You may hear about companies that claim they can help you reduce your debts or eliminate them. These companies are a total rip-off. Never use them. Some say they can send you documents or sell you tips that will eliminate all your credit card debt. They offer a “bond for discharge of debt,” “a declaration of voidance,” or a “redemption certificate.” Or they tell you that “monetized” debt need not be paid. Other times, they claim to be “sovereign citizens” or offer to set up sham arbitration proceedings to eliminate the debt. These are totally bogus offers. They will cost you money, and just make matters worse.

Another scam is often called debt settlement. The company claims that it can negotiate with your creditors so you can pay off your debts for less. They may even advertise examples of how they have saved people thousands of dollars. Some debt settlement companies claim that they have a special certification by the Better Business Bureau or other organizations. But this is all meaningless. Debt settlement is actually illegal in some states and a bad idea everywhere.

Typically, debt settlement companies instruct you to put money away in a special account each month. When there is enough in the account, they claim they will use it to settle your credit card debts. Some want to be paid upfront and others say they only get paid if they settle your debts. But they always manage to charge you monthly fees even if they never settle your debts. Or they may settle one or two small debts and claim their fee. But this still leaves you with your bigger debts—which often grow even larger while you wait for the company to do something. These companies have no special connection to card issuers and some credit card companies even refuse to talk to debt settlement firms.

While you are putting money in the special account, nothing is going toward to your card companies; interest and late charges are mounting; the total amount you owe is growing; the non-payment is being reported to credit bureaus; and you are likely being harassed by debt collectors or even sued on the debt. Even if the company eventually settles some debts, your total amount of debt will be bigger than when you started, especially after all the fees you must pay to the company.

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