

Debt Management Plans

The right way to improve your credit takes time and discipline. When people cannot meet their payment obligations, one method that people use to work out a more manageable payment plan is to formulate a **personal debt repayment plan**. A credit reporting company can report most accurate negative information for 7 years, bankruptcy information for 10 years, and unpaid judgments can be reported for 7 years or until the statute of limitations runs out, whichever is longer. Some information has no time limits: criminal convictions, information reported in response to a job application when the job pays more than \$75,000 per year, or because you've applied for more than \$150,000 worth of credit or life insurance. **Only passage of time can assure removal of accurate negative information.** Some of the advertisements relating to "wiping out debts" are really promoting bankruptcy, see *Bankruptcy and Credit Improvement* at www.ftc.gov/credit. For more information, see *Credit Repair: How to DIY and Avoid a Scam* at www.ftc.gov/credit.

Just because you have poor credit, doesn't always mean you won't be able to get credit. You may want to contact possible creditors informally to discuss their credit standards since some may be willing to consider whether your bill paying history has improved, more recent years of your payment history, or other criteria.

Credit counselors may arrange for consumers to pay debts through a **debt management plan (DMP)**. With a DMP, you deposit money each month with the credit counseling organization and then they pay your bills according to a schedule they've worked out with your creditors. Sometimes creditors will waive fees or lower interest rates when negotiating a DMP. If you are paying through a DMP, contact your creditors and confirm they have accepted the proposed plan before you send any payments to the organization handling your DMP.

Once you have a creditor-accepted DMP, you should:

- make regular, timely payments
- read your monthly statements promptly to be sure your creditors are being paid according to your DMP
- contact the organization responsible (if you use a third party) for your DMP if you are unable to make a payment or if you discover that creditors are not being paid.
- if you don't make payments on time to your DMP, you can lose the benefits of having a DMP and may be charged fees and higher interest.

What if my credit counselor has gone out of business? If your credit counselor goes out of business, you might get a notice that your DMP is being transferred to another company. You may need to take some action to keep your financial recover on track. You may need to contact your bank if your DMP payment is being made by automatic withdrawal and start paying your bills directly to your creditors. You may need to notify your creditors that the organization handling your DMP is going out of business. You also should obtain copies of your credit report from the 3 credit reporting agencies to see if there are any "late" notations that you did not expect. For more information, see *For People on Debt Management Plans: A Must-Do List* at www.ftc.gov/credit.