward the sale of larger portfolios in recent years. The trend is attributed to a number of factors, including the overall growth of consumer debt, the consolidation going on among credit card issuers, and the fact that market conditions are favorable for debt buyers to sell their assets.

Kind of makes you feel sick to your stomach, especially considering the state of our country's financial well being, doesn't it? This is one of the reasons why it is so important to learn as much as you can... knowledge is power, and in this "game", we need as much power as we can find.



BALANCE TRANSFERS

Here is something else to look at about your unsecured debts. Credit is the concept of money; it isn't exactly real except under very specific circumstances. Consider this, when you use that little plastic card, you receive some form of goods or service and the vendor charges the credit card company a certain number of monetary units for those goods or services. The credit card company then transfers a certain number of monetary units to the bank of the vendor. The key here is that no REAL money has changed hands... only numbers. When you make the original agreement with the credit card company, you agree to provide them with money that you have earned to cover these charges of monetary units as well as agree to pay them fees for using this service and interest on those monetary units. You also agree to pay fines and more fees under certain conditions. Kind of like when a parent hands down a set of consequences or punishment for their child. Now, as parents, we can tell you that there are many times when we get to decide exactly how those consequences should look, it is completely at our discretion. The credit card companies have the same power of discretion. They can waive fees and interest if they choose to.

Now we get to the truly interesting part that most people don't consider. Balance transfers. If you have accrued 1000 monetary units on your account from purchases for goods or services and the credit card company adds 10% interest to that, you now owe them 1100 monetary units. If the credit card company also adds their fees and any penalties you might have, that increases that number as well. Let's just say for the sake of this that you went into default, you happened to miss a payment or were late.

You call your credit card company to see if you can make arrangements to just double up the next month or pay a little late without incurring all the extra fees. Let's say that they agree and everyone seems to be content and tragedy has been narrowly averted. Well, what do you suppose happens if the person you happened to be talking to is new to their job and makes a mistake and doesn't record the agreement or just forgets? Do you think that the credit card company will be as kind as to say, "Aw, don't worry about it, we'll just let it go."? There is a very slim possibility, but not a very good chance that will be the case. Instead, what they will probably do is raise your interest rates and charge you a lot more fees leaving you "owing" the credit card company about 2000 monetary units. Yes, this is a bit extreme, but we know that it happens. We have even heard from an ex employee of a major credit card company that just got a HUGE bailout from the US government that the company actually looks for consumers that are "near the edge" and will do some pretty underhanded things to "push them over" so they can make more money. Do not believe for one instant that the credit card companies are about anything except making money, no matter what they have to do to get it.

So you call the credit card company back and ask what can be done. They may claim to have no knowledge of the prior conversation, or may just not be willing to work with you. A lot of people think that just transferring the balance to another card will fix the

problem, since the other card offers a lower rate and there hasn't been a problem with them. WRONG.

Most of these companies now have a clause in their contracts that you sign that states that if you default on ANY account, even an account with another financial institution, they reserve the right to hike your rates to the maximum allowable rates. They will often wait until you transfer the money and then do exactly that. Then when you can't pay the higher minimum monthly payments on all your cards and you find yourself struggling to just keep up, they will start adding fees and then charge that exorbitant interest on the balance. The total amount owed gets bigger and bigger and then you transfer to another card to try to juggle and avert certain disaster. This goes on and on and you can bet the credit card companies aren't doing anything except smiling as they tally up the amount of money they are raking in for nothing but interest, fees and penalties. If this sounds familiar to you, then welcome to club, it happens to more people than you might think.

Let's go back to the numbers for a minute. You started with 1000 monetary units of purchases and for the sake of this, let's say that you transferred a total of 1500 monetary units to the next card. You just turned 1000 monetary units of purchases and 500 monetary units of interest, fees and penalties into a 1500 monetary unit purchase with that next card. This means that there is no longer any room for any kind of negotiation. By transferring a balance, you "solidify" the "reality" of that money. It is no longer something that is just a concept.

Another way that you could look at it that might help; you borrow 1000 dollars from Joe and agree to pay him back 10 dollars a month for 11 months totaling 1100 dollars. You and Joe have a disagreement and he decides he wants all his money back now. You don't have it, so you go to Bob to borrow it. Bob reaches in his pocket and gives you 1100 dollars and makes the same agreement with you that you had with Joe. You have now just turned 1000 dollars into 1100 dollars because Bob is going to expect you to give him the money he took from his pocket. The same principle applies with the credit card company and any unsecured loan for that matter.

The better option here is to just be patient and continue to work with the original company, you may still have to deal with some penalties, fees and interest, but in the long run, if you end up "going over the edge" and unable to keep up with all of it, you will be better able to do damage control without having created more "real" debt.



BUDGET

Ok, here it is... most people don't have money problems, they have *spending* problems. It would be our guess that since you are here, that you are one of these people. Self-discipline is the answer, plain and simple; you need to just stop spending. You can make a budget that details every single little thing in your life and update it on a weekly basis, spending several hours a week trying to keep track, but it all still comes down to this; if you don't get control of spending, it won't make any difference. If you can't look at the big screen TV you are salivating over and still be able to walk away, then you have other issues you should be considering handling first.

Once you have it set in your mind that you aren't going to just blow money any more, it gets easier to watch your savings grow, and feel good about the fact that you are back in control of your life. It will only take a short time of watching your bank account grow to \$1000.00 and then \$2000.00 and then \$3000.00 before you realize that this is actually really easy and you can feel good about not blowing it. Getting past the belief that we can't do it is the most challenging aspect of this. Have faith that it is possible. For us, it was even easier than we thought it would be.

We found ourselves in such a financial mess that it didn't seem to matter which way we turned, we were still in a sinking ship. We had found ourselves unable to pay the house payment, the car payment, all the credit cards and the doctor bills. We were getting dunning notices everyday, nonstop calls from the creditors and eventually from collections agencies. There was no way out. All of them wanted money but there just wasn't enough to go around any more. They all wanted us to make a payment on a credit card, and we did, until those were out of control too. We got to the point where we were no longer able to pay all of them enough to keep them from repossessing or suing us.

If you are here as well, don't let it get you down, you aren't alone, there are literally thousands upon thousands of people in the very same position. Feel good about the fact that you are about to do something to take back control of your life and put an end to the misery! Here are some things that should help to take away some of the gloom.

Set goals for yourself. Whatever it may look like, make a goal worksheet/list/poster or whatever it turns into, but make it. What are your desires that you're not able to have due to your current financial situation? What would you do, where would you go, or what would you buy if you had the money right now? Don't just think about it, create something that you can look at.

The most important step in financial rehabilitation is using a budget. Most people who have ended up in financial trouble can attribute it to not paying attention to their money flow. When they finally sit down and go over their income versus their spending, they are usually surprised at the amount of money that just disappears.

Provided in this book are some basic ideas and formulas for helping you to set up your budget. But ultimately it is up to you to stick to it and make this work for you. A budget is necessary for several reasons. First, you are able to look at your money flow—how much income you receive versus your expenses. Then you are able to analyze where you can cut your spending in order to allow money to accumulate in a savings account. Also knowing exactly how much money you have and/or when you will have it can help you in dealing with your creditors, writing your hardship letters or making offers such as pay for delete.

Going through this process requires a big commitment, and having a budget in place will make it a lot easier on you. Watching your savings grow will reinforce the fact that you can do this, and you can do it without filing bankruptcy, without being bullied by creditors, and without having your money go into somebody else's pocket.

It is up to you how aggressive you want to be in getting your debt out of your life, but, obviously, the more energy you put toward getting rid of it, the faster it will go away.

Setting up your Budget

First, determine your total household monthly income. Types of income include:

- ◆ Salary/wages after withholdings
- ◆ Self-employment income
- ◆ Retirement and/or government income (Social Security, disability, unemployment, annuity, pension)
- ◆ Investment interest and dividends
- ◆ Alimony and/or child support
- ◆ Rents and/or Royalties
- ◆ Income from trusts

If your income is not consistent on a monthly basis, create your budget based on the amount that you will *at least* bring home. For example, March was a good month and you brought home \$3,500, you squeaked out of a rough April with \$2,300, and in May you expect to bring home another \$3,000—you should build your budget on expecting to receive \$2,300 a month. This is to ensure that you are able to at least put food on the table and keep the utilities on, and anything over \$2,300 for the month can go into savings. Another way to do it is to look at last year's total income and divide it by 12 to get a monthly average.

Now determine your monthly expenses. Expenses are *everything* you spend money on. Up to this point, you may not have been keeping track of how much money you spend on day-to-day expenses, so to get started you are probably going to have to estimate how much money you will spend on certain items, or set limits for some of your spending. Start keeping logs or receipts so that next month you will have a better idea of how much you are spending and will be able to adjust your budget accordingly. We found that we

were able to create our basic first budget from our bank records that showed when we used our credit and debit cards since they showed how much was purchased and at what location the purchases were made. They ended up being good for something after all!

Expenses include:

<p>Household</p> <ul style="list-style-type: none">◆ Food◆ Mortgage/Rent◆ Insurance◆ Taxes◆ Electricity◆ Natural Gas◆ Water◆ Telephone/Cell phone◆ Internet◆ Cable TV/Satellite◆ Supplies◆ Clothing◆ Home improvements◆ Toiletries◆ Cosmetics◆ Hair care◆ Child Care	<p>Transportation</p> <ul style="list-style-type: none">◆ Car payments◆ Insurance◆ Fuel◆ Maintenance/Repairs◆ Public Transportation <p>Entertainment</p> <ul style="list-style-type: none">◆ Dining out◆ Recreational activities◆ Hobbies <p>Other</p> <ul style="list-style-type: none">◆ Credit card payments◆ Other loan payments◆ Blow money◆ Gifts◆ Donations
--	--

After you have listed all of your expenses with a dollar amount next to them, add them up. This total is your “monthly expense”. Now compare your monthly expense to your monthly income. Are you currently living within your means? Do you actually have a little bit extra left over at the end of each month? Where does that extra money go?

Now go back through your expenses and determine where to cut your spending. Do you absolutely *have* to have that movie or sports package on your cable? Do you *need* to take the family to a steakhouse every week? *Must* you have the best lawn on the block? You don't. You *have* to buckle down. You *need* to focus on getting out of debt. You *must* say goodbye to your creature comforts until your finances are no longer in the negative. Here are some suggestions to help cut your spending:

- ◆ Shut the cable off. You can still tune in to your local station to get the news and weather report.
- ◆ Let the kids drink tap water. The soda-pops and sports drinks are rotting their teeth anyway and you don't need those extra dental bills on top of it all.

- ◆ Stop eating out. Home-cooked meals are healthier on your wallet, your body, and it's even healthier for the relationship with your family.
- ◆ Let the flowers and the grass die. They're not feeding you anyway.
- ◆ Turn off lights, televisions and other electronics when they aren't in use. The shadows don't need entertainment.
- ◆ Get creative. Your family will love you just as much, if not more, if you decide to play cards instead of going to the movies. You don't have to be a bump on the log while waiting for your freedom from debt. Taking small opportunities to still enjoy time with your family will help motivate you to stay on course through the difficult times of cleaning up the mess.

Look at all the other ways that you can cut spending and maximize your monthly income. Your goal is to put as much money into savings as possible. Allot each expense a dollar amount (a monthly allowance, if you will) and try to not go over that amount. For example, on average let's say you spend \$400 a month on groceries. Take \$400 in cash and put it in an envelope labeled "Groceries". Make a shopping list before you go to the store and take your envelope with you. As you're shopping, stick to your list and keep in mind that you are going to feed your family for the month on \$400. The generic brands really do taste the same as the name brands, and if they don't, salt and pepper are pretty cheap. If you run out of money until next month, then start opening those cans of vegetables that have been sitting in your cupboard since two Thanksgiving dinners ago.

Review your spending vs. your income *every month*. Consider using "cash envelopes" for as many of your expenses as possible. That way you can keep each expense's allowance separate so you can know how much you're spending there, and can control it easier. If there is money left over at the end of the month, it can go into your savings account.

Start Saving

After you have set up your budget you should have an idea of how much money you can put into savings each month. Ideally, you should be putting away 5-10% of your monthly income into savings each month at the very LEAST. This amount should be budgeted as a monthly expense as well. If you bring home \$2,500 each month, you should be depositing anywhere from \$125 to \$250 into your savings account each month. Treat it like it is a utility bill—if you don't pay it, your life gets shut off. Then everywhere else that you saved money at the end of the month, put what's left over into the savings account. Don't leave extra cash lying around—it's too tempting to spend on something you don't need so put it away in your savings account.

Keep in mind throughout this process that you and your family are most important. You have to take care of the most important things first. As you are starting your savings, consider the things that are coming up that you have to have money for. If you own your home, you'll need to pay your property taxes. If you own a car that's no longer covered under warranty, you'll need to pay for maintenance and repairs. If you have children, you'll need to plan for paying the doctor for your child trying to "parachute" off the roof with a bed sheet (yes, it really happens).

Find other ways to create money. You may have a treadmill that you use more as a drying rack for your clothes, but it may be worth a few dollars to someone else. Look at your collection of books and movies—are you planning on memorizing them someday? Have a garage sale or try selling them online if you don't have a garage or a yard. In today's day and age selling used goods is big business on the internet. It will get rid of your extra clutter that someone else might appreciate and it will put a few extra dollars into your savings account.

Your first savings goal is to have "crisis cash". Save \$1,000, then put it away someplace that is untouchable unless it is an emergency. Do not put it into a CD or the stock market. The idea is for it to be accessible without penalties or having the market crash, but not within reach enough for it to be tempting. We froze 10 one-hundred dollar bills in a block of ice in our deep freeze. We have a safe that we can lock it in, but it was more fun doing it this way and harder to get to when the itch to buy that next pair of shoes or double bevel miter saw went on sale. Find what will work for you and try to have fun with it. We even had a little ceremony with our kids to celebrate when we put it in the freezer.

Having your crisis cash is beneficial for at least two reasons. First of all, you have a little bit of security in the event that something happens, and we're not talking about your favorite rock band coming to town. Your crisis cash is for a time of CRISIS—something unforeseeable that has to have immediate attention because if it doesn't it could have life altering consequences, such as your car breaking down or a trip to the emergency room. Secondly, having saved \$1,000 proves to yourself that you can do it. You've accomplished saving a certain amount of money for a specific purpose.

After you have your crisis cash set aside you can start saving for your paying off your debts. You have probably found other ways to cut spending and build your savings. Keep that same intensity for building your savings to get out of debt!

Set Goals

Now that you have you and your family taken care of with your budget in place and crisis cash set aside, take a deep breath and relax. Think about the things that you're looking forward to doing, or having or giving to yourself or family. These are the goals for your future. Write these things down. You can make a scrap book and clip pictures from