

How Credit Card Debt Relief Programs Work

Description

Your credit card usage has driven you into a financial ditch, eh? You™re not alone. Americans owe nearly \$900 billion to card issuers, according to a WalletHub study, with the average household balance at \$7,519. That™s a lot of swiping. The good news is that debt relief can help you. Here™s how credit card debt relief programs work.

What is Debt Relief?

In a nutshell, the approach makes it easier for you to lower your debt burden. That can be through numerous ways including debt consolidation, debt settlement, interest rate reductions and repayment term changes.

Who is Debt Relief For?

You™re likely a prime candidate if you™re delinquent on your plastic or loan payments or have mulled [bankruptcy](#). Also, depending on the option you choose, debt relief may work if you™re not yet late on payments, but you™ve been cutting it close. Another chief reason people cite for using debt relief is that they™ve tried to manage their obligations on their own but cannot make progress.

Be mindful, though, that the financial strategy may not be a good fit if won™t commit to a long-term plan for paying off your debt, or if your spending is still unchecked.

Debt Settlement

[Credit card debt relief programs](#) include debt settlement. Here, you hire an accredited company such as Freedom Debt Relief to negotiate with your credit card issuers or other unsecured creditors to get them to allow you to pay just a portion of your total obligation to clear your debt. Because creditors know your next step could be bankruptcy, they usually go along. How it works is, rather than pay creditors directly, you put funds each month into an escrow-type account that you™ll use as settlement leverage. When you™ve saved enough, negotiations will begin, and settlement funds are derived from your account. Oh, and you don™t pay anything until your debts are settled.

Debt Consolidation

Debt consolidation allows you to roll high-interest debt, particularly credit card debt, into a single payment with less interest. This allows you to save money and streamline payments, since you™ll have only one to monthly bill to cover. That™s as opposed to multiple payments of varying amounts and due dates. You can consolidate through a personal loan or what™s called a balance transfer card. With the latter, you can shift your high-interest card balances onto one of those promotional 0%-interest cards that companies sometimes issue. You™ll need to clear the account before the promotional period ends, though, and the rate shoots back up. You will need fairly good credit for consolidation to work or even make sense.

Credit Counseling

Certified credit counselors can go over your situation and help you produce a plan for [managing your debts and spending](#). This approach might work if you simply need a doable debt repayment plan. Youâ€™ll also come away with new knowledge about finances and budgeting. Such services usually come free with nonprofit credit counseling agencies. Just make sure your agency is accredited with the Financial Counseling Association of America or the National Foundation for Credit Counseling.

Debt Management

If your debt woes are too severe, your credit counselors may suggest that you go the debt management route. What happens is, you pick which debt to enroll in the debt management plan (DMP), and youâ€™ll make just one monthly payment to the plan. That payment is allocated to your creditors, according to plan terms. With a DMP, you also may get a better rate or have some fees waived. Now you know a bit more about how credit card [debt](#) relief programs work. The strategy is a proven one, particularly if you pick an established, accredited and reputable company to help you.

Date Created

2021/09/10

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