



## Breaking Down the Big Differences Between Debt Management, Debt Settlement

*Take Charge America explains the financial impact of two popular debt repayment strategies*

**PHOENIX – (Aug. 22, 2018)** – Excessive credit card debt can be overwhelming, and the repayment process is often difficult to navigate. There are numerous routes, each with very different short- and long-term repercussions.

Two of the most popular strategies are debt management and debt settlement. While they sound similar, these programs take different approaches to eliminate debt.

- With a [debt management plan](#), a credit counselor from a nonprofit agency works on the borrower's behalf to obtain more favorable terms with each creditor, such as reduced interest rates and finance charges, and waived late and over-limit fees. Once agreed upon, the borrower makes a single monthly payment to the credit counseling agency. The agency then disburses payments to all creditors, taking the guesswork out of which card or loan should be paid off in what manner.
- [Debt settlement](#) is performed by for-profit companies, which direct clients to halt payments as a tactic to get creditors to accept a lesser amount in a lump-sum payment. Instead, the client sets up a separate savings account where they can deposit money to ultimately settle the debts. Once the lump sum payments are accepted, accounts are considered satisfied.

“With any repayment plan, it’s imperative to conduct research so you understand the fees and risks,” said Michael Sullivan, a personal finance consultant with Take Charge America, [a national non-profit credit counseling agency](#). “Comparing the services side by side will help you identify the right path to financial freedom.”

Sullivan breaks down nine key differences between debt management and debt settlement:

1. **Objective Advice** – Nonprofit credit counseling agencies must abide by strict regulations to ensure they have clients’ best interest at heart. Debt settlement agencies are for-profit entities that don’t necessarily offer objective advice.
2. **Education** – Debt management includes a robust educational component. You’ll leave the program with a better understanding of money management. Debt settlement doesn’t focus on education.
3. **Monthly Payments** – With debt settlement, you’ll redirect all payments for up to 36 months into a separate savings account until your debts are settled. This can negatively impact your credit score, force your debts into collections or even lead to a lawsuit. Further, all the missed or delinquent payments will stay on your credit report for seven years. Debt management takes a different approach – you make one monthly payment toward your debt, based on your budget, which is distributed to your creditors.

4. **Total Repayment** – If it works, debt settlement can clear 50 percent of your debt or more. Depending on your life situation, this benefit might outweigh the negative consequences. However, there is no telling if/when it will work. With debt management, plans are typically paid in five years or less without the negative credit impact.
5. **Interest Rates & Fees** – In debt management, certified credit counselors work with your creditors to secure lower interest rates and fees. With settlement, late fees and other penalties are added onto your balance.
6. **Credit Score** – Debt settlement negatively impacts your score because payments are missed and accounts aren't paid in full. Debt management doesn't impact your score in the same manner because payments are submitted to creditors throughout the program.
7. **Fees** – You'll pay for both programs, but debt management has a smaller impact on your wallet, requiring a nominal monthly fee based on your state of residence. By law, debt settlement companies can't charge upfront fees. But, they will charge a percentage of the amount of enrolled debt, generally 18 to 25 percent.
8. **Collection Calls** – Debt settlement programs typically don't stop pesky collections calls. Debt management programs do.
9. **Tax Charges** – While debt management programs don't incur additional taxes, you may have to pay additional taxes with a debt settlement program. The IRS considers forgiven amounts over \$600 as income, for which you may owe taxes.

Learn more about these debt repayment options:

- [Detailed overview of debt settlement](#)
- [Side-by-side comparison of debt settlement and debt management](#)

**About Take Charge America, Inc.**

Founded in 1987, Take Charge America, Inc. is a nonprofit agency offering financial education and counseling services including credit counseling, debt management, student loan counseling, housing counseling and bankruptcy counseling. It has helped more than 1.6 million consumers nationwide manage their personal finances and debts. To learn more, visit [www.takechargeamerica.org](http://www.takechargeamerica.org) or call (888) 822-9193.

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