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Downside To Using Debt Settlement Companies

Many consumers start researching a debt settlement program thinking it will be the way to settle their debts for pennies on the dollar and once they have gone through the service, they will be starting out again with a clean slate. The advertisements of debt settlement companies helps perpetuate this idea and while they do not claim there are no downsides to participating in a debt settlement program, they certainly don't make mention of how debt settlement will affect the relationships with your creditors and the damage it will do to your FICO score.

Debt settlement works by making your creditors believe that there is a chance you will never repay your loans. This is accomplished by stopping payments to your creditors. Then, as your overdue payments start to build up, your creditors start to fear they will not get any money out of you and be more open to negotiating a partial payment. Through this negotiation, you may be able to talk your creditors into accepting much less than you actually owe.

Debt settlement companies manage this process for you. When signing up for a debt settlement company, you agree to stop paying your bills and instead send monthly payments to the debt settlement provider. After "aging" your accounts, the debt settlement company will start the negotiation process and when they have been successful in reducing the amount you owe, they make your payments using cash from the monthly payments you have been sending them since getting started with the service. Debt settlement is typically a time-intensive process, and one in which nothing is guaranteed, but there are many who have experienced excellent results from debt settlement companies.

But, as alluded to earlier, there are serious downsides to using even the best debt settlement companies that are primarily related to the aging of your accounts. During the time where you are not making payments, your creditors will be hammering your credit record with late payments, collections, charge offs, etc. that will result in you having a low credit score. Even after you lower the amounts you owe and pay off your debts, your credit will be so poor that you will face an uphill battle getting approved for loans and charge card accounts. Your bad FICO rating could even keep you from getting hired for some jobs.

It is the horrendous effect that debt settlement can have on your credit reports that makes it a last resort, only to be pursued when having to file bankruptcy is a serious possibility. Typically, at this point, your credit rating is already crashing so inflicting more damage to it is of little concern when compared to what having to declare bankruptcy will do to your financial future and quality of life.

Good debt settlement providers offer valuable services that have helped many consumers gain control of their finances and reverse their slide into bankruptcy. If your finances have gotten out of control and you have already done everything you can to reign them in, then debt settlement may be a good option for you.

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