lendingtree

Becoming Debt Free

The Complete Guide

You’re in debt and you want to get out. You’re not alone.

8 in 10 Americans carry some form of debt—from credit cards to student loans to car loans to mortgages. Debt is useful, but it’s everywhere.

That debt can also get a little out of hand is no secret, but what is less well known is **you can control** the debt in your life. Even better, you can eliminate it.

That’s what this guide will help you make happen. You’ll find tips, tricks and takeaways on how to reduce, manage and erase your debt—no matter how much you have, or what your credit score is.

You’ll learn which steps to take to best control your debt load and how to start. We’ve all been there, so know this is a judgement-free zone on your financial choices. We’ll just give you what you need to know in plain language.

OK, enough with the introduction.

Let’s tackle some debt.

Guide Contents

Taking Hold of Your Debt

Just because you're in debt now doesn't mean you have to stay that way. You can go from feeling stuck in a neverending debt cycle to being in command of the debt in your life.

Before we talk strategy, you just need a clear understanding of where you are financially, so you get a better idea of where you want to go.

The next few pages are a quick self-assessment. Answering these questions will help you determine your best plan of attack.

A balance transfer credit card may work for Susie and Greg, but that doesn't mean it's your best course of action. Your situation may call for a debt consolidation loan, or working with a debt relief company, or even filing for bankruptcy.

This is where you begin to figure it out.

Start Your 3-Question Self-Assessment →

Completed your assessment already?
Skip ahead to Your Personalized Solution

Do I spend more than I earn each month?

A lot of people don't know the answer to this question. Why? Because there's a big difference between how much you spend each month and how much you pay in bills. **Let's illustrate an example below.**

Getting a handle on how much you truly spend versus how much you earn is paramount to taking control of your debt. To figure out how much you spend each month, start with what you know.

This Month's Spending

$1,500 on regular expenses
+
$1,000 TV on credit card

Next Month's Spending

$1,525 on regular expenses
+ the new credit card minimum

Minimum credit card payments include mostly interest, which is like a new tax on your earnings.

Too much of this can eat into your paycheck.

Spending worksheet next page →

Your Self-Assessment

Spending Budget Worksheet Part A

Your bank and credit card statements are your friend while figuring out your spending. Downloading a budgeting app can also help keep your typical spending under control, and even track how your spending is shaping up based on monthly targets you set, such as with the Mint app.

Step 1 **Income**	Monthly income after tax (include all sources)	$ 0.00
Step 2 **Fixed Expenses** These are recurring expenses that happen every month like clockwork. Don't include credit card or other debt payments here.	Mortgage or rent	$ 0.00
	Auto payment	$ 0.00
	Auto insurance	$ 0.00
	Life insurance	$ 0.00
	Health insurance (only if NOT deducted from paycheck)	$ 0.00
	House or renters insurance	$ 0.00
	Average electric and gas utility bills	$ 0.00
	Cable and internet bills	$ 0.00
	Phone service	$ 0.00
	Phone handset payments	$ 0.00
	All streaming media subscriptions (like Netflix and Spotify)	$ 0.00
	All app subscriptions (like iCloud storage)	$ 0.00
	Other subscriptions (like magazines, food boxes)	$ 0.00
	Memberships (gym, museums, parks, wine clubs)	$ 0.00
	House cleaning service	$ 0.00
	Student loan payments	$ 0.00
	Tuition	$ 0.00
	Child care and other recurring child support costs	$ 0.00
	Regular investment or savings contributions (such as for a retirement account)	$ 0.00
	Other activities (like piano lessons, recurring donations)	$ 0.00
	All other fixed expenses (do NOT include credit card payments, those are included on the next page)	$ 0.00
Income minus fixed expenses If this is **negative or close to zero**, you will need to find a way to lower or cut your fixed expenses, and/or increase your income.		$ 0.00

Your Self-Assessment

Spending Budget Worksheet Part B

Step 3 **Unfixed expenses** These are all the expenses that can change from month to month. These are also the hardest to estimate, but try to find what you have spent or will likely spend in a year and average them out by month.	Groceries (food and consumable home goods like toilet paper. Include pet consumables here too)	$ 0.00
	Eating out (include coffee/donut runs and bars)	$ 0.00
	Clothing	$ 0.00
	Shoes	$ 0.00
	Alcohol (purchased for home)	$ 0.00
	Smoking consumables (cigarettes, vape fluid)	$ 0.00
	Gasoline	$ 0.00
	Auto/motorcycle/bicycle maintenance	$ 0.00
	Airplane travel	$ 0.00
	Travel accommodations (hotel, campsites, vacation rental)	$ 0.00
	Entertainment activities (tours, admission tickets)	$ 0.00
	Taxis or hailing app rides	$ 0.00
	Public transit (bus, rail, subway)	$ 0.00
	Gifts (birthdays and holidays)	$ 0.00
	Electronics (computers, TVs, home automation etc.)	$ 0.00
	Appliances (Toaster, dishwasher, hair dryer, etc.)	$ 0.00
	House cleaner (if not a fixed expense)	$ 0.00
	Haircuts and spa treatments like massages	$ 0.00
	Other daily habits (Vending machines)	$ 0.00
	Gambling, including lottery tickets (don't count winnings)	$ 0.00
	Lawn service (if not a fixed expense)	$ 0.00
	Veterinary costs	$ 0.00
	Medical expenses (co-pays, prescriptions, over the counter medicine/equipment)	$ 0.00
	House maintenance (usually about 1% of home value annually)	$ 0.00
	All other non-fixed expenses (You could guess here, and/or take a look at your bank statement and calculate an average for categories not mentioned here)	$ 0.00
Step 4 **Credit Cards**	Minimum payments of all your credit cards	$ 0.00
Your Disposable Income (Income **minus** all expenses)		$ 0.00

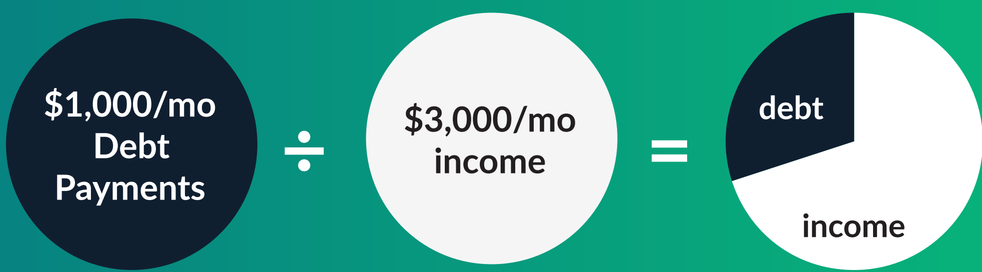
Go on to Question 2 →

How much debt do I have, and is it too much?

This one's a biggie, so we'll address it by looking at two ways to measure debt: **debt burden** and **total debt**. Let's look at them one at a time.

What is Debt Burden?

If you've ever bought a house, you may be familiar with your debt-to-income ratio. It's a number that shows how much of your income is allotted to servicing your debt. As the example below shows, you can calculate it by dividing your monthly debt payments (that show on your credit report) by your monthly pre-tax (gross) income.



30% of income is devoted to debt.

Calculate Your Own Debt Burden

All monthly expenses that show on your credit report (your mortgage, auto loans, minimum payments on credit cards, etc.)	$ 0.00 ÷
Your gross (pre-tax) monthly income	$ 0.00
Debt burden (monthly debt payments ÷ gross monthly income × 100)	%

Continue to learn about total debt →

Your Self-Assessment

Question 2 of 3

Total debt

This takes all of your **unsecured debt** obligations and compares it to your annual income. The percentage will tell you if your overall debt is too high. The example below shows how this works. Total debt that is over 50% is cause for concern, and more than 75% is trouble.

$20,000 credit card balances ÷ **$36,000 Annual Income**

=

This example has a Total Debt of 56%

The Two Kinds of Debt

Secured Debt

This is when you borrow money to buy a real, tangible asset (like a house or car). If you don't repay that debt, the bank or lender can repossess that asset.

Unsecured Debt

This type has no collateral, meaning borrowers don't have to put up or risk losing any of their personal property to borrow the money. Common examples include personal loans, student loans, credit card debt and medical debt. This is the kind that factors into "**total debt**."

Calculate Your Total Debt

Total owed on unsecured debt (such as credit card balances, student loans, and medical bills)	$ 0.00 ÷
Your gross (pre-tax) annual income	$ 0.00
Total debt (all unsecured debt balances ÷ annual income × 100)	%

Figured out Total Debt and Debt Burden? Let's move on to Question 3 →

Your Self-Assessment

Question 3 of 3

What is my credit score?

Your credit score is one of the most important gauges of your overall debt health. Lenders use it to evaluate how risky it might be to lend you money because it's an indicator of your past credit habits and behaviors.

Accessing your credit score is easier than ever. To be sure you know your credit score is the very latest, create a free account with LendingTree and get unlimited access to your credit score, without ever worrying about harming it. An additional benefit is you'll get alerts anytime there's a change on your credit report, insight into the factors that make up your credit score and personalized recommendations on how you can save on your loans.

Once you get your credit score, pay attention to its range so you'll know how easy it will be for you to eliminate your debt. The better your score, the better your chance of eliminating your debt.

What Your Score Means For Your Debt

Great job! With a score like this, you can request a loan with a lower interest rate to pay off your debt.

This is good. There are plenty of strategies available to you for reducing and paying off your debt.

Don't panic. You'll have to put in some extra work, but you still have options for getting out of debt.

Know your credit score? Now let's take a look at your Personalized Solution →

Your Personalized Solution

At this point, you should be thinking about your financial health with an idea of what debt looks like in your life.

Check out this handy summary based on the previous questions. It'll help give you a clearer picture of your overall debt situation and suggest what debt payoff plans might work best for you on the following page.

1 Your Spending Situation

Usable Income (Income after fixed expenses) $0.00

If this is negative or close to zero, you will need to make some serious life changes to reduce costs. See our Expenses Troubleshooter

Disposable Income (Income left over after all expenses) $0.00

If this is negative or near zero, see our Expenses Troubleshooter

2 Your Debt Level

Your Debt Burden (debt payments compared to income) %

Your Total Debt (money owed compared to annual income) %

3 Select Your Current Credit Score

- (●) Greater than 700
- ( ) Between 650 –700
- ( ) Less than 650

Continue to Your Solution →

Build Your Debt Free Plan

So, what plan is right for you? Take your debt summary on the previous page, and apply it to the debt strategy flow on this page to get a clearer picture of your next steps.

Here's where you lean in. Explore the plan that you feel makes the most sense for you. In each section, you'll find checklists, cheat sheets and other material that will help you put what you've learned into practice.

Disclaimer

Finding the perfect debt payoff plan is not an exact science. Discovering your best repayment strategy depends on many factors that might not be perfectly reflected in this guide. We suggest you use this guide and its recommendations as just that—a **guide**—to help you get on the road to a debt-free life.

Debt Elimination Plan One

The Balance Transfer

This plan may be for you if...

- ✓ Your credit score is **above 700**
- ✓ You're **not behind** on any of your payments
- ✓ Your **debt burden** is well **below 50 percent**
- ✓ Your **total debt** is below 50 percent of your annual income

What is it?

As a debt elimination option, balance transfer credit cards allow you to move your high-interest credit card debt onto a new card with better terms, a lower interest rate and, possibly, a zero percent introductory APR.

It sounds weird, right? Using a credit card to pay off your credit cards. But balance transfers can be a great way of consolidating your debt into bite-sized chunks you can manage.

How does it work?

Your lender will either approve the full amount you want to transfer or just part of it. That usually depends on your credit limit and any dollar limits the card issuer has for transfers. For example, if your new card has a $5,000 limit but you want to transfer $7,000, you'll only be able to transfer that $5,000.

Once you're approved, the card company will contact your creditors and pay off the balance of your old card. Your new card will come with a low or zero percent introductory APR.

How you should prepare

1. Make a list of your debt, from the highest interest rate to the lowest. Write down the name of the bank, the amount of the debt and the interest rate.

2. Visit LendingTree's marketplace to shop and compare lenders offering balance transfer credit cards. Those lenders are competing for your business, meaning they're poised to offer you balance transfer cards with the best rates and terms. You get to pick the one that's right for you.

3. Stay current on your payments on your old credit card until the balance transfer is completed.

4. Structure your payments so you devote the most cash to the debts with the highest interest. Continue paying the minimum balances on any other credit cards.

Here's your chance to put pen to paper

List all your credit cards, from the debt carrying the highest interest rates to the ones with the lowest, in that order. For this list, be sure to include: **(1)** Total statement balances, **(2)** Annual percentage rate (APR) and **(3)** Issuing banks/lender. Your most recent billing statements should have all this info.

Now let's say you are approved to get two $4,000 Balance Transfer cards. Check out the scenario below to see how this works as a debt paydown tactic.

Need to Know

Not just for credit cards!
Balance transfers aren't just for credit card debt. Depending on the lender, you may be able to transfer debt from store credit cards, gas cards, student loans and car loans onto a new card. Ask your bank what they offer.

Balance Transfer Example

Your Credit Cards Before Transfer

Bank	Balance	APR
Card 1	$500	29%
Card 2	$2,000	25%
Card 3	$3,000	19%
Card 4	$3,000	15%
Card 5	$2,000	0%
TOTAL	**$10,500**	**17% avg**

Two New Balance Transfer Cards

Transfer Card 1

Credit Limit	2.99% APR
$4,000	for 24 months

Transfer Card 2

Credit Limit	0% APR
$4,000	for 24 months

Results After Transferring High-Interest Balances

Bank	Balance	APR
Old Card 4	$500	15%
Transfer Card 1	$4,000	2.99%
Transfer Card 2	$4,000	0%
Old Card 5	$2,000	0%
TOTAL	**$10,500**	**1.5% avg**

Now you have only $500 generating high interest.

Prioritize higher payments on the 15% and 2.99% cards and watch your debt fall away instead of grow.

Continue on to Balance Transfer Pitfalls and Cheat Sheet →

Balance Transfer Cheat Sheet

Mimic the example on the previous page and apply it to your own credit situation. Follow the instructions and see what kind of savings you can net with a balance transfer credit card.

Making Balance Transfers Work

Don't spend on the balance transfer credit cards.
Remember, your goal is to get out of debt.

Pay on time, each time.
Don't give the credit card companies the chance to charge you late fees. If you're 30 days late, your credit score can take a hit. If you're 60 days late, you'll lose your promotional interest rate and could end up with an interest rate close to 30 percent.

Keep paid off cards open.
When you have a credit card without a balance, you're demonstrating discipline. By only using a fraction of your available credit (utilization) and maintaining a long credit history, your credit score will likely improve!

Need to Know

- When you're approved for a balance transfer, try to complete the transfer as soon as possible. Typically, if you don't complete the transfer within 60 days of approval, you lose the deal.
- The low rates on balance transfer cards expire after a certain amount of time has passed (that time will vary depending on the card you get). That means you'll want to aggressively attack your debt and get it down to zero before the promotional period ends.
- Completing a balance transfer comes with a fee, usually 3 to 5 percent of the balance you plan to move. So, if your balance is $3,000, a 3-percent fee would cost you $90.
- Most balance transfer cards allow you to transfer multiple kinds of debt from your old card to your new one. Different lenders will have different rules for their transfers so make sure you research what kind of debt is eligible for transfer when you apply.

Debt Elimination Plan Two

Personal Loans

This plan may be for you if…

- ✓ You don't want another credit card
- ✓ You want a single, simple contract
- ✓ You aren't approved for a balance transfer
- ✓ Your balance transfer was unable to cover all your debt
- ✓ The debt you want to repay can't be repaid with a balance transfer

What is it?

Personal loans are lump sums of money you get upfront without putting up any collateral to secure the loan, i.e., none of your personal property is on the line.

How does it work?

Applying for a personal loan is fairly simple. A lender will evaluate your credit score (a 650 or above may land you better rates), income and other important documents before approving you for a loan.

Personal loans generally carry shorter loan terms, from two to five years, and the interest rates on personal loans are lower than what you find with credit cards.

Standard vs. Debt Consolidation

Personal loans come in two types: **standard** and **debt consolidation**.

1. A standard personal loan is a lump sum of cash you can use for whatever you want—paying college tuition, buying a new car, remodeling your home, affording a wedding, etc.

2. A debt consolidation loan is a personal loan with a specific purpose. It lets you lump all your debt together and pay it off with a loan you repay over time, typically with a lower interest rate. This is the one you're probably most interested in.

Need to Know

Each lender is unique!
Different personal loan lenders have different requirements. Just because one lender wants to see your tax returns doesn't mean another will. Make sure to research what each lender requires during the application process, so you're not caught off guard.

Personal Loan Cheat Sheet

In a world of complex financial instruments, personal loans are an anomaly: they're simple, easy to understand and pretty easy to get. Visit LendingTree's marketplace to shop and compare lenders offering personal loans. This cheat sheet will help you get personal loan-ready and figure out if your loan is the right funding option for you.

1 Collect Your Paperwork

Most lenders require documentation that you don't have to produce when applying for a credit card. Here's some of what they may ask to see:

Proof of income: This can include your W-2s, bank statements, tax returns or paystubs.

Proof of address: The lender may want to see a utility bill or a copy of your lease.

Proof of identity: Have your Social Security card, driver's license, passport or other government-issued ID handy.

2 Read the Fine Print

Do your homework when you find a loan you like. Find out how your loan handles:

- APR
- Upfront fees
- Prepayment penalties
- Automatic withdrawals
- How payments are reported to credit bureaus
- Flexible payment options

3 Credit Matters

While not as stringent as mortgage or auto lenders, personal loan lenders will use your credit score as a barometer for how much cash they'll lend you.

A good or excellent credit score (above 650) puts you in the position for a better interest rate—and a lower payment. If your credit isn't in the best shape, a lender may still give you a loan if you find someone willing to cosign on the loan with you.

Making Personal Loans Work

Pay on time

Just because your personal loan isn't secured with collateral doesn't mean you won't pay the consequences if you fail to make payments. Defaulting on your loan will drop your credit score. And, if you consistently fail to pay on your loan, lenders can pursue legal action against you, which may include going after your personal assets or garnishing your wages.

Should you get insurance?

Lenders might try to sell you on the idea that you should purchase insurance—that way, your loan is repaid in full just in case you experience an unexpected life change, like losing a job, falling ill or, the worst case scenario, dying.

Insurance is good, but the policies that some lenders offer may not have great value. If you need life insurance, shop for term life insurance that will cover everything you need, including your loan. If you need disability insurance, look for a policy that covers all your needs, not just the loan.

Precomputed Interest and Prepayment Penalties

Because personal loans have a term (you agree to pay them off completely in a certain amount of time), some lenders feel entitled to all of the interest they could collect on you in that term even if you repay early. Precomputed interest or prepayment penalties try to protect that lender profit. This is becoming less common, but check anyway—it's a raw deal.

Need to Know

There's upfront fees

Personal loans do require paying upfront fees. In most cases, the fee is taken out of the loan proceeds, so you should make sure you apply for enough to cover the fee. For example, if you need $5,000 and there is a 4 percent fee, apply for $5,208. That way, you can pay the fee ($208) and still get your $5,000.

Credit checks

Most lenders perform a "soft pull' on your credit file to let you know if you're approved, how much you can borrow and the interest rate and fees associated with that approval. This won't dramatically impact your credit score. Once you formally apply for the loan, it does temporarily ding your credit score by about 10 to 20 points on average.

Low APRs are gold

When you're shopping for personal loans, be sure to compare APRs and go with the lowest. The APR will include the interest rate and upfront fee.

3 Strategies for More Serious Debt Challenges

If you've ended up here, it means two things.

One, your credit score is below 650.

Two, you want to fix it.

You came to the right place. This next section takes a deep dive into three ways you can lose your debt, even if your credit's not where you want it to be right now.

First, we'll talk strategies for building your credit score so you can reduce your debt. If you feel like you'll need extra credit help, we've got you covered with sections on debt negotiation and bankruptcy.

Take a look at these three summaries and decide your next move. Feel free to skip ahead to the section you think is most helpful.

1 Building Your Credit, Crushing Your Debt

Learn how to quickly build your credit score so you can unlock tools to demolish your debt.

Go Here →

2 The Art of Negotiation

You can talk your way out of high-interest debt. Get tips on how to negotiate with your creditors so your debt becomes more manageable and easier to defeat.

Go Here →

3 Bankruptcy: A New Beginning

Bankruptcy. We know, it's not an option anyone wants to consider. But, if the situation calls for it, bankruptcy can give borrowers the chance to reorganize, refresh and reset. Learn more about it here and dispell the myths.

Go Here →

Debt Elimination Plan Three

Building Your Credit, Crushing Your Debt

This plan may be for you if…

- ✓ Your credit score is **lower than 650**
- ✓ You want to improve your credit, so you can wipe away your debt
- ✓ Your **debt burden** is **below 50 percent** and your **total debt** is **below 50 percent** of your annual income

You read about it earlier, but may be wondering now: **what does credit have to do with debt?** A lot. Generally, one always affects the other. This section will show you how your credit influences your debt and guide you to strategies that can help you keep a watchful eye on the most important indicator of your credit health: your credit score.

Why is a good credit score so important?

Your credit score determines the interest rate you get on loans. The better your score, the lower the interest rate. And reducing your interest rate is key to eliminating your debt (and preventing you from ever getting trapped again).

Once your credit improves, you can transfer your debt and work to extinguish it with the helpful tips from our Balance Transfer and Personal Loan chapters.

How can I improve my credit score?

Quite a few ways. Let's take a look.

Be consistent

Use your credit card every month, even for normal purchases you have cash for, but make sure to pay these purchases off **entirely** every month. It's easiest to do this on a card you pay off in its entirety every month so these purchases don't generate any interest. As you're repaying your other balances, focus on paying down the high-interest balances first while maintaining minimum payments on your other accounts. This is often called the "**Avalanche Method**." Once you've paid off the high-interest debt, you can aggressively attack the debt with lower interest.

Lower your utilization

Keep your **utilization** below 20 percent. That means never charging more than 20 percent of your total credit limit. Your limit, also known as your line of credit, is the **overall amount of credit** you're allowed to borrow. A low utilization across all your credit accounts results in a higher credit score. That means even if you pay off your credit cards, you should keep those accounts open so the

This plan continues on the next page →

average age of your accounts—and thus, your credit score—isn't affected.

If your utilization is above the recommended limit, focus on paying down your debt and increasing your available credit.

Make your payments on time, every time

You get the gist. The longer a payment is overdue, the more of a negative impact it can make on your score.

Fix blemishes, dispute errors

Negative remarks on your credit report can wreak havoc on your credit score. Some of those remarks may be incorrect. If you find errors on your credit report, dispute them with the credit bureaus. If you don't like the way they handle it, complain to the Consumer Financial Protection Bureau (CFPB).

If the negative information on your report is legit (like if you have collections on your account), you'll want to address it as soon as possible.

How does this help me with debt?

The Debt-Free Domino Effect

Once you put in the work to improve your credit, your debt load will automatically be affected. **That's because they're like two sides of a teeter-totter**. If you make your debt payments on time, that lowers your debt load, which in turn increases your credit score. A better credit score yields lower interest rates on any future new debt, and makes it possible to refinance your existing debt with lower payments and shorter payoff times. This creates a domino effect that places you in a stronger position to handle the debt in your life until, eventually, it's all gone. You'll no longer be a victim to debt. **Instead, you'll be in control.**

How can I better understand my credit?

Credit is one of those things a lot of people know about, but very few understand. We get it. It can be a mystery—it's not like everyone automatically gets an instruction guide on the factors credit agencies measure for each person's score.

That's why we created the free LendingTree app, a financial tool that helps you become the expert about your own credit. With it, you get unlimited access to your credit score, along with a breakdown of all the factors that influence your credit. Plus, you'll get recommendations on ways to improve your credit factors and alerts anytime there's a change affecting your credit.

Go to the appendix to check out a demo on how the LendingTree app works and how you can use it to master your credit—and debt.

Need to Know

The Seven-Year-Refresh

Negative information affects your credit score for seven years before it drops off your credit report. If you're approaching Year 7, you may want to ignore the charge and let it disappear. You should deal with new or recent collection items as quickly as possible.

Debt Elimination Plan Four

The Art of Negotiation

This plan may be for you if...

- ✓ You've accumulated too much debt relative to your income or assets
- ✓ You can barely afford to make minimum payments on your debt
- ✓ You pay more in interest each month than paying down your actual debt
- ✓ You're delinquent on your debt, but it's still relatively early, i.e., it's been less than six months since you stopped paying
- ✓ You have debt with a collection agency

What do you mean "negotiate"?

Sometimes, it feels like you just can't get out of the hole. No matter how hard you try, you're unable to make inroads on your debt and, instead of paying it down, you spend months—years, even—just paying interest.

In situations like these, negotiating with your creditors to lower your debt or accept less than the full amount of cash owed may be the most feasible solution. This section will offer you tips on how to deal with creditors, what pitfalls you should avoid and what approach you should take.

How does it work?

The idea of bargaining with creditors may give you a bit of anxiety. But rest assured, it's not as overwhelming as it may sound. Once you've decided to negotiate with your creditors, you stop making recurring payments on your debt and offer them a settlement.

Depending on your **situation**, your approach will be different.

Need to know

If you stop paying your debt
Once you stop making payments to creditors, up to 25 percent of your disposable income could be garnished.

The seven-year-refresh
It takes seven years for a settlement to disappear from your credit report and stop impacting your credit score.

Situation One

You're current on your debt but struggling to make payments

Even when you're paying down your debt, banks and credit cards want you to keep making payments. That means they're satisfied with receiving the minimum balance due on credit cards or loans repayments. That doesn't mean you should keep doing it.

Call your credit card company and ask what kind of forbearance options are available. Forbearance is a temporary postponement of your debt payments. The keyword is temporary. You'll still have to repay the debt.

Most banks offer forbearance programs for two reasons:

1. You're experiencing a temporary problem, so you look to reduce your payment for a temporary period of time. For example, you could pay interest only for a few months, and then have the payment increase once your problem is over.
2. You've experienced a significant change in circumstance, such as a death in the family, and you need your principal forgiven.

Situation Two

You're delinquent on your debt but it hasn't yet entered collections

At this point, you may want to offer the bank or credit card company a settlement— a situation where the lender agrees to accept less than the amount owed—to satisfy your debt.

If you're considering a settlement, you need to know how much you can afford. You'll offer that amount to the credit card company as settlement for the debt. If they refuse to accept the offer, just continue to wait. Eventually, one of the collectors will take your offer—it just might take a while.

Need to Know

Don't take temporary forbearance
When appealing to your bank for a forbearance solution, don't accept one that only gives temporary relief. For example, if they offer interest-only payments for three months, reject that offer. You need serious debt relief, nothing temporary.

What is delinquency?
You become delinquent on your debt when you stop making payments. And once you're deemed delinquent, banks and credit card companies make a guess on how likely it is you'll be able to pay them back. If that likelihood is high, it'll be harder to get them to agree to a settlement. The longer you go without paying, the greater the chance the creditor will agree to a settlement.

Situation Three

Your debt is with a collection agency, and is likely more than six months past due

Debt collection agencies buy debt for pennies on the dollar. That means they pay very little to buy debt from banks and lenders you haven't repaid. Knowing that, you can negotiate hard for a settlement. Here are some tips:

1. Remember, your debt will no longer affect your credit score after seven years. The agency will still have the legal right to collect, but the statute of limitations will limit their ability to sue or garnish wages.

   If you are close to seven years, you may not want, or need, to pay.

Need to Know

If it's possible, work on repayment strategies other than settlement first

Treat settlement as a last resort, not an alternative to paying your debt if you just don't want to. The longer you go without paying your debt, the greater the negative impact on your credit score. It could take years to recover.

2. Negotiate hard on the phone. The agency will try to threaten you. Tell them you know your rights and you're not afraid to go to the CFPB if they don't respect your rights and protections. You should be able to settle for at least 50 percent of the debt.

The Do's and Don'ts of Debt Settlement

You've done your negotiating and your creditors have agreed to accept a settlement to wipe away your debt. **That's great.** But there are some common mistakes and missteps you should avoid to ensure everything goes smoothly. Here's a list of them.

- ✓ **Don't** make a payment until you get confirmation of the settlement **in writing**.
- ✓ **Do** make sure the debt collection agency writes that, upon payment of the settlement, the debt will be considered closed. They need to make it clear that this is a full and final settlement, and no further collection activity will take place.
- ✓ **Do** ask the collection agency to delete the collection item from the credit bureau. They may not do this, but it's worth asking.
- ✓ **Do** open a separate account to make the settlement payment. **You never want to give the collection agency access to your primary checking account**. You can go to Walmart and open a Bluebird account. It's free and comes with checks and online bill pay.
- ✓ Keep a paper trail of your settlement. If something goes wrong, you have the documentation to back you up.
- ✓ Know that you may have to pay taxes on the debt that's settled because **the IRS considers forgiven debt income**.

Debt over $10,000? You may benefit from a Debt Relief partner →

Defeating Your Debt With a Partner at Your Side

Negotiating with a debt relief program

Let's say your debt is pretty high (maybe more than $10,000) and you don't feel comfortable with the idea of negotiating it down yourself.

You may not have to. You can try debt relief.

With debt relief, you can find a partner willing to negotiate on your debts on your behalf. Go to LendingTree to get paired with a debt relief partner that fits your needs. Then, work with that partner to identify the best debt-free solution for you.

Here's how it works.

1. Connect with one of our debt relief partners to help you decide which debt relief program you should complete. There are lots of options out there, so it doesn't hurt to get advice from the experts.

2. Stop making payments to your creditors or lenders while your debt relief advocate negotiates your debt into a lower payment you can afford. This usually means your creditors agree to reduce your debt in exchange for one payment that's less than the amount you owe.

3. Pay down the lower amount you now owe and watch your debt disappear, piece by piece.

Why debt relief?

Debt relief is a quick way to eliminate your debt without paying exorbitant interest or facing the worry of falling behind. Plus, you get to work with an ally who goes to bat—and does the heavy lifting—for you. With debt relief, you'll find a partner who handles the hard conversations with bill collectors and helps you on the way to a debt-free life.

Be aware that debt relief agencies charge for their services. Still, it can be a great option if you're unsure about going it alone with debt negotiation.

Debt Elimination Plan Five

Bankruptcy: A New Beginning

This plan may be for you if…

- ✓ You're so deep in debt with no realistic means of repaying it
- ✓ You've experienced a sudden change in life circumstance

Bankruptcy. It's a loaded word that provokes all types of feelings. And there are **tons of myths** out there about bankruptcy and the kinds of people who need it.

Here's the truth: Filing for bankruptcy itself is not a personal failure. It's not a character flaw. It doesn't mean you're out of control, irresponsible or untrustworthy.

It means your debt outweighs your income and there's **no foreseeable way for you to pay it all off in the next five years**. It means you need help and a fresh start.

For many people, bankruptcy is the best way to achieve a debt-free lifestyle. Let's talk about how to get there.

What is it?

Bankruptcy is a legal arrangement that gives you the chance to eliminate a significant portion of your debt. Depending on the type of bankruptcy, you either sell your property to repay your debt or propose a repayment plan that's approved in court and details how you'll satisfy the debt over time.

This guide will cover these two common types of bankruptcy: Chapter 7 and Chapter 13.

Chapter 7 Bankruptcy

Type One: The Most Common

Chapter 7 bankruptcy is one of the most common—and popular—bankruptcy options because it can eliminate most of your **unsecured** debt (credit cards, personal loans, medical bills, cell phone bills).

How does it work?

Once you qualify for Chapter 7 bankruptcy, the court appoints a legal trustee or administrator to take or sell some of your property to satisfy your debt. You're able to keep the things necessary to keep working and maintaining a home, such as your furniture, clothing and some equity in your vehicle.

How do I qualify?

It used to be very easy to file for Chapter 7 bankruptcy—so easy that almost anyone who needed it got it. But federal law now requires debtors to pass a "means test" to determine if they're truly eligible.

Your family income must fall below the median income of your state. The test examines the average of your last six months of income, along with your expenses, secured and unsecured debt.

How long does it take?

Chapter 7 can take about four to six months to erase your debt.

Will it eliminate all my debt?

No. Bankruptcy won't get rid of child or spousal support payments, unpaid taxes or student loan debt—all examples of non-dischargeable debt.

Need to Know

The impact of bankruptcy on your credit score
Chapter 7 bankruptcy stays on your credit report for **10 years**; Chapter 13 stays for **seven**. Both options significantly impact your credit score, making it very difficult to apply for new credit for several years.

Risks & Benefits of Chapter 7

Though you shouldn't feel bad about filing for Chapter 7 bankruptcy, you should know that it comes with a lot of risks (and benefits, too). Here's a breakdown.

Benefits

Let's start with the good stuff first...

- Lenders will be unable to pursue aggressive collection action against you.
- It's quicker and easier than other types of bankruptcy.
- The experience forces you to become more cautious and attentive regarding your finances. Bankruptcy is a learning opportunity.
- You'll be able to keep many of the things you own, especially the property you need. You'll also be able to keep your salary and property your purchase.

Risks

The not-so-great stuff...

- Your credit gets hit. Hard. Chapter 7 bankruptcy stays on your credit report for up to **10 years**, lowering your credit score and making it very difficult to apply for any new credit.
- You lose all your credit cards.
- You lose property you own—house, car, etc.—if it's not exempt from sale by the bankruptcy trustee (this includes luxury possessions, such as a vacation home or sailboat).
- You'll still be responsible for repaying all your student loan debt, alimony and/or child support.

Chapter 13 Bankruptcy

Type Two: Repaying debt without losing property

Sometimes called "wage earner bankruptcy," Chapter 13 bankruptcy allows you to pay all or part of your debts without selling your property. It's for people with enough income to repay their debt but who can't meet the creditor's demands for immediate payment.

How does it work?

When you apply, you suggest a repayment plan detailing how you'll cover your debts over five years. A bankruptcy judge or administrator will hold a hearing to determine if the plan is suitable. You'll be assigned to work with a trustee or mediator to distribute payments to creditors on your behalf. You must make all payments on time or inform the trustee if your financial situation worsens so you can seek a modification plan.

How do I qualify?

Unlike Chapter 7 bankruptcy, Chapter 13 has limits on how much debt you can possess before you qualify. You can't have more than **$394,725** in unsecured debt (credit cards, personal loans, cell phone bills and medical bills) and no more than **$1,184,200** in secured debt (mortgages or car loans).

How long does it take?

Chapter 13 bankruptcy is a longer process that can take anywhere between three to five years.

Will it eliminate all my debt?

Just like Chapter 7 bankruptcy, Chapter 13 bankruptcy cannot dispel non-dischargeable debt.

Need to Know

You'll need a debt counselor for Chapter 13

You'll meet with a nonprofit debt counselor before filing for bankruptcy. That's a good thing. It means before you start the process of negotiating your debts or filing for bankruptcy, you'll get the chance to talk it over with a qualified professional who can help you figure out if this is the right move for you.

Risks & Benefits of Chapter 13 Bankruptcy

Although not as popular as its Chapter 7 counterpart, Chapter 13 bankruptcy is still a viable option for some individuals.

Benefits

- Because the minimum amount you repay depends on how much you earn and owe, you get to keep all your property (including your home).
- You can arrange your secured debts (other than a mortgage on your primary home) so that they're extended over the life of the Chapter 13 plan. This could lower your payments.
- By law, lenders and creditors must only receive payment from your trustee and can no longer seek collections from you directly. That means you're protected against aggressive collection efforts and aggravating notices or phone calls.

Risks

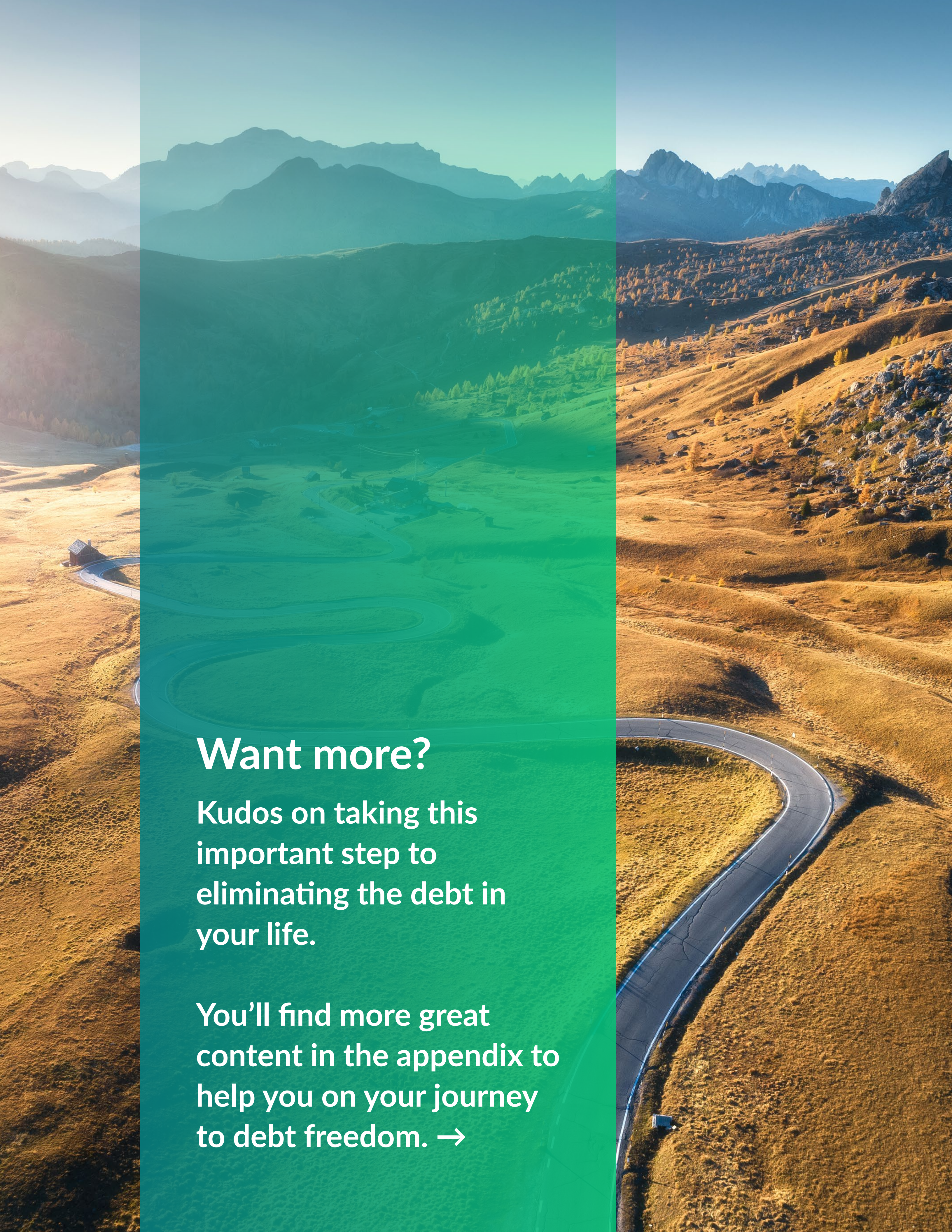
- Chapter 13 bankruptcy stays on your credit report for seven years. Although the harm inflicted is less severe than Chapter 7, it still causes damage.
- Because Chapter 13 doesn't move as quickly as Chapter 7, it gives you five years to repay your debt. So, that's five years you're repaying your debt, and that can feel like a long time.
- You still have to repay debts that bankruptcy won't erase.
- Filing under Chapter 13 now will make it harder to file Chapter 7 later.

Compare Bankruptcy Types →

Bankruptcy Conclusion
Which type is the best?

	Chapter 7	Chapter 13
Eliminates all unsecured debt	✓	✗
Allows you to keep your property, like your house	✗	✓
Impacts your credit score for...	10 years	7 years

Before making your decision, speak with a nonprofit credit counselor to discuss your options and decide which route is best for you to take.



Want more?

Kudos on taking this important step to eliminating the debt in your life.

You'll find more great content in the appendix to help you on your journey to debt freedom. →

Appendix A

The LendingTree App

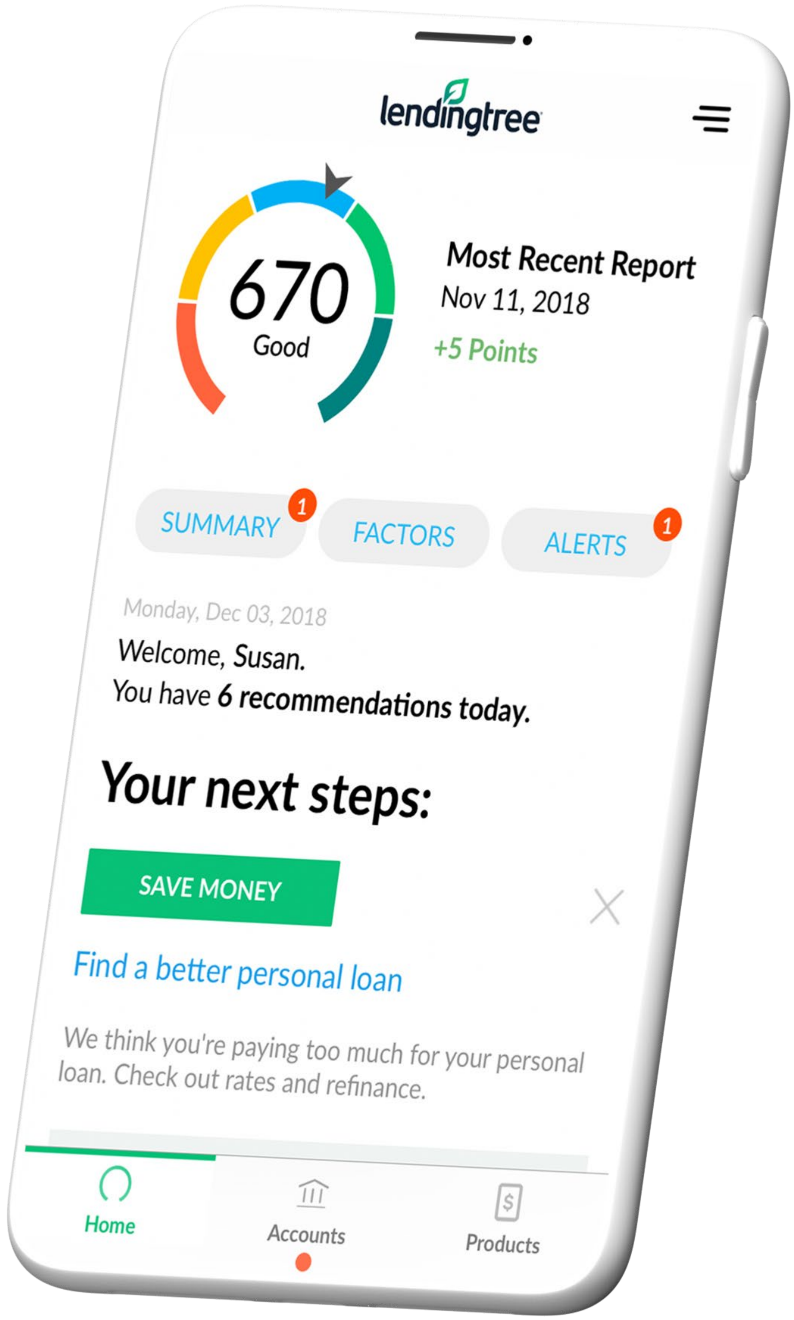
Free credit score and loan marketplace

See your credit score for free, then see what you can do with it based on your financial profile.

Should you use a personal loan to consolidate? Is there a credit card that beats the one you have? Is now the time to refinance? If you have a financial goal, put our decades of experience in your palm to find solutions with complete confidence.

Features

- **Track your credit score:** No credit card required, and it will **NEVER** affect your credit
- **Get credit monitoring alerts:** We'll scan your credit profile and send you push notifications if anything changes
- **Custom recommendations:** These aren't one-size-fits-all suggestions. We find products and services that save YOU money, based on your financial profile.
- **The best way to save:** You shop for airline tickets and hotel rooms online, why wouldn't you do the same for money? LendingTree makes lenders compete for your business, which means you get the best quotes.



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Appendix B

Regain Control of Your Expenses

Making a budget

Do your expenses outweigh your income? If the answer's yes, keep reading; this section's for you.

First, understand this: If you continue to spend more than you earn each month, your debt will only continue to grow. To bring this habit under control, you need to address the underlying issue and ask yourself: Why am I spending more than I make?

Everyone's answer will be different. Still, the goal is the same: increase your monthly income and decrease your monthly expenses.

Need some help?

We've listed a few common expenses you may be able to adjust to help get your spending under control.

Where You Can Save

Mortgage

Having trouble affording your monthly mortgage payment? Consider refinancing. Go to LendingTree to shop and compare lenders offering better rates.

Rent

If your rent is just too expensive, find out what's required to break the lease and find an apartment, condo or townhome you can afford. The rule of thumb: Never spend more than 30 percent of your take-home pay on rent. Ideally, you can spend even less.

Car

If you owe more than what your car is worth, refinancing your car loan may not be possible. You'll need to come up with money to pay down the loan. Once your loan amount is below a possible sales price, you can sell the car and find a cheaper transportation option.

Car insurance

Shop around for cheaper auto insurance. Visit lendingtree.com/insurance to shop for the best insurance rates. Narrow your search by ZIP code to find insurance companies in your area offering the best deals.

Life insurance

You may be spending hundreds a month for whole life insurance. Consider switching to a term life insurance plan, a cheaper option that you only have for a specified period of time.

The small stuff matters, too

Want to curb your spending? Think small. Literally.

Both one-off, insignificant impulse purchases and small fixed expenses like memberships and monthly subscriptions may barely dent your wallet by themselves. But make them often enough, and they add up. Left unchecked, small expenses snowball into big ones and, before you know it, they've damaged your budget more than any mortgage or car loan.

Luckily you can get your small spending under control without significant lifestyle impacts. Return to the spending budget sheet on page 6 and start thinking about the small things you buy each month. Are you eating out too often? Is too much of your paycheck devoted to streaming services? Do you need a **daily** latte?

Budgets can lead to opportunity

The idea of budgeting can be scary, but you don't have to be intimidated. Budgeting apps like Mint, YNAB or Acorns make it easy to plug in what you spend, keep track of it and develop a budget you'll stick to. Even better, budgets can permit you to eventually afford things or experiences that were previously out of reach, even while eliminating debt. Want some tips before you commit? Check out our articles on budgeting and learn new spending habits.