Most debts, such as almost all credit card obligations, medical bills, and cell phone charges are “unsecured.” You do not have to put up any collateral such as your home or car to secure repayment. An unsecured creditor collecting a debt that is not owed to the government (for example, tax debts or federal student loans) can only legally do the following four things if you do not pay their debt:

1. **Stop doing business with you.** A credit card issuer can cancel your card or a dentist might refuse to let you continue as a patient. Usually, even if one merchant stops doing business with you, you can find someone else who will do so, on a cash basis or even on credit.

2. **Report the delinquent debt to a credit bureau.** The fact that you are behind on your bills will likely end up on your credit record. You cannot stop this, short of always being current on all of your bills. While this is unfortunate, it still may not make sense to prioritize this particular bill first just because that collector is threatening to ruin your credit record.

   Many creditors routinely report the status of all of their accounts each month to a credit bureau. When the account is turned over to a collection agency, this also may be indicated on your credit report. By the time a collection agency is threatening you about your credit report, your report may already include the fact that the debt is a number of months delinquent and has been turned over for collection. If that is true, the damage to your credit score has already happened. Paying now will not do much to improve your credit rating and failing to pay will not likely do much more damage to your credit rating. Moreover, if the creditor does not normally report information to a credit bureau, the creditor will not start with you.

3. **Contact you to ask you to pay.** Creditors will attempt to contact you to arrange for payments on overdue accounts. Your account may then be placed with debt collectors who also attempt to reach you. Traditionally most of these communications have been in writing or by phone, but some collectors now use email, text, or other types of communication. Below you will find several different sample letters that are effective in stopping a debt collector from contacting you if you want to avoid debt harassment. In addition, federal law prohibits third-party debt collectors from telling friends, relatives, employers or other third parties about the debt they claim you owe.

4. **File a lawsuit to collect the debt.** It is hard to predict whether a particular creditor will actually sue on a past-due debt. How aggressively a collection agency threatens suit is no indication whether the creditor will sue, even if the threat appears to come from an attorney.

   If the creditor sues you, you have a right to respond and raise defenses. Doing so may stop the creditor from pursuing the case. However, failing to respond to a lawsuit or failing to show up in court when required may result in a win by default for the creditor.

   If the creditor does pursue a lawsuit to its conclusion (or you do not respond to the lawsuit and the creditor wins by default) and the judge rules that you owe the debt, the unsecured debt becomes a court judgment. A court judgment is a higher priority debt than the previous unsecured debt. Post-judgment the creditor may be able to use powerful collection tools such as wage or bank account garnishment (depending on state law), as discussed in Chapter 21 [1].

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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