

DEBT SOLUTIONS

How Debt Resolution Works

Debt resolution is a process that allows a customer with a significant amount of debt to negotiate with a creditor for a reduced payoff amount. In simplest terms, a customer can request a lawyer to communicate with a bank or other crediting institution for a one-time payoff for the total balance due, virtually regardless of the circumstances or nature of that debt.

Look at it from a bank's perspective. Let's say an individual owed you \$20,000 and you're charging 15% or more in interest on that debt. A bank has to assess the total value of the debt across their entire portfolio, and it's important to realize that they assess risk very differently than any single individual might. To them, a carried balance is always at risk by a customer being unable to pay off that amount. Minimum payments, various fees, and other charges allow a bank to rationalize keeping an account open, but some customers just plainly are getting in over their heads. However, often times the creditor doesn't even know how buried in debt their customers are. Credit card companies don't generally have information about the earnings of their customers; they simply provide access to credit usually based on the information gathered when that person first applied for that card. A lot can change over time, and in past years credit card companies tended to simply allow for annual or semi-annual increases in credit limits to give their customers more buying power.

However, looking from the customer's perspective, things may not be as rosy. People can mismanage their finances in any number of ways, or a significant event in life may have profound impacts on credit worthiness and the ability to pay back a balance that tends to grow quickly.

Debt resolution provides a compromise between a creditor and an end customer who is having difficulty keeping up with their credit obligations.

The PDR program is designed for a specific customer in mind – an individual who has the ability to make payments and wants to get out of debt for the betterment of their personal and financial life, but recognizes that they'll never be able to overcome the weight of their total obligations. Those obligations, with accruing interest, charges, fines, and fees can become unsustainable and can force even the best-intentioned individual to the brink of bankruptcy.

At this stage, this is where PDR steps in.

Why Use a Lawyer-Managed System?

There are numerous types of debt mitigation programs available to U.S. consumers

First and foremost, it's important that you realize that Performance Debt Resolution is not a law office. PDR sources their negotiations to an outside attorney who facilitates the transaction.

Using a lawyer-managed system provides a number of very important benefits. During debt resolution, a lawyer can actually perform the negotiations between the customer and the creditors. This is a legal transaction that cannot be performed by anyone other than an attorney, and is the most vital part of the debt resolution system.

Why is the "resolution" so important? Because it means the lawyer can request a settled mitigation on the customer's behalf. This is an important difference between Performance Debt Resolution and many other traditional "firm-based" debt settlement companies. A resolved balance reduction provides greater leverage for the customer, and ensures that the transaction is completed and finished in a responsible manner.

The Performance Debt Resolution system leverages the *Good Faith Debt* laws to ensure the protection of the consumer's legal rights. These protections include rules and limitations related to interest rate calculations, fee assessment, and billing cycle accuracies, in addition to other rights. A proven formula puts a seasoned lawyer to bat for you, providing an increased incentive for the creditors rather than face legal consequences in a court of law.

Furthermore, (and this is a critical benefit of the program) a resolved debt reduction is *not considered a write-off by the credit card companies*, and the difference between the debt total and the resolved amount is *not considered income*.

In a typical traditional debt settlement arrangement, the difference between the settled amount and the total debt is considered to be an "income" for the end-client and is taxed as such by the IRS.

Example: Traditional Settlement Process and Its Tax Consequences

In a non-lawyer-managed program, a debt settlement might be for 55% of the total debt. That means 55% of the debt is paid off through settlement payments, and the other 45% is considered a loss by the credit card issuer. However, this loss is considered income to the end-customer (almost similar to a jackpot or a payroll bonus).

Regardless, the customer will now receive a notice (typically in the form of a 1099 form) from the IRS stating that they owe income tax on the difference between their settlement and the total balance they had owed.

Under the lawyer-managed program, the resolved amount is a legal agreement between two parties, and since no cash was provided to the customer in the form of actual income from the creditor, no tax penalties are assessed. Let's reiterate that one more time: With the PDR lawyer-managed program, the customer does not face the extra 10-20% tax penalty he or she otherwise might with a typical debt settlement solution.

Another benefit of using PDR's lawyer-managed program is the years of success their attorneys have enjoyed, and the experience the firm has acquired over that time. These are consummate professionals who care deeply about you, the customer, and have already experienced the numerous pitfalls and complexities that can be encountered during the debt resolution process. Experience counts, especially when considering the hundreds of large and thousands of small credit-issuers throughout the country.

Eligible Credit & Debt

Obviously, it is important to understand what debt is eligible and what is ineligible for resolution under the PDR program. Here is a breakdown of common eligible credit that can be resolved:

- ***Unsecured Personal Credit Card Debt***

This is the most common type of debt that the average individual will carry, and for many people, they are carrying a lot of it. One out of 25 Americans carry more than \$10,000 of credit card debt, according to MSN Money1. All credit card brands are eligible: *Visa, MasterCard, American Express, and Discover*, and effectively all issuing banks are eligible as well.

- ***Credit Accounts in Collections***

If a customer fails to make several monthly payments, a credit account will fall into "collections". This generally means that the issuing bank has re-sold this debt to another firm to collect an amount due. Oftentimes, this "collection" amount due may be smaller than the original principal, but frequently carries with it hidden (or blatant) fees and generally still bears interest. Not only can PDR work with accounts in collections, but since their system uses a lawyer, they can stop the collection calls and letters through the resolution process.

- ***Store/Merchant Credit Cards***

Perhaps the most common type of personal credit issued besides credit cards are store cards from major merchants. It's important to note that even if you carry several different store brands in your wallet, they're likely issued from only a handful of credit-issuers. These store credit card accounts are eligible for enrollment.

- ***Unsecured Personal Loans***

Some people with good credit in the past have taken out personal loans with no security or collateral. While these are few and far between, it is important to note that these personal loans and lines of credit are eligible for enrollment in PDR's program.

- ***Interest-bearing Medical Debt***

One of the top reasons for bankruptcy in America is a major medical event, such as surgery, cancer-related expenses, or other emergency or life-sustaining care. In this case, it's important to recognize that our process *only* supports the resolution of interest-bearing medical lines of credit, and not medical bills that carry no interest.

- ***Non-Federally (or any other government body) Backed Student Loans***

Another major source of debt in this country is student loans. Most people rightly believe that an education will pay for itself over time, but in some instances the costs of paying for that education become more cumbersome than the income that was received on the other side of that degree. However, it's important to note that *most* student loan debt is

federally or governmentally backed. By default, assume student loans cannot be covered, but there are many bank-issued lines of student loan credit that can be covered.

- ***Unsecured Business Lines of Credit***

The PDR program can cover more than just personal credit accounts – small businesses can also take advantage of the program to shed debt from their books. The process for managing a small business line of credit may be different than a typical personal line of credit (since a creditor may *actually* have a stake in the collateral and assets of the business itself).

The above list covers what is commonly eligible for enrollment in the PDR system.

Many debts and credits are not eligible and the most common debts not eligible are listed below:

Mortgage

A mortgage is a secured line of credit – the house itself is the collateral on the loan. While a homeowner may feel like their mortgage is unbearable, this debt is ineligible for PDR enrollment. Homeowners have a wide range of options available to them in the form of different loss mitigation strategies.

Home Equity Loans/Lines of Credit

Again, like with a mortgage, a “Home Equity” loan is secured by the house itself, and cannot be enrolled in the PDR program. This also includes other “re-branding” names for Home Equity Lines of Credit, such as “remodeling loans” or “homeowner credit”.

Car Loans

The car itself is the collateral in a car loan; if the customer cannot make their payments they are required to return the vehicle to the issuing bank (or face physical repossession). Car loans (or other vehicle loans including but not limited to: motorcycle, truck, RV, boat, airplane, or ATV) are ineligible for enrollment in PDR.

Most Medical Debt

Here’s the breakdown on Medical Debt – it generally comes in two forms: The first is debt that the customer pays for via their own personal credit cards (which *is* eligible) and debt that is acquired in the form of unpaid bills for services performed and products delivered. The second type of “debt” is not a credit account; it’s simply a bill that must be paid – even though these are typically quite significant and often extremely financially debilitating for unprepared customers. While we wish we could assist these people who often have amassed these expenses, we simply cannot enroll them in the PDR program. The exception to this, as stated in the “eligible” list above, is if that debt is actually bearing interest and is disclosed as “interest” on the billing. Typically, however, there are simply late payment charges that are not based upon the total amount of the outstanding balance.

Government-Backed Student Loans

Bills for Products or Services

Much like the Medical Debt example above, bills for products or services are not lines of credit per se – they are simply unpaid balances owed for products or services. Included in this list are things like: cellular phone bills, home phone bills, cable bills, insurance premiums or deductibles, power/water/utility bills, internet service, or other common fee and bill-based transactions. Again, store cards *are* eligible, but **common “household” bills are not.**

Secure Business Lines of Credit

Many businesses borrow money from banks, but often these come with the understanding that the assets that business acquires with those debts are the collateral for the loan, such as office equipment, vehicles, machinery, or buildings. Asset-based lines of credit are ineligible for enrollment in PDR’s program.

Alimony, Child Support, or the other Legal Fees/Payments Due

Legal fees, whether issued by lawyers for services rendered, or fines or payments mandated by the courts, are not eligible for enrollment in the PDR program.

As you can see, this program covers quite a wide range of common debts. If you are facing a debt or credit account and you are not certain what to do, please feel free to contact us for further assistance. In most instances, we'll require a copy of the latest statement issued from the creditor for determination as to its eligibility.

Basic Credit Concepts

A **secured account** is any account that has an asset (collateral) that can be taken from the customer if they fail to pay back the loan they're provided. Examples of secured accounts include mortgage, car loans, or secured credit cards. When an individual fails to make payments on a mortgage, for instance, they risk losing their home through foreclosure. A car can be "repossessed" for non-payment by a bank. And a secured credit card has only as much credit available as the customer had placed in a collateral cash account. Typically, a customer can discuss payment options directly with their lender if they are having difficulties making payments, because oftentimes a lending institution doesn't want to hastily cancel the account.

An **unsecured account**, on the other hand, is issued with a great deal of risk to the lending institution. They are simply relying on the individual's past payment and credit history, combined with an estimate of their other debts and obligations when compare to their earnings. In today's information-rich environment, there is a lot of data, so almost all legitimate lending agencies rely on the credit bureaus to help make an assessment of these factors – and those are often summarized in a credit score. When these factors are assessed and credit is provided, the risk in the loan is reflected in the down payment required to receive the loan and/or interest on the loan. Ultimately, an interest-rate is really a reflection of risk – and it's the reason why "high-risk" borrowers face higher interest rates than "low-risk" ones. This directly translates into the common reality that individuals with higher credit scores (lower-risk individuals) pay lower interest rates on similar sized loans compared to people with low credit scores.

A Note about Averages:

Statistics can be a tricky thing – especially when they're tossed around without the data used to derive them from. Averages are frequently the most misleading type of statistic because the *mean* (the average) can be deceptive and not reflect reality. If you were in a room with Bill Gates, the average net worth of the people in the room would be about \$25 billion. Even if you were worth \$10 million, it doesn't much matter since the average is simply the number being sampled divided by the number of samples (total net worth / total number of people). This is the main reason housing values are usually provided using the *median* value rather than the *mean*. A **median value** is the value, which has an equal number of people above and below it. When talking about homes, for instance, a \$10 million mansion might skew the *mean* average for a neighborhood of \$200,000 homes, but it is essentially cast aside when described in terms of *median*.

While many individuals carry extraordinary amounts of credit debt, it's important to realize that *most* Americans actually treat their credit very well. The typical credit card averages a little over \$1,000 of outstanding balance, and most Americans have no more than two credit cards. However, this doesn't mean that everyone has his or her credit debt under control. As was stated earlier, about 1 in 25 Americans has a significant credit balance of \$10,000 or more, and frequently those individual's accounts swell rapidly in the face of climbing interest rates and fees.

Most credit card companies are also willing to work with financially strapped customers, and will not resign an account to collections until several other steps have taken place. Typically, a minimum monthly payment is due during a normal business cycle (thirty days) but in some instances a customer can request a postponement or reduced minimum payment for a single term. If a minimum payment is missed, a credit card company will typically wait a second billing cycle before taking more serious action. They will usually send a second letter notifying the customer that a payment has been missed, and that they will report to the credit bureaus of a missed payment unless it is made by a certain date. If that payment is missed, the missed payment is reported to the bureaus, and then the charges and penalties really start kicking in.

Under most credit card arrangements, a customer is offered a preliminary low-interest rate for new balances or transferred balances from higher-rate credit cards. This "card flipping" was quite common in 2001-2007 when low-interest credit cards were abundantly available. These introductory rates were frequently 0%-5% for the first six months (assuming good/excellent credit) and then a manageable 6%-9% thereafter. However, if the customer missed a single payment during this introductory period, the interest rate would immediately kick up the scale. The average credit card rate runs about 13.5% in the U.S., and high-risk customers can pay anywhere from 19%-24% interest! On even a modest balance of \$1,000 that can mean \$200 of extra interest fees annually. On \$10,000 or more of debt, this high interest rate literally amounts to thousands of dollars of extra expenses per year.

“Same as Cash” Store Offers

One of the more prominent forms of credit that has been enjoyed by many consumers is the “Same as Cash” credit line from high-ticket merchants. These offers are usually for merchandise like mattresses, furniture, consumer electronics, and appliances. Typically, these offers read something like “90 days no interest no payments”, “6 Months Same as Cash”, or “No Interest - No Payments Until 2010!” However, these offers can conceal the fact that in most instances the *interest is accruing on the account*. A \$2,000 sofa at 10% interest is accruing about \$17 of interest a month. If the account is paid off, in full, before the end of the promotional period, the interest is waived. However, if the promotional period passes and the account still has a balance outstanding (even as little as one penny) the entire accrued interest is now due on the account. If the promotional period were 18 months for that \$2,000 sofa, and \$200 was left due on the 19th month, the customer would be hit with both the outstanding balance of \$200 as well as the interest payment of \$100-\$300 (or thereabouts). These accounts are considered store credit and are eligible to be enrolled in PDR, but unless the promotional term has lapsed, this is essentially a 0% interest loan. If you can pay them down, we strongly recommend you do so.

PDR vs. Typical Debt Settlement Programs

There are thousands of debt settlement companies operating throughout the country, so this section will really detail some of the typical fees and details that we’ve reviewed. Not all debt settlement companies are the same. Some operate as “fly-by-night” operations, filling their bank accounts and then ultimately not providing much of a service. Most, however, provide a service to their customers, just with a different mechanism than the Performance Debt Resolution system. Typical debt settlement firms operate by essentially acting as a collection agency for a credit card company, but they operate ahead of when the credit card company dumps the account off to a collection agency. In some instances, debt settlement companies also provide credit collection services – the two services are that closely related. A debt settlement basically means that a bundle of money is collected and offered to the creditor in an effort to *settle* the account for a lower value than the total balance. As you can tell, this is very similar to how PDR operates, but with one distinct difference. Debt settlement firms are simply businesses offering this service, whereas the PDR system uses a lawyer-managed resolution mechanism. This lawyer backing ensures that the account receives better and faster attention than going through a debt settlement firm, and it also means that the lawyer can negotiate a better, lower payout amount.

A key difference is the way that the monthly payment amount is applied to the account. Under typical debt settlement contracts, the first few months (even up to a full year of enrollment in some rare cases) are disproportionately collected as administrative fees and charges by the debt settlement firm. This means, for instance that a person enrolled in debt settlement for say, 36 months (three years) will pay the bulk of their fees to the debt settlement company in the first six months. This can prolong the duration of the settlement program, and can mean that few results are shown to the customer within that preliminary period. If the payment is \$500 per month, the debt settlement company may collect a large portion – sometimes as great as 50% or more for the first 4-6 months – meaning the settlement account is unable to close accounts quickly while the debt settlement company gets paid first. PDR does not “front-load” the account.

Finally, one of the biggest differences is in the write-off tax burden that traditional debt settlement companies frequently neglect to mention, since it’s really an IRS and creditor issue, not part of their program. Most people don’t even know that the balance from their total balance less the settlement amount is taxed as income. It’s a lurking surprise, and can have serious consequences just as people feel like their regaining the financial footing.

PDR vs. Debt Consolidation Loans

Another class of products that exists is debt consolidation loans. These are fundamentally different from a debt settlement program in that they bundle all the existing credit accounts together, pay them off, and *then* charge a single monthly fee against that single open account.

As you can see, unlike the PDR solution or even debt settlement programs, this is a different way of doing things. The core difference to the customer is that the bulk of the transaction is handled up front, often at a serious premium compared to paying down accounts over time. The credit impact is immediate. Furthermore, debt consolidation loans assume a higher amount of risk than a monthly installment-based program like the PDR solution. This risk is typically reflected in higher monthly payments, higher administration fees, and a larger balance on the entire account. Furthermore, this debt consolidation loan is *another* credit account – meaning if the customer defaults on that, they are in serious risk of damaging their credit for years and years to come.

Most debt consolidation loans come with high upfront enrollment fees, typically thousands of dollars to originate the loan. To the debt consolidator, they are assuming a risky client who has already demonstrated difficulty in making credit card payments, and so in this regard they want to get as much of a return as possible. Furthermore, a debt consolidation loan *still* leaves your customer vulnerable to the tax consequences of a debt write-off by the creditor, but in this case all the debt is written off at one time rather than over time. This means that the same year they pay the high enrollment fees and the higher monthly payments

they will also be hit with the tax bill. Frequently, this can be just too much to bear, and since the default rate for debt consolidation loans is high, the interest rate and fees will be high as well. Paying down accounts over time is a better way to help customers manage their cash flows from month to month, and it also reduces the impact to the credit score compared to closing all the accounts at once and then creating another monstrous loan account in the process.

PDR vs. Doing Nothing

No comparison to Performance Debt Resolution would be fair or complete without considering the alternative of doing nothing at all about the problem. This is often what people would prefer, even knowing all the options available to them. Many prospective customers just don't want to admit that they're in serious financial jeopardy.

Making Minimum Payments

The basic reaction to a massive amount of debt is to ask the question, "What is the least I can do without getting into trouble?" The answer: The minimum payment. There is no steadfast rule on minimum payments that credit card companies can impose by law, but the common rule of thumb is 1% of the outstanding balance. So, if you are staring at a \$20,000 credit card bill each month, your minimum is likely around \$200. However, many credit card companies further require that not only 1% of the balance be paid, but also the interest & fees accrued that month as well. If that \$20,000 bill is at 20% interest, that means an additional \$333 of interest *per month* – bringing the total minimum due well over \$500, even without any additional fees. Under this structure, adding no additional balance to the account, it would take you over 8 years to get out of debt, at a cost of \$36,833. [Assuming they made a \$200 monthly balance payment... In many instances as the balance dwindles so does that minimum balance amount is reduced in kind – the account could take 10+ years to pay down at that rate].

If you want to hang in there with the credit card companies and only make minimum payments, you better be ready for the long haul. Of course, after a few years, the balance will be smaller and the interest payments will be decreased, so it won't hurt as much, but through the PDR solution, you could be out of debt entirely in two years if you really focused on the problem at hand. Again, minimum payments are really ineffectual if you have a massive amount of debt because the credit card companies are making so much money on the interest – the balance becomes only a second concern. The \$16,000+ of interest payments is what the credit card companies are interested in collecting.

Lump Sum Payments – Rapidly paying down accounts

Another strategy that many people attempt is to make just the minimum payments, but then make larger, balance-reducing payments when they have enough money saved up. This essentially just shortens the timeline to pay down the account, and is likely a strategy if the flow of income is inconsistent (either via commissions/variable pay or through self-employment/temporary employment situations of feast and famine). Except for having cash reserves, this strategy doesn't make logical sense. If you can make more than your minimum payment every month, as a credit card holder with an outstanding balance (who is not enrolled in the PDR program), you should make as much of a payment as you can possibly afford – *especially* while the balance is bigger.

If you were to make an extra \$1,500 payment every 6 months on that same outstanding balance of \$20,000, it would cut the payout time nearly in half to about four and a half years, and you'd cut your interest payments by more than half around \$8,000. This is a *better* strategy than making only minimum payments. However, it still means that the cardholder must make those payments consistently, and the first year is the most important since the bigger balance will incur a greater interest rate charge.

Making No Payments

If you are completely overwhelmed, you may be staring at a paycheck that can't even come close to fulfilling your obligations. This problem is even further exacerbated if you have recently lost your primary source of income through job loss, which is an unfortunate reality for millions of people in this economic climate. The truth is, the PDR solution is really only appropriate for individuals who are capable of pulling themselves out of debt through regular and consistent payments.

However, there are some people who simply can't handle their financial situation, and the credit cards fall down the list of obligations to the point that they aren't even making an effort. When an account doesn't receive at least a minimum payment for a month, the customer will begin to receive notices from the creditor demanding payment, often with late-payment fees applied to their account. If you had been at a preferred interest rate, this usually vanishes to be replaced by a tremendous "high-risk" interest rate assessment – often exceeding 20%. There is no legal requirement for how long a creditor must hold an account until it defaults, but typically a creditor will try very hard to maintain an account in "open" status – oftentimes for as long as 6 months from the last payment received. Of course, during this time the customer's credit report is now showing the delinquent payments and the interest and fees are piling up, but this is all in an effort to motivate the customer to make payments against the account.

After that period is finished (again, often taking 6+ months for a creditor) the account is typically resold, at a significant loss to the creditor, to a collection agency.

How Collection Agencies Work

Collection agencies are one of the most relentless types of businesses when it comes to attempting to collect on a debt. Letters and phone calls from collection agencies are phrased in a way to evoke a reaction from the customer and to scare them into payment or action. The phone calls can come as frequently as several times per day, at all hours. Collection agencies have even been known to track down a customer's place of businesses or other relationships (such as parents or siblings) in an effort to collect on an account.

The collection agency purchases extremely high-risk "portfolios" of defaulted credit accounts for pennies on the dollar. The credit card company simply wants some cash to make up for the losses on the account – but they will often settle for 5-20% of the original balance. The collection agency, from that point, usually tries to collect about half of the original balance in the process – and that is where they make their money (the difference between the amount they paid the creditor and the amount they can get from the customer). Since these are extremely high-risk accounts, the collection agency uses whatever means they feel are necessary (in some instances even pushing legal boundaries) to pay for the cost they've already incurred to purchase the account.

An account in collections reports to the credit bureaus, and is a major red flag for future creditors to make a credit decision about that customer. People who have accounts in collections are extremely stressed – both from the burden of being unable to pay their bills as well as the harassment they're receiving from the collection agency. If you have already had accounts placed in collections, but have a reliable income stream, you should seriously consider enrollment in the PDR program. Through the lawyer-managed process "cease and desist letters" can be issued to those agencies demanding resolution and halting collection calls or letters virtually immediately. This provides not only a fair and reasonable economic solution (the creditor and the collection agency have after all put faith in the customer to pay the balance), but it also stops the emotional toll that can be just as burdensome. Again, it usually takes anywhere from 3-6 months (or longer) for an account to be placed in collections, so if you are at that point, understand the urgency of the situation. Enrollment in the PDR program is very quick and within mere days or weeks of enrollment you could be on track to putting your personal finances in order.

Conclusion

Thank you for taking the time to review this information. We hope you now have a clear idea of not only the incredible capabilities of the Performance Debt Resolution system, but a better grasp of the benefits over other options you might be considering, as well as a good understanding of the overall credit industry. We look forward to working with you and we're glad you've chosen to enroll in the PDR system.

Disclaimer

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