



Consumer Recovery Network
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To our new customer,

Welcome to Consumer Recovery Network (CRN)! On behalf of everyone at CRN, we appreciate the opportunity to help guide you on the path to debt freedom. Years ago, CRN started as a small group of Consumer Advocates committed to helping clients achieve their financial goals through education and consumer awareness. Today, those roots are apparent in every aspect of our program. At CRN we offer our clients:

- ▶ **FULL SERVICE DEBT SETTLEMENT** Most of our clients choose this option. All of our coaches are cross trained to work with all aspects of debt settlement. Our coaches can negotiate directly with your creditors on your behalf, document a settlement, and bring it to you for approval!
- ▶ **TOP NOTCH EDUCATION** In addition to our full service debt settlement program, we have provided you with the "Settle Down" Debt Settlement Audio Series. Many of our clients find the information contained in this educational course to be so inclusive that with the guidance of their coach, they have been able to work directly with their creditors to negotiate their own settlements.
- ▶ **INDIVIDUAL ACCESS TO YOUR OWN DEBT SETTLEMENT COACH** At CRN we realize that each of our clients has a unique situation that requires special attention. By working with you one-on-one we can tailor a specific solution to fit your needs. In addition, your committed and professional CRN Coach is always there for you whenever you need them!

WHAT TO DO NOW THAT YOU HAVE RECEIVED YOUR COURSE

- STEP 1:** In the event CRN is going to handle all of your settlements, you will still need to listen to the audio material contained in this course and follow along in the workbook. **Start with the Intro CD.** You will not only feel empowered by the information, but it will also put your mind at ease and reduce the stress associated with tough financial decisions. Behind this welcome letter you will find a printed **list of creditor's** document that must be filled out and faxed to **740-848-4028**. There is also a copy of this on the DATA disc found in this binder which can be filled out using your computer.
- STEP 2:** After you have listened to the CDs and read along in your workbook, its time to get serious and start working with your coach. If you have any questions, please write them down to review with your Coach.
- STEP 3:** After you have listened to the Audio CDs, followed along in the workbook, and sent CRN your list of creditors please call your Coach to set up your Strategy Session. Your coach may have already introduced him or herself prior to you receiving this course material. If not, call the number directly below to get your coach contact information.

You can contact your coach via telephone at: 740-848-4016 or email: brenda@consumerrecoverynetwork.com
Again, thank you for your patronage. We look forward to your success!

CRN is committed to providing you with the highest level of customer satisfaction possible. If, for any reason, you decide that you would prefer to have CRN handle your settlements, the cost for the Series will be credited towards our "Full Debt Settlement Service". Also, while our coaches are of the highest caliber to be found in the industry, if any concerns or service issues arise, we want our customers to know that from the top down, we are here for you. Please feel free to escalate any of your concerns to administrations attention by dialing 800-939-8357 ext 3 or email michael@consumerrecoverynetwork.com

Sincerely,

Michael Bovee
President



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 Fredericktown, OH 43019
 brenda@consumerrecoverynetwork.com
 (740) 848-4016 Ext. 20 phone
 (740) 848-4028 fax

List of Creditors

Client Name:	
Phone:	E-Mail:

Account #1

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:		State:	Zip:
Contact Name:	Phone:	Fax::	
Comments:			

Account #2

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:		State:	Zip:
Contact Name:	Phone:	Fax:	
Comments:			

Account #3

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:		State:	Zip:
Contact Name:	Phone:	Fax:	
Comments:			

Account #4

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #5

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #6

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #7

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #8

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #9

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #10

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			

Account #11

Original Creditor:		Amount Owed:	
Debt Collector:		Last Payment Date:	
Address:		Account Number:	
City:	State:	Zip:	
Contact Name:	Phone:	Fax:	
Comments:			



Consumer Recovery Network

"Because Debt Happens."

"Settle Down" Debt Settlement Audio Series

GUARANTEE:

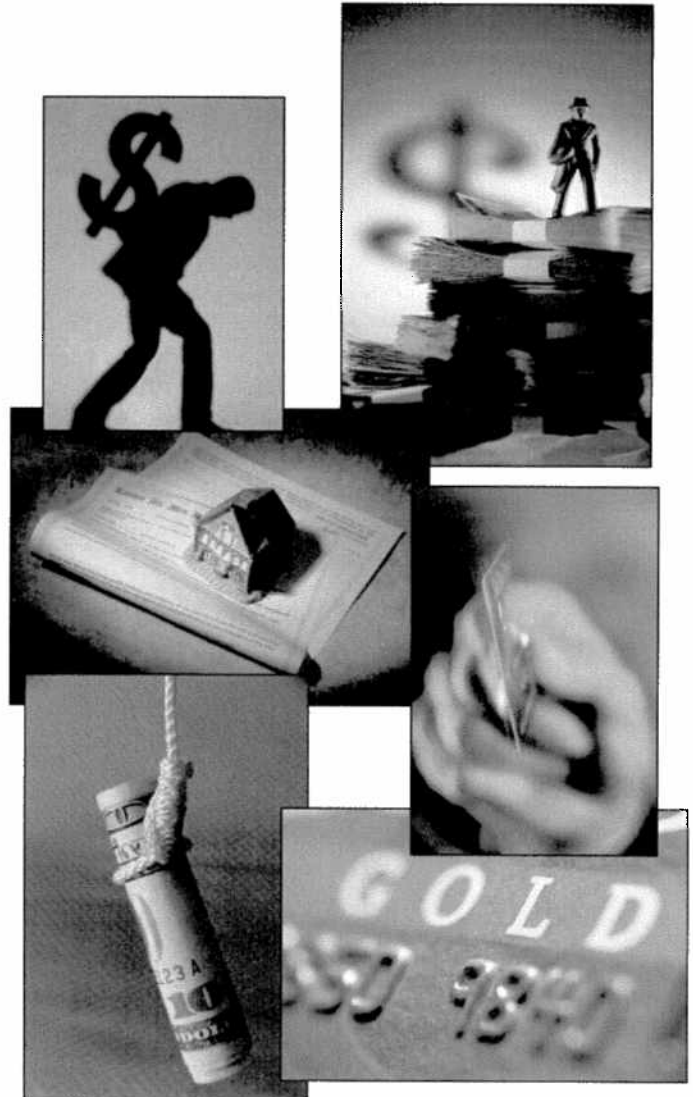
After purchasing CRN's Debt Settlement Audio Series, if you, for any reason, decide that you would prefer CRN to handle your settlements, your total cost for the Debt Settlement Audio Series will be credited towards our "Full Debt Settlement Service". Call us at 1-800-939-8357 to speak with a CRN Specialist today.

Consumer Recovery Network

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There is a solution.
Helpline 1-800-939-8357

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CRN Debt Settlement Audio Series™

Audio CD Track Contents

CD1—New Perspectives on Debt

- Track 1—Introduction**
- Track 2—The Great American Debt Explosion**
- Track 3—The Hidden Cost of Debt**
- Track 4—The 10-20-70 Plan**

CD2—Choosing the Right Debt Program

- Track 5—Know Your Options (Part I)**
- Track 6—Know Your Options (Part II)**
- Track 7—The Debt Settlement Strategy**
- Track 8—How to Choose the Right Debt Solution**

CD3—Debt Settlement Basics

- Track 9—Understanding the Collection Process**
- Track 10—Why DIY Debt Settlement Makes Sense Today**
- Track 11—Why You’ve Been Brainwashed About Credit**
- Track 12—Let’s Get Real about Debt Settlement**

CD4—Before You Get Started

- Track 13—Different Types of Creditors**
- Track 14—Important Strategic Considerations**
- Track 15—Four Things You Must Do**
- Track 16—Common Tactical Questions**

CD5—How to Settle Your Debts (with Original Creditors)

- Track 17—What to Do for the First 90 Days**
- Track 18—Original Creditor Phone Calls**
- Track 19—Your First Settlements**
- Track 20—Documentation & Transactions**

CD6—How to Settle Your Debts (with Third Parties)

- Track 21—Handling Collection Agency Calls**
- Track 22—Understanding Third-Party Tactics**
- Track 23—Dealing with Collection Attorneys**
- Track 24—Settling with Debt Purchasers**

CD7—Completing the Process

- Track 25—Negotiation Tips & Tactics**
- Track 26—What to Do After the Settlement**
- Track 27—Debt Settlement & Income Taxes**
- Track 28—Recovering Good Credit**

CRN Debt Settlement Audio Series™

Workbook Contents

U.S. Bankruptcy Filings, 1998-2007	1
The Impact of Interest Rates	2
The 10-20-70 Plan.....	4
Debt Roll-Up Example	5
Simplified Debt Settlement Example.....	6
Debt Solution Sample Calculations	7
Debt Solution Decision Tree	9
The Three Phases of the Collection Process.....	12
Phelan's Four Credit Questions.....	13
Real-World Debt Settlement Case Histories.....	14
How to Calculate Charge-off.....	22
Important Strategic Considerations.....	23
Four Things You Must Do.....	24
Proactive Callback Script for the First 90 Days.....	25
Proactive Callback Script for Days 91-180.....	26
Alternate Negotiation Scripts.....	27
Sample Settlement Letter	29
Settlement Letter Checklist.....	30
Handling Collection Agency Phone Calls	31
Creditor Harassment and Your Rights.....	32
Sample Validation Letter (Debt Purchasers)	36
Sample Follow-Up Validation Letter (Debt Purchasers)	37
Statute of Limitations by State.....	38
Sample Post-Settlement Letter.....	40
Debt Settlement & Income Taxes	41
How to Calculate Net Worth	42
Resources.....	44

U.S. Bankruptcy Filings, 1998-2007

(Source: American Bankruptcy Institute, www.abiworld.org)

Year	Total Consumer Bankruptcy Filings
1998	1,398,182
1999	1,281,581
2000	1,217,972
2001	1,452,030
2002	1,539,111
2003	1,625,208
2004	1,563,145
2005	2,039,214
2006	597,965
2007	801,840
TOTAL	13,516,248

Additional Facts:

1. Total U.S. Consumer Bankruptcies filed, 1988-1997 = 8.7 million
2. Total U.S. population, current estimate = 301,621,157
3. Total number of U.S. households, 2006 data = 126,311,823

Conclusions:

1. Consumer bankruptcy filings were up 50% in the ten-year period ended 2007 versus the ten-year period ended 1997.
2. In the past ten years more than one out of every 22 Americans has filed bankruptcy.
3. In the past ten years roughly one out of every nine households has experienced a bankruptcy.

**The Impact of Interest Rates
(\$50,000 Debt Balance)**

Interest Rate	10%	15%	25%	32%
1% Principal/Month	\$500	\$500	\$500	\$500
Monthly Finance Charge	\$417	\$625	\$1,042	\$1,333
Total Monthly Payment	\$917	\$1,125	\$1,542	\$1,833
Payment Increase over 10% level	N/A	+\$208	+\$625	+\$916
Can Budget Absorb?	N/A	Yes	No	No
Take on New Debt?	N/A	No	Yes	Yes
Pay-Off Time	6 years	6 years	TRAP 20+ years	TRAP 20+ years
Total Cost of Debt	\$17,067	\$23,663	\$320,080	\$389,920
Opportunity Cost (10% return)	\$89,968	\$110,375	\$1,170,946	\$1,391,923

The Impact of Interest Rates (continued)

CONCLUSIONS:

- 1. For a debt balance of \$50,000, every 1% increase in the average interest rate costs about \$500 per year extra interest expense. A jump from 10% rates to 25% rates across the board (common in a default scenario) represents an additional burden of \$7,500 per year interest expenses.**
- 2. High-end default rates of 32% (which may actually understate the problem when monthly late fees are added) cause the monthly payment to DOUBLE over a 10% nominal payment level.**
- 3. Standard pay-off calculators become meaningless when interest rates jump to 25-32%. At this level of interest, the monthly payments increase by 50-100%, placing huge strain on the household budget. This in turn causes a vicious circle where all available resources go toward payments, leaving the budget short for necessary purchases that are made with remaining credit, crowding out any normal benefit of the monthly payment. The result is the 20-Year Debt Trap.**
- 4. The opportunity cost is significant even at nominal rates of interest at 10-15%, but for consumers caught in the 20-Year Debt Trap, the cost is astronomical, exceeding one million dollars on a \$50,000 debt balance.**

The 10-20-70 Plan

Gross Income Method

10% Wealth Building		Food	
Long Term Savings			
		Auto Insurance	
20% Revolving Debt		Gas & Oil	
Car Payment or Lease		Auto Maintenance	
Student Loans			
Dept. Store Cards		Medical	
Credit Card Payments		Dental	
Other Debt Payments		Health Insurance	
Savings for Vacations		Life Insurance	
<i>Total Revolving Debt</i>		Other Insurance	
70% Living Expenses		Clothing	
Federal Income Tax		Cable TV	
Social Security Tax		Internet Accounts	
State Income Tax		Gym Membership	
Other Taxes		Sports & Hobbies	
		Subscriptions	
Mortgage or Rent		Vacations & Travel	
Home Insurance		Dining Out	
Property Taxes		Haircuts & Beauty	
Home Maintenance		School Lunches	
		Child Allowances	
Gas & Electric		Day Care	
Water		Pet Food & Supplies	
Telephone		Charitable Gifts	
Cellular Phone		Other	
Other		<i>Total Living Expenses</i>	

Debt Rollup Example

Month No.	Debt #1 Payment	Debt #1 Balance	Debt #2 Payment	Debt #2 Balance	Debt #3 Payment	Debt #3 Balance	Debt #4 Payment	Debt #4 Balance	Debt #5 Payment	Debt #5 Balance	Debt #6 Payment	Debt #6 Balance
APR		15%		18%		20%		12%		14%		18%
Start	Min. \$25	\$1,000	Min. \$50	\$2,000	Min. \$75	\$3,000	Min. \$100	\$4,000	Min. \$125	\$5,000	Min. \$150	\$6,000
1	\$130		\$50		\$75		\$100		\$125		\$150	
2	\$130		\$50		\$75		\$100		\$125		\$150	
3	\$130		\$50		\$75		\$100		\$125		\$150	
4	\$130		\$50		\$75		\$100		\$125		\$150	
5	\$130		\$50		\$75		\$100		\$125		\$150	
6	\$130		\$50		\$75		\$100		\$125		\$150	
7	\$130		\$50		\$75		\$100		\$125		\$150	
8	\$130		\$50		\$75		\$100		\$125		\$150	
9	\$130	ZERO	\$50	\$1,827	\$75		\$100		\$125		\$150	
10			\$180		\$75		\$100		\$125		\$150	
11			\$180		\$75		\$100		\$125		\$150	
12			\$180		\$75		\$100		\$125		\$150	
13			\$180		\$75		\$100		\$125		\$150	
14			\$180		\$75		\$100		\$125		\$150	
15			\$180		\$75		\$100		\$125		\$150	
16			\$180		\$75		\$100		\$125		\$150	
17			\$180		\$75		\$100		\$125		\$150	
18			\$180		\$75		\$100		\$125		\$150	
19			\$180		\$75		\$100		\$125		\$150	
20			\$180		\$75		\$100		\$125		\$150	
21			\$180	ZERO	\$75	\$2,517	\$100		\$125		\$150	
22					\$255		\$100		\$125		\$150	
23					\$255		\$100		\$125		\$150	
24					\$255		\$100		\$125		\$150	
25					\$255		\$100		\$125		\$150	
26					\$255		\$100		\$125		\$150	
27					\$255		\$100		\$125		\$150	
28					\$255		\$100		\$125		\$150	
29					\$255		\$100		\$125		\$150	
30					\$255		\$100		\$125		\$150	
31					\$255		\$100		\$125		\$150	
32					\$255	ZERO	\$100	\$2,466	\$125		\$150	
33							\$355		\$125		\$150	
34							\$355		\$125		\$150	
35							\$355		\$125		\$150	
36							\$355		\$125		\$150	
37							\$355		\$125		\$150	
38							\$355		\$125		\$150	
39							\$355		\$125		\$150	
40							\$355		\$125		\$150	
41							\$355	ZERO	\$125	\$2,923	\$150	
42									\$480		\$150	
43									\$480		\$150	
44									\$480		\$150	
45									\$480		\$150	
46									\$480		\$150	
47									\$480		\$150	
48									\$480	ZERO	\$150	\$3,741
49											\$630	
50											\$630	
51											\$630	
52											\$630	
53											\$630	
54											\$630	ZERO

DEBT ROLL-UP STRATEGY EXAMPLE:

1. \$21,000 debt on six accounts; \$525 minimum monthly payments.
2. Must be able to consistently pay at least 20% above total standard minimum payments (\$525 + 20% = \$630).
3. Extra payment is called "accelerator margin."
4. Start with smallest debt first; keep minimums in place on all others, and apply full accelerator margin to first debt.
5. When first debt is paid off, roll up accelerator margin into payments on second debt.
6. Repeat until all accounts paid in full.

TOTAL PAYOUT = \$34,020 (54 months x \$630)

Simplified Debt Settlement Example

Month	Set-Aside	Debt #1	Debt #2	Debt #3	Debt #4	Debt #5	Debt #6	Total Debt	Settlements @ 50%
Start		\$16,000	\$6,000	\$4,000	\$8,000	\$6,000	\$10,000	\$50,000	
1	\$1,250	\$16,000	\$6,000	\$4,000	\$8,000	\$6,000	\$10,000	\$50,000	
2	\$2,500	\$16,000	\$6,000	\$4,000	\$8,000	\$6,000	\$10,000	\$50,000	
3	\$3,750	\$16,000	\$6,000	\$4,000	\$8,000	\$6,000	\$10,000	\$50,000	
4	\$5,000	\$16,000	\$6,000	\$4,000	\$8,000	\$6,000	\$10,000	\$50,000	
5	\$6,250	\$16,000	\$6,000	\$4,000	\$8,000	\$6,000	\$10,000	\$50,000	
6	\$7,500	\$16,000	\$6,000	\$0	\$8,000	\$6,000	\$0	\$36,000	Settle #3 (\$2,000) Settle #6 (\$5,000)
7	\$1,750	\$16,000	\$6,000	\$0	\$8,000	\$6,000	\$0	\$36,000	
8	\$3,000	\$16,000	\$6,000	\$0	\$8,000	\$6,000	\$0	\$30,000	Settle #5 (\$3,000)
9	\$1,250	\$16,000	\$6,000	\$0	\$8,000	\$0	\$0	\$30,000	
10	\$2,500	\$16,000	\$6,000	\$0	\$8,000	\$0	\$0	\$30,000	
11	\$3,750	\$16,000	\$6,000	\$0	\$8,000	\$0	\$0	\$30,000	
12	\$5,000	\$16,000	\$6,000	\$0	\$8,000	\$0	\$0	\$30,000	
13	\$6,250	\$16,000	\$6,000	\$0	\$8,000	\$0	\$0	\$30,000	
14	\$7,500	\$16,000	\$6,000	\$0	\$8,000	\$0	\$0	\$30,000	
15	\$8,750	\$0	\$6,000	\$0	\$8,000	\$0	\$0	\$14,000	Settle #1 (\$8,000)
16	\$2,000	\$0	\$6,000	\$0	\$8,000	\$0	\$0	\$14,000	
17	\$3,250	\$0	\$6,000	\$0	\$8,000	\$0	\$0	\$14,000	
18	\$4,500	\$0	\$6,000	\$0	\$0	\$0	\$0	\$6,000	Settle #4 (\$4,000)
19	\$1,750	\$0	\$6,000	\$0	\$0	\$0	\$0	\$6,000	
20	\$3,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	Settle #2 (\$3,000)

Note: This example is purposely over-simplified in order to show the basic concept of the power of settlement to rapidly reduce total debt owed. The above figures do not take into account the growth of the individual balances that will occur prior to settlement.

Debt Solution Sample Calculations

1. **Debt Roll-Up**—20% over regular minimum monthly payments, or \$50 extra monthly payment per \$10,000 of unsecured debt.

Example (\$50,000 debt):

- (a) Current minimum monthly payments are \$1,250
- (b) 20% times \$1,250 = \$250
- (c) \$1,250 plus \$250 = \$1,500 total monthly payments required for Debt Roll-Up

2. **Debt Consolidation (unsecured)**—25% reduction in overall interest rate on debts totaling \$20,000 or less.

Example:

- (a) Three debts totaling \$20,000—\$6,000 @ 18%; 7,000 @ 20%; and \$7,000 @ 22%
- (b) Calculate average rate on existing debts:

$$\begin{array}{r} \$6,000 \times .18 = \$1,080 \\ \$7,000 \times .20 = \$1,400 \\ \$7,000 \times .22 = \underline{\$1,540} \\ \qquad \qquad \qquad \$4,020 \end{array}$$

$$\$4,020 \text{ divided by } \$20,000 = .201 = 20.1\%$$

- (c) New consolidation loan is for \$20,000 at 14%
- (d) The interest rate reduction of 6.1% is more than one-fourth (25%) of the original average rate of 20.1%

Debt Solution Sample Calculations, continued

2. Debt Consolidation (secured by equity)—25% reduction in overall interest rate on debt where available equity exceeds debt to be paid off.

Example:

- (a) House worth \$200,000; mortgage balance at \$140,000**
- (b) Multiply \$200,000 by 80% = \$160,000**
- (c) \$160,000 less \$140,000 = \$20,000 available equity**

3. Credit Counseling—2.0% to 2.5% of debt balance as monthly payment minimum; short term duration, 6-12 months.

Example:

\$50,000 debt times 2.0% to 2.5% = \$1,000 to \$1,250 per month

4. Debt Settlement—Ability to raise approximately 50% of starting debt balances over a 12-18 month period through a combination of monthly savings, plus lump sum resources.

Example:

\$50,000 debt times 50% = \$25,000 needed within 12-18 months

5. Bankruptcy—Cannot meet any of the above requirements.

Debt Solution Decision Tree

Caution! This summary is intended only as an approximate guide. Everyone's circumstances are unique, and you must take into account all the important factors that apply to your situation before choosing a debt solution.

1. Do you have home equity available?

If YES, go to Question 2.

If NO, skip Questions 2 & 3 and go to Question 4.

2. Is the available home equity larger than the amount of unsecured debt that you are trying to eliminate?

If YES, then your suggested debt solution would be Debt Consolidation, secured via your home equity, provided that the equity loan's interest rate is at least 25% less than your current average interest rate.

If NO, then go to Question 3.

3. Is your available home equity greater than 50% of the unsecured debt that you are trying to eliminate?

If YES, then your suggested debt solution would be Debt Settlement combined with Debt Consolidation, OR the Debt Settlement strategy alone.

If NO, then go to Question 4.

4. Is your debt \$20,000 or less?

If YES, then go to Question 5.

If NO, then skip Question 5 and go to Question 6.

Debt Solution Decision Tree, continued

5. Can you obtain a single unsecured loan equal to your total debt, and is the interest rate on that loan at least 25% less than your current average interest rate?

If YES, then your suggest debt solution would be Debt Consolidation via an unsecured loan.

If NO, then go to Question 6.

6. Can you consistently pay 20% or more above your normal monthly minimum payments?

If YES, then your suggested solution would be the Debt Roll-Up strategy.

If NO, then go to Question 7.

7. Is your cash flow problem a short-term one (6-12 months)?

(In other words, do you have good reason to believe that you will have significantly higher income or significantly lower expenses within 6-12 months?)

If YES, go to Question 8.

If NO (meaning you expect the problem to be long term), then skip Question 8 and go to Question 9.

8. Can you consistently make payments equal to AT LEAST 2.0-2.5% per month of the unsecured balances owed?

If YES, then your suggested debt solution would be Credit Counseling (through an NFCC approved agency).

If NO, then go to Question 9.

Debt Solution Decision Tree, continued

9. Can you raise 50% of the starting balances in a 12-18 month period?

Note: Typical sources of settlement funds are monthly savings, plus supplemental funds from home equity, retirement accounts (IRA, 401k, etc.), insurance policies or annuities, sale of unneeded vehicles or household items, and private assistance from friends and family.

Example: You owe \$50,000 of unsecured credit card debt, and minimum payments have recently climbed to \$1,400/month due to interest rate increases. You cannot maintain monthly payments at that level, but can maintain a pace of \$1,000 per month savings. This will yield \$12,000 over 12 months. You also can take a hardship loan of \$13,000 against a 401k retirement account, which gives you a total of \$25,000 settlement funding within a 12-month period. So the answer to Question 9 would be "Yes" in this example.

If YES, then your suggested debt solution is the Debt Settlement strategy.

If NO, then you should consult with an attorney, as Bankruptcy may be your best debt solution.

The Three Phases of the Collection Process

Phase I – 180 days from the first missed due-date. Original creditor typically handles collections internally. Some creditors utilize third-party collection agencies from 90 days late through charge-off, but in-house Phase I collections are more common.

Phase II – Account has reached charge-off status. Original creditor still retains ownership, and now attempts to recover via third-party collection agencies or attorneys. Phase II may be bypassed entirely by some creditors, but 6-12 months' duration after charge-off is more common.

Phase III – Original creditor has sold account to a debt purchaser. Purchaser attempts to collect, usually via third-party collection agencies or attorneys. Phase III may begin immediately after charge-off if the original creditor decides to sell the account quickly, but more commonly begins during the second year of the process.

Phelan's Four Credit Questions

- 1. Would I still be carrying this much debt if I had not had good credit?**
- 2. What purchases will I need good credit for during the next 2-3 years?**
- 3. How much is my good credit worth in dollars?**
- 4. Three years from now, which would make me happier, a 700 FICO score or being debt-free?**

Real-World Debt Settlement Case Histories

The following are case histories of actual clients of this program. The examples have been chosen to show the flexibility of debt settlement for people in a variety of financial hardship situations. The names have been changed to protect the clients' privacy, but all the numbers given are actual documented results.

Note 1: The abbreviation SIF is used in the charts below. It stands for "settlement in full," which is the term used by many creditors to designate settlements as discussed in this course. Collectors often refer to settlement letters as "SIF letters," and so on.

Note 2: The bank names for the case histories below are not shown. The company names are omitted because settlement percentages frequently vary over time. A settlement result obtained by one client may or may not be available to a different client, simply because the creditor's policies have changed over time.

CASE HISTORY #1 – Bob & Evelyn Stevens

Bob and Evelyn Stevens are residents of Colorado. Their financial hardship was due to a career change that caused an initial steep downturn in income, along with medical issues that interfered with their ability to work a full schedule. They were forced to downsize their home, and had been struggling to keep up payments on more than \$50,000 of credit card debt. Bob & Evelyn had reached a point where continuing with monthly payments was simply not an option for them. And they preferred to avoid bankruptcy because it might interfere with some of the relationships they were developing for their business venture.

Funds for settlement came from monthly savings, plus a retirement account they tapped into when the settlements developed. They did not have enough money in the retirement account to pay off the debts in full, and felt like they could not expend their last bit of savings and still be left with debts to pay on a monthly basis. So they reviewed the course material and decided that debt settlement provided the best solution for their situation.

Within seven short months from starting this process, the Stevens were completely out of debt, having settled all 7 of their credit card accounts during Phase I of the collection process. By settling directly with their creditors prior to charge-off, they were able to settle for less than \$20,000 on a balance exceeding \$50,000.

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #1 – Bob & Evelyn Stevens, continued

RESULTS:

Starting debt level: \$51,278
 Number of unsecured accounts: 7
 Total settled balances: \$59,135
 Final settlement amounts: \$19,187
 Highest settlement: 44%
 Lowest settlement: 18%
 Average settlement: 32%
 Total program duration: 7 months

Below is a breakdown of the results for Bob & Evelyn Stevens by individual account:

<u>Accounts</u>	<u>Balance</u>	<u>Final Bal.</u>	<u>Inflation</u>	<u>SIF</u>	<u>SIF%</u>	<u>Settled with</u>
Card 1	\$9,378	\$10,200	\$822	\$4,500	44%	Coll. Agency
Card 2	\$7,448	\$8,554	\$1,106	\$3,764	44%	Orig. Creditor
Card 3	\$10,109	\$11,133	\$1,024	\$3,000	27%	Orig. Creditor
Card 4	\$10,586	\$12,461	\$1,875	\$3,000	24%	Orig. Creditor
Card 5	\$4,892	\$5,871	\$979	\$2,055	35%	Orig. Creditor
Card 6	\$4,532	\$5,338	\$806	\$1,868	35%	Orig. Creditor
Card 7	\$4,333	\$5,578	\$1,245	\$1,000	18%	Orig. Creditor
TOTALS	\$51,278	\$59,135	\$7,857	\$19,187	32%	

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #2 – Bill & Susan Jackson

Bill & Susan Jackson reside in Massachusetts. Here is their story in their own words:

“Here is what led us to the point of settlement: My wife and I were suffering from the classic case of a start up business going bad. We tried to make things work, but were not successful in doing so. This lesson learned left us with a huge debt problem. We so desperately wanted to make things work. We went weeks without pay. We ate through all of our savings. We then turned to our credit cards to survive. After all we had outstanding credit. It would be just what we needed to get back on track until we could get things going again. Then it did not get any better. We were still not taking in the pay we needed to survive, let alone making payments on the huge debt we had compiled on our credit cards. I started to do research on filing bankruptcy. In doing so I also decided to look for other alternatives. This is when I discovered your site. I ordered your CD kit, and listened to the entire course. It all made total sense. We followed your model, and one year later we had settled on all six of our cards. The 6 accounts totaled more than \$83,000 in debt to start.”

“Thanks again for all your help and support during all this. Without your model and guidance we would have headed into a Chapter 13 bankruptcy instead of a settlement, we would have been on the hook for rigid payments for 60 months (5 years). I don't know what that monthly payment would have looked like, but most likely it would have been in the range of \$1,000/month -- relief from the \$2,000/month payments we were struggling with, but still a payback of the debt at around 100%, with nothing to show for that other than a BK on the ‘public records’ section of my credit report!”

Within one year from starting this process, the Jacksons were completely out of debt, having settled all 6 of their credit card accounts during Phase I and Phase II of the collection process. By settling on their own instead of hiring a settlement company, they saved more than \$60,000 off their debt balances, plus another \$12,000 in unnecessary settlement company fees. Also, it's important to note that 5 out of 6 settlements were below 50%, while one account had to be settled at 82%.

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #2 – Bill & Susan Jackson, continued

That single account had been placed with a local collection attorney, and it was necessary to accept a high percentage settlement to avoid a legal judgment. This is a key point, because even with one of the accounts escalating to legal status, they still settled for an overall average of 40%, and also they still came out miles ahead of where they would have been had they decided instead to file Chapter 13 bankruptcy.

RESULTS:

- Starting debt level: \$83,026
- Number of unsecured accounts: 6
- Total settled balances: \$99,352
- Final settlement amounts: \$39,664
- Highest settlement: 82%
- Lowest settlement: 28%
- Average settlement: 40%
- Total program duration: 12 months

Below is a breakdown of the results for Bill & Susan Jackson by individual account:

<u>Accounts</u>	<u>Balance</u>	<u>Mins</u>	<u>Final Bal.</u>	<u>Inflation</u>	<u>SIF</u>	<u>SIF%</u>	<u>Settled with</u>
Card 1	\$17,937	\$592	\$20,855	\$2,918	\$6,300	30%	Orig. creditor
Card 2	\$17,786	\$293	\$20,548	\$2,762	\$6,153	30%	Orig. creditor
Card 3	\$14,415	\$356	\$17,459	\$3,045	\$6,111	35%	Orig. creditor
Card 4	\$13,997	\$414	\$17,166	\$3,169	\$14,000	82%	Coll. Attorney
Card 5	\$13,089	\$258	\$16,008	\$2,919	\$4,500	28%	Orig. creditor
Card 6	\$5,802	\$113	\$7,316	\$1,514	\$2,600	36%	Orig. creditor
TOTALS	\$83,026	\$2,025	\$99,352	\$16,327	\$39,664	40%	

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #3 – David Burns

David Burns resides in Michigan. Like a lot of young Americans, David had been struggling financially to pay the bills every month. A hard worker, he still came up short every month, and over a period of years he and his wife had accumulated \$48,000 of credit card debt by the time they decided to take action. They signed up for a credit counseling program, and the counseling agency enrolled them into a debt management plan. They made a single monthly payment to the credit counseling agency, and the agency then disbursed the funds to the creditors. Or at least, that's how a debt management plan through a non-profit agency is supposed to work. In reality, what happened is that the agency made the payments late, and missed the billing cycle on several of the accounts. David began receiving calls from third-party collection agencies, when he thought he had been doing the right thing by enrolling in the debt management plan. When he tried to sort it out, the agency was not able to get the accounts pulled back from collections, so effectively those accounts were no longer in the program.

Stunned by this unexpected development, and feeling tremendous pressure from the collection phone calls, David and his wife checked into bankruptcy. However, because of the new rules adopted in 2005, they could not qualify for Chapter 7 bankruptcy since their income was slightly above the median for Michigan. That meant they could not discharge the debts fully but would instead have to enter a 5-year Chapter 13 reorganization bankruptcy. Fortunately, David found this training course and decided on debt settlement instead.

In less than one year from leaving the credit counseling agency's failed debt management plan, David and his wife were completely out of debt, having settled all 7 of their credit card accounts. What makes David's case interesting is that he settled debts during all three Phases of the collection process. Only 3 of the 7 accounts were settled directly with the original creditor. Two more of the accounts were settled through collection agencies working on behalf of the original creditor, and the last two were settled through debt purchasing companies.

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #3 – David Burns, continued

David saved more than \$32,000 off his debt balances, plus another \$7,000 in settlement company fees. All 7 settlements were negotiated at or below 50% (except one that came in slightly above at 51%). The average settlement rate was 39%. David funded these settlements using a combination of monthly savings (roughly \$1,000/month from the payments he had been making to the credit counseling agency that failed to pay his creditors on-time) plus a loan against a 401(k) plan through his employer. The whole process was completed in 10 months.

RESULTS:

Starting debt level: \$48,389

Number of unsecured accounts: 7

Total settled balances: \$52,257

Final settlement amounts: \$20,377

Highest settlement: 51%

Lowest settlement: 24%

Average settlement: 39%

Total program duration: 10 months

Below is a breakdown of David's results by account:

<u>Accounts</u>	<u>Balance</u>	<u>Final Bal.</u>	<u>Inflation</u>	<u>SIF</u>	<u>SIF%</u>	<u>Settled with</u>
Card 1	\$7,348	\$8,364	\$1,016	\$2,000	24%	Original Creditor
Card 2	\$17,306	\$17,700	\$394	\$6,000	34%	Original Creditor
Card 3	\$8,278	\$8,500	\$222	\$4,335	51%	Coll. Agency
Card 4	\$6,051	\$7,413	\$1,362	\$3,710	50%	Debt Purchaser
Card 5	\$4,938	\$5,403	\$465	\$2,431	45%	Coll. Agency
Card 6	\$896	\$1,010	\$114	\$354	35%	Original Creditor
Card 7	\$3,572	\$3,867	\$295	\$1,547	40%	Debt Purchaser
TOTALS	\$48,389	\$52,257	\$3,868	\$20,377	39%	

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #4 – Tim Smith

Tim Smith resides in Ohio. A self-employed individual in his 60s, Tim was responsible for caring for his elderly parents and he was having a difficult time maintaining his income while simultaneously looking after his parents. Over a period of years, Tim had built up a debt load of nearly \$70,000. He did not want to file bankruptcy even though he clearly qualified for Chapter 7, mainly because a formal bankruptcy would involve his parents' home, where he lived and cared for them. Because he was on the title to the property, it would have been necessary to sell the home if he were to go bankrupt under the Ohio rules for Chapter 7. So he looked into debt settlement, liked the approach, but preferred to handle it himself and avoid the steep fees charged by settlement companies.

Tim's source for settlement funds was savings from monthly cash flow, plus a gift of \$10,000 his parents had given him several years earlier, which he had set aside for emergencies. He also had a zero-balance credit card account that he later borrowed against to fund some of the settlements.

Tim was able to settle 5 of his 6 debt accounts pretty quickly, all within the first 12 months of the program. However, what makes Tim's case interesting is his persistence. One stubborn creditor kept rotating the account between various collection agencies every 3-6 months, and they would not entertain any settlement offers below 55% for a long time. Tim simply didn't have the funds to settle for that figure, so he just waited. At one stage, the account had even been placed with a collection attorney in his state. He didn't cave in to their threats, and eventually the account rotated to a different agency. Finally, in month #21, he settled his final account at 30%!

Tim saved approximately \$50,000 off his debt balances, plus another \$10,500 in settlement company fees. All 6 accounts were settled below 50%. The overall settlement rate average was 35%. Also, Tim reports that his FICO score had reached 672 within 10 months of finishing out the final settlement, with no effort on his part to accelerate the credit restoration process.

Real-World Debt Settlement Case Histories, continued

CASE HISTORY #4 – Tim Smith, continued

RESULTS:

Starting debt level: \$69,354
 Number of unsecured accounts: 6
 Total settled balances: \$76,569
 Final settlement amounts: \$26,834
 Highest settlement: 45%
 Lowest settlement: 30%
 Average settlement: 35%
 Total program duration: 21 months

Below is a breakdown of Tim’s results by individual account:

<u>Accounts</u>	<u>Balance</u>	<u>Final Bal.</u>	<u>Inflation</u>	<u>SIF</u>	<u>SIF%</u>	<u>Settled with</u>
Card 1	\$22,695	\$23,073	\$378	\$8,100	35%	Orig. Creditor
Card 2	\$10,096	\$11,969	\$1,873	\$3,591	30%	Coll. Agency
Card 3	\$15,154	\$15,778	\$624	\$5,000	32%	Orig. Creditor
Card 4	\$14,814	\$17,648	\$2,834	\$7,059	40%	Orig. Creditor
Card 5	\$1,957	\$2,484	\$527	\$1,118	45%	Orig. Creditor
Card 6	\$4,638	\$5,617	\$979	\$1,966	35%	Orig. Creditor
TOTALS	\$69,354	\$76,569	\$7,215	\$26,834	35%	

How to Calculate Charge-off

1. Most creditors will charge-off an account after 180 days delinquency.
2. Count from the due date of the first missed payment, not the date of the last payment. (You were still on time at that point.)
3. Add 180 days to the first missed due date, and that will be the standard expected date of charge-off.

Example:

Due date falls on 15th of the month. You make regular minimum payments through your payment due August 15th; next payment falls due September 15th. If you miss the September 15th payment, that starts the 180-day clock. Charge-off will be March 15th of the following year.

Important Strategic Considerations

Keeping a Card out of the Program

- 1. All or nothing per creditor**
- 2. Low-balance account preferred**
- 3. Do not choose based on interest rate**
- 4. Creditor may still hike interest rate, lower credit limit, or close the account**
- 5. Expect collection challenge about current accounts**

Balance Transfer & Cash Advances

- 1. The more recent the creation date of the debt via balance transfer or cash advance, the greater the creditor's resistance to settlement.**
- 2. Make at least 3 minimum payments before adding card to program if a recent advance or transfer was taken.**

Small Balance Accounts

- 1. Accounts less than \$200, ok to pay off**
- 2. Accounts between \$200 and \$1,000, make minimum payments only, do not pay off in full until remaining debts settled.**

Four Things You Must Do

- 1. Move your checking and/or savings accounts to a different bank if you are trying to settle an unsecured account held by the same bank.**
- 2. Set up a second checking account to be used only for conducting settlement transactions.**
- 3. Set up fax-receiving capability (refer to Resources section for current recommendation for online fax-receiving services).**
- 4. Set up a call screening system using an interceptor device or a second cell phone (refer to Resources section for current device recommendation).**

Proactive Callback Script for the First 90 Days

Creditor Representative: “How can I help you today?”

YOU: “Yes, I’m calling because I know you’ve been trying to reach me. I know that I’m behind on payments with you. I’m in a financial crisis right now, and can’t keep up with my regular payments. I’m hoping to get things back on track with you soon. I just felt that I owed you a courtesy call to explain my situation.”

CR: “I see that you’ve been a good customer and always paid on time. What’s happened that you suddenly can’t pay?”

YOU: As I said, I’m in a financial crisis right now. (Insert 1-2 sentence explanation of your financial hardship.)

CR: I will note that you called. However, we have some programs that would benefit you. If we can reduce your interest rate to 10% and lower your payment for 6 months, would that help you get back on track?

YOU: Thank you for being willing to help. Unfortunately, my situation is so bad that I can’t make any commitments right now on payment arrangements. But as I said, I’m hoping to turn things around soon and will stay in touch to keep you informed of my progress.

END the call at this point, as politely as possible.

Note 1: The rep may also try to get you into a credit counseling program. Just explain that you’ve already explored that option, and you don’t qualify because you can’t sustain the required payments on that type of program.

Note 2: Pay attention to the fact that there was no mention of settlement or bankruptcy. During the first 90 days (starting from date of first missed payment), there is no point in bringing up settlement unless the creditor raises the issue first.

Proactive Callback Script for Days 91-180

Creditor Representative: “How can I help you today?”

YOU: “Yes, I’m calling because I know you’ve been trying to reach me. I know that I’m behind on payments with you. I’m in a financial crisis right now, and can’t keep up with my regular payments.”

CR: Yes, your account is seriously delinquent. If you can make a payment today of \$300, we can prevent your account from falling further behind and causing further damage to your credit.

YOU: I understand. However, I’m still not in a position to make any payments. If you’ll look in the notes, you’ll see I’ve been in touch regularly to keep you informed. I had hoped to get things back on track by now, but unfortunately my situation is just as bad if not worse. I’m concerned this could end up as a bankruptcy, but I’m trying hard to avoid that. At this point, it looks like the best I’ll be able to do is scrape some money together with help from friends and family and work out a settlement with you.

CR: *Response may be anything from a refusal to settle, to a high percentage quote, to a request that you make an offer. Adapt your answer accordingly.*

YOU: Well, at this point I’m not exactly sure how much I could raise, but I doubt it would be more than X dollars. If I can come up with that much, could we settle the account for that figure?

CR: *Responses will vary from agreement to submit the starting offer, to refusal to submit an offer below a certain percentage.*

Repeat this process every two weeks leading up to the charge-off deadline until you get a settlement at or below 50% that you can commit to with confidence.

Alternate Negotiation Script #1

Note: This script applies to direct settlement offers received from original creditors or collection agencies/attorneys, where offer is for 50% or less of current balance. Basically, you are just calling to take the deal, but you still want to confirm everything.

Creditor Representative: “How can I help you today?”

YOU: “I received a letter from your company offering to settle my account. I’m calling to take advantage of that offer. Can you confirm the exact amount for me please?”

CR: “OK, great. Let’s go ahead and have a look. I see that your account has been pre-approved for a 50% settlement. The amount required is X dollars, and you’ll need to pay that amount by (date) for the settlement to be valid.

YOU: “OK, I’m ready to go ahead. Do you prefer that I mail in payment, or should we handle it by phone?”

CR: “I can handle that for you right now over the phone. I just need you to provide some information first about your checking account.”

The rep will have you read the string of digits at the bottom of your check, and you will be asked to state that you authorize the amount of the transaction for the due date agreed. When you have completed the process, ask the rep for a confirming transaction number for your records, in case you need to refer back to the transaction in the future.

Alternate Negotiation Script #2

Note: This script applies to direct settlement offers received from original creditors or collection agencies/attorneys, where offer is higher than you are prepared to accept.

YOU: “I received a letter from your company offering to settle my account for \$____. I’m calling to discuss that offer.”

CR: “OK, great. Let’s go ahead and get you set up for a payment. Do you have your checkbook handy?”

Alternate Negotiation Script #2, continued

YOU: “I’m sorry. There is no way I can pay \$_____. But since your company is willing to settle the account, I am calling to tell you that I could manage a settlement amount of \$_____.”

CR: “We could not settle that account for that low an amount. But I can go ahead and set you up on a payment arrangement for the full balance.”

YOU: “No, thank you. I have a very serious financial hardship right now, and I’m trying to avoid declaring bankruptcy. There is no way I can do a payment arrangement. What is the lowest settlement amount that you would personally be able to authorize?” *(This is usually going to be the magic 50% that you are looking for. If necessary, ask them to submit the offer to their supervisor or manager to “make an exception” in your case.)*

CR: “The best I can do is to settle the account for half the balance owing. That would be \$_____.”

YOU: “I might be able to come up with that. Can we do it in two payments?” *(It’s usually a good idea to ask for multiple payments. First, you just told the rep you could a lower amount, so if you increase too quickly and easily, they will hold out for more. Second, it never hurts to buy yourself additional time. Even if you have the full amount available in your set-aside fund, an emergency expense might arise.)*

CR: “Yes, but we will need \$_____ right away, with the remaining amount due next month.”

YOU: “I think I can manage that arrangement. But before I can set up the payments with you, I’ll need to receive an official letter from you confirming the exact details of the settlement. A fax copy is fine, although I’d still like a hard copy to be mailed for my permanent records.”

CR: “Yes, we would be happy to prepare such a letter for you. What is your fax number?”

Then you follow up after receiving the fax to set up the payment arrangements with the creditor. Obtain confirming transaction numbers for each individual payment if there are multiple payments on the settlement.

Sample Settlement Letter

*XYZ Bank
123 Main Street
Anytown, USA*

December 15, 2009

Ms. Mary Johnson
456 Center Street
Springfield, USA

Reference: Account Number 5240-6655-1234-0000

Current Balance: \$10,000.00

Dear Ms. Johnson,

This letter confirms that XYZ Bank will accept the sum of \$4,000.00 (40% of the current balance) as settlement for the referenced account.

This amount must be received at XYZ Bank no later than December 31, 2009, or this settlement offer will be null and void.

Please send your payment to the above indicated address, or call one of our representatives at 1-800-123-4567 to arrange payment.

IRS code requires that we issue Form 1099-C should the canceled portion of the debt be \$600 or greater. Please consult your tax adviser for further information.

Sincerely,

Jack Smith
Associate Vice-President

Settlement Letter Checklist

- ✓ **Letter must be on official bank or agency letterhead (fax copy ok).**
- ✓ **Letter must be dated.**
- ✓ **Account number identified correctly.**
- ✓ **Transaction is identified as a “settlement” or “settlement in full.”**
- ✓ **Amount of settlement payment is stated correctly.**
- ✓ **Payment due date(s) stated clearly and correctly.**

Handling Collection Agency Phone Calls

- 1. Keep the call as short as possible.**
- 2. Never provide a collector with information about you they don't already have.**
- 3. Stick to your mantra.**

“I'm in a financial crisis and can't make payments. My intention is to avoid bankruptcy by working out a settlement when I get some money together.”

- 4. Do not let them get under your skin; keep your cool.**
- 5. Never respond to a legal threat made over the telephone.**

If you get third-party collection calls at work, say the following in a firm and clear voice:

“I am not allowed to receive personal phone calls at work. Do not call me here again, or I will file a formal complaint with the Attorney General and the Federal Trade Commission.” Then hang up.

Creditor Harassment and Your Rights

Important Note: The following information is from the Federal Trade Commission's online publication, "Fair Debt Collection." The full text of the Fair Debt Collection Practices Act is also available at www.ftc.gov. We strongly recommend that you read through this material several times to familiarize yourself with your rights under federal law. In our experience, debt collectors frequently disobey the rules listed below. If you experience harassment by a creditor, then you should complain in writing to the Federal Trade Commission as well as the Attorney General for your home state. Copy the offending collection agency on the complaint. This will normally end the harassment. Remember, the term "debt collector" does not apply to the original creditor under Federal law. But if you are being harassed by representatives of an original creditor, you should complain formally anyway to the FTC and your Attorney General. More than 20 states have individual laws that DO make the original creditor subject to the same guidelines as debt collectors, and most reputable companies (including the big credit card banks) try to honor the spirit of the federal collection laws.

If you use credit cards, owe money on a personal loan, or are paying on a home mortgage, you are a "debtor." If you fall behind in repaying your creditors, or an error is made on your accounts, you may be contacted by a "debt collector."

You should know that in either situation, the Fair Debt Collection Practices Act requires that debt collectors treat you fairly and prohibits certain methods of debt collection. Of course, the law does not erase any legitimate debt you owe.

The following answers some commonly asked questions about your rights under the Fair Debt Collection Practices Act.

What debts are covered?

Personal, family, and household debts are covered under the Act. This includes money owed for the purchase of an automobile, for medical care, or for charge accounts.

Who is a debt collector?

A debt collector is any person who regularly collects debts owed to others. This includes attorneys who collect debts on a regular basis.

Creditor Harassment and Your Rights, continued

How may a debt collector contact you?

A collector may contact you in person, by mail, telephone, telegram, or fax. However, a debt collector may not contact you at inconvenient times or places, such as before 8 a.m. or after 9 p.m., unless you agree. A debt collector also may not contact you at work if the collector knows that your employer disapproves of such contacts.

Can you stop a debt collector from contacting you?

You can stop a debt collector from contacting you by writing a letter to the collector telling them to stop. Once the collector receives your letter, they may not contact you again except to say there will be no further contact or to notify you that the debt collector or the creditor intends to take some specific action. Please note, however, that sending such a letter to a collector does not make the debt go away if you actually owe it. You could still be sued by the debt collector or your original creditor.

May a debt collector contact anyone else about your debt?

If you have an attorney, the debt collector must contact the attorney, rather than you. If you do not have an attorney, a collector may contact other people, but only to find out where you live, what your phone number is, and where you work. Collectors usually are prohibited from contacting such third parties more than once. In most cases, the collector may not tell anyone other than you and your attorney that you owe money.

What must the debt collector tell you about the debt?

Within five days after you are first contacted, the collector must send you a written notice telling you the amount of money you owe; the name of the creditor to whom you owe the money; and what action to take if you believe you do not owe the money.

May a debt collector continue to contact you if you believe you do not owe money?

A collector may not contact you if, within 30 days after you receive the written notice, you send the collection agency a letter stating you do not owe money. However, a collector can renew collection activities if you are sent proof of the debt, such as a copy of a bill for the amount owed.

Creditor Harassment and Your Rights, continued

What types of debt collection practices are prohibited?

Harassment. Debt collectors may not harass, oppress, or abuse you or any third parties they contact.

For example, debt collectors may not:

- use threats of violence or harm;
- publish a list of consumers who refuse to pay their debts (except to a credit bureau);
- use obscene or profane language; or
- repeatedly use the telephone to annoy someone.

False statements. Debt collectors may not use any false or misleading statements when collecting a debt. For example, debt collectors may not:

- falsely imply that they are attorneys or government representatives;
- falsely imply that you have committed a crime;
- falsely represent that they operate or work for a credit bureau;
- misrepresent the amount of your debt;
- indicate that papers being sent to you are legal forms when they are not; or
- indicate that papers being sent to you are not legal forms when they are.

Debt collectors also may not state that:

- you will be arrested if you do not pay your debt;
- they will seize, garnish, attach, or sell your property or wages, unless the collection agency or creditor intends to do so, and it is legal to do so; or
- actions, such as a lawsuit, will be taken against you, when such action legally may not be taken, or when they do not intend to take such action.

Creditor Harassment and Your Rights, continued

Debt collectors may not:

- give false credit information about you to anyone, including a credit bureau;
- send you anything that looks like an official document from a court or government agency when it is not; or
- use a false name.

Unfair practices. Debt collectors may not engage in unfair practices when they try to collect a debt. For example, collectors may not:

- collect any amount greater than your debt, unless your state law permits such a charge;
- deposit a post-dated check prematurely;
- use deception to make you accept collect calls or pay for telegrams;
- take or threaten to take your property unless this can be done legally; or
- contact you by postcard.

What control do you have over payment of debts?

If you owe more than one debt, any payment you make must be applied to the debt you indicate. A debt collector may not apply a payment to any debt you believe you do not owe.

What can you do if you believe a debt collector violated the law?

You have the right to sue a collector in a state or federal court within one year from the date the law was violated. If you win, you may recover money for the damages you suffered plus an additional amount up to \$1,000. Court costs and attorney's fees also can be recovered. A group of people also may sue a debt collector and recover money for damages up to \$500,000, or one percent of the collector's net worth, whichever is less.

Sample Validation Letter (Debt Purchasers)

[Your Name]
[Your Address]
[Your City, State ZIP]

[Date]

[Collection Firm Name] *
[Address]
[City, State, ZIP]

Reference: [Your Account Number and/or Attorney's File Number]

To Whom It May Concern:

Please provide verification of your claim under the referenced account number.

I hereby request copies of the original account agreement, a record of all transactions on the account from inception, and any other documentation that will support your claim.

Thank you for your consideration.

Sincerely,

[Your Name Printed]

* This letter is for use in response to notices received from collection agencies or attorneys working on behalf of debt purchasers.

Sample Follow-Up Validation Letter (Debt Purchasers)

[Your Name]
[Your Address]
[Your City, State ZIP]

[Date]

[Collection Firm Name]
[Address]
[City, State, ZIP]

Reference: [Your Account Number and/or Attorney's File Number]

To Whom It May Concern:

Thank you for your letter of xx/xx/xx, in reply to my request for verification of the referenced claim. Unfortunately, your response did not include any of the documents I had requested. Therefore, I consider the request for verification to still be open and pending.

Again, I hereby request copies of the original account agreement, a record of all transactions on the account from inception, and any other documentation that will support your claim.

Thank you for your consideration.

Sincerely,

[Your Name Printed]

Statute of Limitations by State

In some states, there is a distinction made between written contracts (such as a signature loan with a 60-month payment schedule) versus a revolving or "open-ended" account. Most credit card accounts fall into the category of "open-ended" accounts, and in many states the statute of limitations is of shorter duration for these types of accounts. (All figures below are in YEARS.)

STATE	Written Contracts	Oral Contracts	Promissory Notes	Open-ended Accounts
Alabama	6	6	6	3
Alaska	6	6	6	6
Arizona	6	3	6	3
Arkansas	5	3	5	3
California	4	2	4	4
Colorado	6	6	6	6
Connecticut	6	3	6	6
Delaware	3	3	6	3
D.C.	3	3	3	3
Florida	5	4	5	4
Georgia	6	4	6	4
Hawaii	6	6	6	6
Idaho	5	4	5	4
Illinois	10	5	10	5
Indiana	6	6	6	6
Iowa	10	5	10	5
Kansas	5	3	5	3
Kentucky	15	5	15	5
Louisiana	10	10	5	3
Maine	6	6	6	6
Maryland	3	3	3	3
Massachusetts	6	6	6	6
Michigan	6	6	6	6
Minnesota	6	6	6	6

Statute of Limitations, continued

STATE	Written Contracts	Oral Contracts	Promissory Notes	Open-ended Accounts
Mississippi	3	3	3	3
Missouri	10	10	10	5
Montana	8	5	8	3
Nebraska	5	4	5	4
Nevada	6	4	6	4
New Hampshire	6	6	6	6
New Jersey	6	6	6	6
New Mexico	6	4	6	4
New York	6	6	6	6
North Carolina	3	3	3	3
North Dakota	6	6	6	6
Ohio	15	6	15	**
Oklahoma	5	3	5	3
Oregon	6	6	6	6
Pennsylvania	4	4	4	4
Rhode Island	10	10	10	10
South Carolina	3	3	3	3
South Dakota	6	6	6	6
Tennessee	6	6	6	6
Texas	4	2	4	4
Utah	6	4	6	4
Vermont	6	6	6	6
Virginia	5	3	5	3
Washington	6	3	6	3
West Virginia	10	5	10	5
Wisconsin	6	6	6	6
Wyoming	10	8	10	8

** Ohio Code is not clear whether SOL for revolving debt is 6 years or 15 years.

Sample Post-Settlement Letter

[Your Name]
[Your Address]
[Your City, State ZIP]

[Date]

[Collection Agency Name] *
[Collection Agency Address]
[City, State, ZIP]

Reference: [Your Account Number and/or Agency's Reference Number]

Dear Sir or Madam:

This letter is to notify you that the referenced account was previously settled with XYZ Bank.

A copy of the settlement letter (*or zero-balance letter*) from XYZ Bank is attached, as well as a copy of the cashier's check used to make payment.

Please cease & desist from any further attempts to collect on this account. I also request that you immediately notify XYZ Bank of their error in forwarding this account to your office.

Thank you for your prompt attention to this matter.

Sincerely,

[Your Name Printed]

* Also send a blind copy to the original creditor's "billing inquiries" address and call them to follow up and obtain a zero-balance letter.

Debt Settlement & Income Taxes

Creditors are required to issue Form 1099-C for any canceled debt of \$600 or greater. For income tax purposes, a debtor must include 1099-C amounts as ordinary income, unless they are entitled to claim the INSOLVENCY exemption.

From IRS Publication 908, page 21:

“Insolvency exclusion. You are insolvent when, and to the extent, your liabilities exceed the fair market value of your assets. Determine your liabilities and the fair market value of your assets immediately before the cancellation of your debt to determine whether or not you are insolvent and the amount by which you are insolvent.”

*“Exclude from your gross income debt canceled when you are insolvent, but only up to the amount by which you are insolvent. However, you **MUST** use the amount excluded to reduce certain tax attributes, as explained later under Reduction of Tax Attributes.”*

RULES:

- 1. Calculate your net worth each time you settle an account.**
- 2. Be sure to File Form 982 if you are claiming the insolvency exclusion.**
- 3. Check with your accountant or tax preparer to see if you must reduce tax attributes with any 1099-C amounts excluded, and complete the appropriate section of Form 982.**
- 4. Retain your net worth calculations as backup documentation should the IRS request proof of insolvency.**

How to Calculate Net Worth

Net Worth = Fair Market Value of Assets – Total Liabilities

Example 1: \$50,000 of credit card debt settled for \$20,000, 1099-C income = \$30,000

ASSETS OWNED	Fair Market Value	DEBTS OWED	Balances
House	\$200,000	Mortgage	\$210,000
Car	\$4,000	Car Loan	\$10,500
Checking	\$1,000	Credit Cards	\$50,000
IRA	\$10,000	Credit Union	\$7,000
Personal	\$2,000	Gas Card	\$500
Set-Aside Fund	\$25,000		
TOTALS	\$242,000		\$278,000

Net Worth = \$242,000 (Assets) - \$278,000 (Liabilities) = (\$36,000)

Tax Result: Based on a net worth of negative \$36,000, all \$30,000 of the canceled debt may be excluded from income.

Example 2: \$100,000 of credit card debt settled for \$40,000, 1099-C income = \$60,000

ASSETS OWNED	Fair Market Value	DEBTS OWED	Balances
House	\$250,000	Mortgage	\$220,000
Car	\$6,000	Car Loan	\$12,000
Checking	\$1,000	Student Loan	\$30,000
IRA	\$40,000	Credit Cards	\$100,000
Personal	\$3,000	Other	\$2,000
Set-Aside Fund	\$30,000		
TOTALS	\$330,000		\$364,000

How to Calculate Net Worth, continued

Example 2, continued

Net Worth = \$330,000 (Assets) - \$364,000 (Liabilities) = (\$34,000)

Tax Result: Of the \$60,000 canceled debt, \$34,000 may be excluded from income based on insolvency to that extent. The difference of \$26,000 must be treated as ordinary income.

Expanded Example 1: Separate Net Worth Calculation per Settlement

\$50,000 of credit card debt settled for \$25,000; 5 accounts settled at different times

	<u>SIF #1</u>	<u>SIF #2</u>	<u>SIF #3</u>	<u>SIF #4</u>	<u>SIF #5</u>
<i>Balance</i>	\$ 7,000	\$ 17,700	\$ 8,500	\$ 11,000	\$ 5,800
<i>SIF \$</i>	\$ 3,000	\$ 7,000	\$ 4,000	\$ 4,000	\$ 2,000
<i>\$ Saved</i>	\$ 4,000	\$ 10,700	\$ 4,500	\$ 7,000	\$ 3,800
<i>Assets</i>					
House	\$200,000	\$200,000	\$200,000	\$200,000	\$200,000
Car	\$ 4,000	\$ 3,900	\$ 3,800	\$ 3,700	\$ 3,600
Checking	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000
IRA	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Personal	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000
Set-Aside	\$ 22,000	\$ 15,000	\$ 11,000	\$ 7,000	\$ 5,000
Total Assets	\$239,000	\$231,900	\$227,800	\$223,700	\$221,600
<i>Liabilities</i>					
Mortgage	\$210,000	\$209,500	\$209,000	\$208,500	\$208,000
Car Loan	\$ 10,500	\$ 10,300	\$ 10,100	\$ 9,900	\$ 9,700
Credit Cards	\$ 50,000	\$ 43,000	\$ 25,300	\$ 16,800	\$ 5,800
Credit Union	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000
Other Bills	\$ 500	\$ 500	\$ 500	\$ 500	\$ 500
Total Liab.	\$278,000	\$270,300	\$251,900	\$242,700	\$231,000
<i>Net Worth</i>	-\$39,000	-\$38,400	-\$24,100	-\$19,000	-\$9,400
<i>1099-C</i>	\$ 4,000	\$ 10,700	\$ 4,500	\$ 7,000	\$ 3,800
<i>Taxable</i>	0	0	0	0	0

RESOURCES

The following are my current recommendations for some of the services and resources mentioned in the audio material.

Credit Reports—www.annualcreditreport.com

This is the official website maintained by Experian, TransUnion, and Equifax, to satisfy the legal requirement of one free credit report per year. Pay the small upgrade cost and obtain all three credit scores.

Call Screening Device—www.calleridboost.com

Look for the Person-to-Person Interceptor, a programmable device that works with your existing caller ID function to trap unwanted calls to voicemail without ringing your phone.

Fax Receiving Service—www.efax.com/free

Only inbound faxes are free. Let the system assign the area code or you will be required to upgrade and pay a monthly fee.

Legal Advice Service—www.legaladviceline.com, 888-367-5252

A nationwide attorney network offering telephone consulting for only \$35 per phone call. Can also assist in preparing legal paperwork for debtor filings.

Consumer Attorneys—www.naca.net

National Association of Consumer Advocates, a network of attorneys with experience in debt collection law, and a growing pattern of success against debt purchasers.

Tax Resolution—www.naea.org

National Association of Enrolled Agents, former IRS employees qualified to represent consumers before the IRS.

RESOURCES, continued

Real Estate Appraisal Online—www.zillow.com

Carries estimated market values based on recent neighborhood sales. Not as reliable as a realtor analysis or formal appraisal, but useful for doing a “sanity check” on your estimate of market value for your home.

Automobile Appraisal Online—www.kbb.com

Kelley Blue Book, use the private party value to assess fair market value of your vehicle.

Secured Credit Cards—www.cardratings.com, www.bankrate.com, or www.cardweb.com

Websites to compare offers from secured credit card grantors.