

How To Get Out of Debt



consumer.ftc.gov



If you're worried about how to get out of debt, here are some things to know — and how to find legitimate help.

- ▶ **Do It Yourself**
 - ▶ **Getting Help**
 - ▶ **Debt Settlement**
 - ▶ **Debt Consolidation Loans**
 - ▶ **Bankruptcy**
 - ▶ **Credit Repair**
 - ▶ **Report Scams**
-

▶ Do It Yourself

Where do I start?

A budget might help you see where you spend your money and how you might spend it differently. Make a budget by gathering your bills and pay stubs. Use the **Budget Worksheet** at **consumer.gov** to help you.

If you're behind on your bills, call the creditors you owe money to. Don't wait. Do it before a debt collector gets involved. Tell your creditors what's going on and try to work out a new payment plan with lower payments you can manage.

The creditor might be willing to negotiate with you. They might even agree to accept less than what you owe.

What if my debt has already gone to a debt collector?

Try talking to the collector at least once, even if you don't think you owe the debt or can't repay it immediately. That way you can find out more about the debt and confirm whether it's really yours. Don't share your personal or financial information — not everyone who calls saying you owe a debt is a real debt collector. Check out **Fake and Abusive Debt Collectors** at **consumer.ftc.gov** to learn how to spot scammers who are just trying to get your personal information or take your money.

Know your rights when a debt collector contacts you. Read **Debt Collection FAQs** at [ftc.gov/debtcollection](https://www.ftc.gov/debtcollection) to understand what collectors can and can't do.

What if my debt is old?

Debt doesn't usually go away, but debt collectors have a limited amount of time to sue you to collect on a debt. This is called the "statute of limitations," and it usually starts when you miss a payment on a debt. After the statute of limitations runs out, your unpaid debt is considered "time-barred." Once a debt is time-barred, a debt collector can't sue or threaten to sue to collect on a debt.

How long the statute of limitations lasts depends on what kind of debt it is and the law in your state — or the state specified in your credit contract or agreement creating the debt. In some states, if you make a payment or even acknowledge in writing that you owe the debt, the clock resets and a new statute of limitations period begins. In that case, your debt is no longer time-barred.

What if I'm having trouble paying my mortgage?

Contact your lender immediately. Don't wait, or a lender could foreclose on your house. Most lenders will work with you if they believe you're acting in good faith and your situation is temporary.

Your lender might be willing to

- lower or suspend your payments for a short time
- extend your repayment period to lower your monthly payments

Before you agree to a new payment plan, find out about any extra fees or other consequences. If you can't work out a plan with your lender, contact a non-profit housing counseling organization. Find a free, HUD-approved counseling agency using HUD's directory (hud4.my.site.com/housingcounseling) or call 800-569-4287. You don't need to pay a private company for these services.

Some companies promise to make changes to your mortgage loan or take other steps to save your home, but they don't deliver. They're scammers. Never pay a company up front for promises to help you get relief on paying your mortgage. Read **Mortgage Relief Scams** at consumer.ftc.gov to learn the signs of a mortgage assistance relief scam and how to avoid them.

What if I'm having trouble paying my car loan?

Most car financing agreements say the lender can repossess your car any time you're in default and not making your car payments. The lender doesn't have to give you any notice. To get back your repossessed car, you might have to pay the balance due on the loan, plus



towing and storage costs. If you can't, the lender might sell the car.

If you know you're not going to be able to keep up with your loan payments, you might be better off selling the car yourself and paying off the debt. You'll avoid the costs of repossession and a negative entry on your credit report.

What if I can't pay my student loans?

If you have federal loans, the U.S. Department of Education has different repayment and forgiveness programs that may be able to help. Applying for these programs is free. Find out more about your options at the U.S. Department of Education's **StudentAid.gov** or by contacting your federal student loan servicer. You'll also find more information about how to get out of default.

With private student loans, you typically have fewer options, especially when it comes to loan forgiveness or cancellation. To explore your options, contact your loan servicer directly. If you don't know who your private student loan servicer is, look at a recent billing statement.

You don't have to pay for help with your student loan debt — you can do it yourself for free. Student loan debt relief companies might say they will lower your monthly payment or get your loans forgiven, but they can leave you worse off.

What if I'm way behind on paying my credit card debt?

Talk to your credit card company. Find their phone number on your card or statement. Ask to negotiate a lower interest rate to save money. And suggest a payment plan you can afford. You don't need to pay a company to talk to your credit card company on your behalf — you can do it yourself, for free.

Keep good records of who you talk to, what you agreed to do, and next steps. Make sure they send a written version of any agreement you make — and save it until all your payments are made, to avoid any future issues.

If you don't make at least the minimum monthly payment on your debt for several months, your credit score may take a hit. And if you miss the minimum monthly payments for 4-6 months, your creditor may “charge off” your debt as a loss, which could hurt your credit score even further. Even if this happens, you still will owe the debt. In fact, the creditor could sell your debt to a debt collector who might try to get you to pay. But creditors may be willing to negotiate with you even after they write your debt off as a loss.

► Getting Help

Consider working with a credit counseling program to help you manage your money and debt. Look for these services at credit unions, universities, U.S. Cooperative

Extension Service branches ([extension.org/find-cooperative-extension-in-your-state](https://www.extension.org/find-cooperative-extension-in-your-state)), and from military personal financial managers. Many of these organizations offer services with low fees, but make sure you ask how much they'll charge you.

What will credit counselors do?

A good credit counselor will spend time with you. The counselor will ask you all about your finances and help make a plan that works for you.

Scammy credit counselors

- promise to fix all your problems
- charge you a lot of money before doing anything

How do I find a credit counselor?

Interview a few credit counselors before you sign up to work with one. The best ones won't promise to fix all your problems. They also won't charge you money before they do anything.

Here are some questions to ask:

- What will you do to help me?
- How much will I have to pay?
- Do you have free education and information?
- Are you licensed to work here?

How do I check out a credit counseling organization?

Just because an organization is a non-profit doesn't guarantee its services are free or affordable, or that it's legitimate. Some credit counseling organizations charge high fees, which they might not tell you about.

- A reputable credit counseling organization should send you free information about its services before you say anything about your situation.
- Check out organizations you're considering with your state attorney general (naag.org/our-work/center-for-consumer-protection/consumer-file-a-complaint) and local consumer protection agency (usa.gov/state-consumer). They can tell you if they have any complaints about the organizations. But even if there are no complaints, it's not a guarantee that they're legitimate. Also ask if companies are required to be licensed to work in your state. If so, ask whether the companies you're considering are licensed.
- The U.S. Trustee Program (justice.gov/ust) keeps a list of credit counseling organizations approved to give pre-bankruptcy counseling, but it doesn't endorse any particular organization on the list.

After you've done your background investigation, interview the final candidates. Choose an organization that

- does not charge you in advance for help that it hasn't given yet
- has credit counselors that are accredited or certified by an outside organization
- offers a range of services, including budget counseling, debt management classes, and free educational materials
- will give you a specific quote in writing for any one-time or monthly fees
- will help you even if you can't afford the fees or contributions

Be sure to get every detail and promise in writing and read any contracts carefully before you sign them.

What's a debt management plan?

Here's how a debt management plan generally works:



- The counselor develops a payment schedule with you and your creditors. Your creditors may agree to lower your interest rates or waive certain fees.
- You deposit money each month with the credit counseling organization.

- The counselor uses your deposits to pay your unsecured debts, like your credit card bills, student loans, and medical bills, according to the payment plan.

A good credit counselor will spend time reviewing your specific financial situation and then offer customized advice to help you manage your money. After that review, a counselor might recommend that you enroll in a debt management plan to help repay your unsecured debts like credit card, student loan, or medical debts. (Debt management plans aren't for debts secured by collateral like houses or cars.)

But if a credit counselor says a debt management plan is your only option — especially if they haven't done a detailed review of your finances — find a different counselor.

If you and your counselor decide a debt management plan is best for your situation, it's a good idea to check with all your creditors. Make sure they offer the types of modifications and options the credit counselor describes to you.

Is a debt management plan a good idea?

It depends on your situation. A successful debt management plan requires you to make regular, timely payments, and can take 48 months or more to complete. You might have to agree not to apply for — or use — any

more credit until the plan is finished. No legitimate credit counselor will recommend a debt management plan without carefully reviewing your finances.

Debt management plans don't help everyone. A good credit counselor can help you decide what might help you.

▶ Debt Settlement

What is debt settlement?

Debt settlement programs are not the same as debt management plans. For-profit companies typically offer debt settlement programs to people with significant credit card debt. The companies negotiate with your creditors to let you pay a “settlement,” or lump sum of money that's less than what you owe. Your creditors agree that this amount will settle your debt. Meanwhile, you have to set aside a specific amount of money every month in a designated account until you have enough savings to pay off the amount in your settlement agreement. These programs often encourage you to stop making any monthly payments to your creditors.

Instead of paying a company to talk to creditors on your behalf, you could try to settle your debt yourself. If you do reach an agreement, ask the creditor to send it to you in writing. If your agreement means late payments

or negotiating a payment less than you owe, it could negatively impact your credit report and credit score.

Whether you negotiate a settlement yourself or hire a company to do it for you, know that any “savings” or discounts from the amount you originally owed could be considered income and therefore taxable.

Debt settlement programs can be risky. If a company can't get your creditors to agree to settle your debts, you could wind up owing even more money in late fees and interest. Even if a debt settlement company gets your creditors to agree, you still have to be able to make payments long enough to get the debts settled.

Some debt settlement companies are dishonest and make promises they can't keep, charge you a lot of money, and then do little or nothing to help you. In fact, you may not be able to settle all your debts. While you're in the debt settlement program you may still get calls from debt collectors, and your credit report and credit score are likely to be damaged. The process can take years to complete.

What does a debt settlement company have to tell me up front?

If you decide to go forward, even after reviewing the risks, there's more to know. Before you sign up for its services, the company must tell you

- the fees, any conditions, and terms of service

- how long it will take to get results: how many months or years before it will make an offer to each creditor for a settlement
- the possible negative consequences of stopping payments to your creditors (if the program relies on you doing that)
- how much you must save in a dedicated account before the company will make an offer to each creditor on your behalf

Did you talk to a company that failed to tell you any (or all) of these things? Walk away.

A debt settlement company can't collect its fees from you before they settle your debt. Generally, there are two different types of fee arrangements: a proportion of the amount of debt resolved, or a percentage of the amount saved. Each time the debt settlement company successfully settles a debt with one of your creditors, the company can charge you only a portion of its full fee.

If you do business with a debt settlement company, you may have to put money in a special bank account managed by an independent third party. The money (and any interest earned) is yours.

The account manager

- may charge you a reasonable fee to manage the account

- must transfer money from your account to pay your creditors and the debt settlement company when settlements happen

The debt settlement company also must tell you

- the funds are yours, and you're entitled to the interest earned
- the account manager is not affiliated with the debt settlement provider and doesn't get referral fees
- you may withdraw your money any time without penalty

What are the risks of debt settlement?

- **You might not finish the whole program.** Many people have trouble making payments long enough to get all — or even some — of their debts settled. They drop out of the program as a result. If that happens, you're out the fees you paid the debt settlement company for any debts they've already settled, you'll still owe any debts that haven't been settled yet, and your credit report probably shows late payments that can hurt your credit. Before you sign up, review your budget carefully to make sure you'll be able to set aside the required monthly amount for the whole time.

- **There might be a negative impact on your credit report and credit score.** Debt settlement programs often ask — or encourage — you to stop sending payments directly to your creditors. That means late fees and penalties may grow, put you further in the hole, and hurt your credit.
- **Creditors might start debt collection.** While you're in the debt settlement program, you may still get calls from debt collectors. You could even be sued while you're waiting for a settlement. If the company wins, it might be able to garnish your wages or put a lien on your home.
- **You might not be able to settle all your debts.** Your creditors have no obligation to agree to negotiate a settlement of the amount you owe. Debt settlement companies also often try to negotiate smaller debts first, leaving interest and fees on large debts to grow.
- **There could be tax consequences.** Any savings you get from debt relief services could be considered income and taxable. Talk to a tax professional to learn how this might affect your situation.

What are some signs I'm dealing with a debt settlement scam?

Only scammers will try to collect fees from you before

they settle any of your debts or enter you into a debt management plan.

Here are some other signs that you're dealing with a debt settlement scam:

- Only scammers will guarantee to settle all your debts or get you fast loan forgiveness.
- Only scammers will try to enroll you in their program without first reviewing your financial situation.
- Only scammers will guarantee you results from a “government” debt relief program that will pay off your debt.
- Only scammers will tell you to stop communicating with your creditors without explaining the serious consequences.
- Only scammers will say they can stop all debt collection lawsuits.

To learn more about the companies you're considering, search online for the company's name, plus “complaint” or “review.” Read what others have said. Also check out any company you're considering with your state attorney general (naag.org/our-work/center-for-consumer-protection/consumer-file-a-complaint) and local consumer protection agency (usa.gov/state-consumer).

► Debt Consolidation Loans

What's a debt consolidation loan?

This kind of loan consolidates all your debts into a single loan with one monthly payment. Ways to do this include taking out a second mortgage or a home equity line of credit. Or you might take out a personal debt consolidation loan from a bank or finance company.

What are the risks with a debt consolidation loan?

Some of these loans require you to put up your home as collateral. If you can't make the payments — or if your payments are late — you could lose your home. Most consolidation loans have costs. In addition to interest, you may have to pay “points,” with one point equal to one percent of the amount you borrow. It can be an expensive way to get money, so do some calculations to see if it's worth it to you.

► Bankruptcy

What does filing for personal bankruptcy do?

People who file for personal bankruptcy get a discharge — a court order that says they don't have to repay certain debts.

Bankruptcy is generally considered a last option because of its long-term negative impact on your credit. Bankruptcy information stays on your credit report for 10 years. That can make it hard to get credit, buy a home,

get life insurance, or get a job. Still, bankruptcy might offer a fresh start if you're in financial trouble.

What are the main types of personal bankruptcy?

The two main types of personal bankruptcy are Chapter 13 and Chapter 7. You file for them in federal bankruptcy court. Filing fees are several hundred dollars, and attorney fees are extra. For more information, visit the United States Courts website (uscourts.gov/court-programs/bankruptcy/bankruptcy-basics/chapter-13-bankruptcy-basics).

Both types of bankruptcy may discharge and get rid of unsecured debts like credit card or medical debt, and stop foreclosures, repossessions, garnishments, and utility shut-offs, as well as debt collection activities. Bankruptcy exemptions let you keep certain assets. Each state has its own rules about the amount and type of assets exempt from bankruptcy.

What's the difference between Chapter 13 and Chapter 7 bankruptcy?

Generally, Chapter 13 lets people with a steady income keep property, like a mortgaged house or a car. In Chapter 13, the court approves a repayment plan that lets you pay off some of your debts in three to five years, rather than give up any property. After you make all the payments under the plan, the court discharges your debt so you don't owe anything else.

Chapter 7 is known as straight bankruptcy. In general, Chapter 7 involves liquidating all your assets that aren't exempt. Exempt assets might include cars, work-related tools, and basic household furnishings. Some of your property may be sold by a court-appointed official, called a trustee, or turned over to your creditors.

What debt won't be erased by filing for personal bankruptcy?

Filing for personal bankruptcy usually won't erase child support, alimony, fines, taxes, and most student loan obligations, unless you can prove undue hardship. And, unless you have an acceptable plan to catch up on your debt under Chapter 13, bankruptcy usually doesn't let you keep property when your creditor has a lien or financial interest in it.

What do I need to do before I file for bankruptcy?

You have to get credit counseling from a government-approved organization up to six months before you file for any bankruptcy relief. Find a state-by-state list of government-approved agencies at the U.S. Trustee Program ([justice.gov/ust](https://www.justice.gov/ust)), the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees. You have to file a certificate with the bankruptcy court proving that you took the course.

Also, before you file a Chapter 7 bankruptcy case, you must satisfy a "means test" where you confirm that your income isn't above a certain amount. The amount

varies by state — learn more from the U.S. Trustee Program (justice.gov/ust).

What do I need to do after I file for bankruptcy?

You have to take a debtor education course from a government-approved organization about things like developing a budget, managing money, and using credit wisely. To find a counseling organization, check the list of approved debtor education providers at justice.gov/ust/list-approved-providers-personal-financial-management-instructional-courses-debtor-education. You have to file a certificate with the bankruptcy court proving that you took the course.

► Credit Repair

After I pay off my debt, is there anything I can do to improve my credit?

Don't believe anyone who promises to repair your credit by removing accurate information from your credit report. That's illegal — especially if they tell you to dispute a debt you know is yours. Only time can make accurate information go away. A credit bureau can report most accurate negative information for seven years and bankruptcy information for 10 years. Information about a judgment against you can be reported for seven years or until the statute of limitations runs out, whichever is longer. The seven-year reporting period starts from the date the event took place.

You can take steps to repair your credit over time and build a solid credit history. This includes paying your bills on time, paying off debt (especially on credit cards), not taking on new debt, and fixing mistakes on your credit report by disputing those errors with the credit reporting agencies.

What are some signs I'm dealing with a credit repair scam?

Credit repair scammers do and say things that are unlawful. They illegally charge upfront fees without helping you. Scammers do things like dispute information on your credit report that you know is true, tell you to lie on applications for credit or loans, or file a false identity theft report. Some scammers promise to create a new credit identity or hide your bad credit history or bankruptcy. These are not just bad ideas, they're against the law — and may hurt your credit.

These companies often use stolen Social Security numbers, or they get people to apply for Employer Identification Numbers (EINs) from the IRS under false pretenses. If you use a number other than your own to apply for credit or file a false identity theft report, you could face fines or prison. And if someone tells you to dispute a debt you know is yours — well, that's against the law. Learn more about credit repair at [**ftc.gov/creditrepair**](https://ftc.gov/creditrepair).

Report Scams

Where do I report a scam?

If you have a problem with a debt settlement or other debt relief company, or if you see a scam, fraud, or bad business practice, report it

- to the FTC at **ReportFraud.ftc.gov**
- your state attorney general
(**naag.org/our-work/center-for-consumer-protection/consumer-file-a-complaint**)
- your local consumer affairs office
(**usa.gov/state-consumer**)

The FTC works to stop deceptive and unfair business practices and scams, and to help consumers like you recognize and recover from them. Sign up for email updates at **ftc.gov/ConsumerAlerts**.

Report fraud, scams, and bad business practices to the FTC at **ReportFraud.ftc.gov**. The FTC uses and shares reports with law enforcement partners to help with investigations.



**FEDERAL TRADE
COMMISSION**

December 2025