Your Money, Your Goals

A FINANCIAL EMPOWERMENT TOOLKIT FOR SOCIAL SERVICES PROGRAMS

Consumer Financial Protection Bureau

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Dealing with debt

What is debt?

Debt is money you have borrowed from a person or a business. When you owe someone money, you have a liability. **When you owe money, you have to pay it back, sometimes in the form of scheduled payments. Often you use money from your future income to make those payments.** While borrowing money may give you access to something today, you may have monthly payments for months or years going forward. This obligation may decrease your options in the future.

Debt is different from credit. Credit is the ability to borrow money. Debt results from using credit. You can have credit without having debt. For example, you may have a credit card but no outstanding balance on it.

Good debt, bad debt?

Sometimes people label debt as good debt or bad debt. Some debt can help you reach your goals or build assets for the future. People will often say that borrowing for your education, for a reliable car, to start a business, or to buy a home can be a good use of debt.

But it’s not always that simple. For example, borrowing to further your education may be a good use of debt because earning a certification or a degree may lead to a better paying job and more job security. But if you take on the debt and don’t earn the certificate or degree, this student debt has set you back instead of helping you reach your goals.

Taking out a loan to get a reliable car to get to and from your job can help you stay on track to meet your goals. However, if you borrow 100% of the car’s value, you may end up owing more than the car is worth. Or if you buy a more expensive car than you need, you'll have less money for other bills each month. While it may get you to work, it might keep you from getting to your financial goals.

Borrowing money to start a business may help create income for yourself and others. If the business fails, however, you may end up owing money and not having any income you can use to make the payments.

Finally, taking out a loan to buy a home of your own may be a way to reach your personal goals. But if you are unable to keep up with the payments or you end up owing more than your home is worth, that debt may set you back for a long time.

This information is not meant to scare you. It's simply meant to show you that **even debt that many people consider "good" should be approached with caution.**

Some people consider loans such as credit card debt, short-term loans, and pawn loans "bad" debt. This is because they carry fees and interest, and when they have been used for things you consume (like meals out, gifts, or a vacation) they do not help build assets. But, these sources of debt can help cover a gap in your cash flow if you have a way to repay them. So, there is no one type of debt that is "good" or "bad." That's why it's important to first understand your goal or your need. Then you can shop for the credit you need, especially for purchases like a car or a home, before you make your final decision on your purchase.

Another way to understand debt is whether it is secured or unsecured.

Secured debt is debt that has an asset attached to it. When debt is secured, a lender can collect that asset if you do not pay. Here are examples of secured debt:

- A home loan. The debt is secured with the home you are buying. If you do not pay your loan, the lender can foreclose on your home, sell it, and use the money from the sale to cover your loan.
- An auto loan. The debt is secured with your car. If you do not pay your loan, the lender can repossess (repo) your car and sell it to cover the loan.
- A pawn loan. The debt is secured with the item you have pawned. If you do not make payment when it is due, the pawned item is eventually sold.
- A secured credit card. The debt you incur is secured by funds you deposit at a bank or

credit union. Your credit limit will generally equal your deposit. For example, if you deposit $300, your credit limit will be $300.

Unsecured debt does not have an asset attached to it. Here are examples of unsecured debt:

- Credit card debt from an unsecured card
- Department store charge card debt
- Signature loans
- Medical debt
- Student loan debt

If these loans are not paid as agreed, they often go to collections. For more information on student loan debt, see Tool 4: Student loan debt.

Rent-to-own versus installment plans

In a rent-to-own arrangement, consumers lease items such as furniture, electronics, or appliances and typically have the option to purchase.

This can be done by continuing to make payments for a set period of time or by paying off the balance during the term of the lease. If you don't make the payments made as agreed, the item can be taken back and you don't receive a refund for any of the rental payments.

Using *Tool 1: Debt management worksheet*, you can list all of your debts and determine whether they are secured or unsecured.

How much debt is too much debt?

One way to know if you have too much debt is based on how much stress your debt causes you. If you are worried about your debt, you likely have too much.

A more objective way to measure debt is the debt-to-income ratio. The debt-to-income ratio compares the amount of money you pay out each month for debt payments to your income before taxes and other deductions. The resulting number, a percentage, shows you how much of your income is dedicated to debt—your debt load. The higher the percentage, the less financially secure you may be, because you have less left over to cover everything else. Everything else is all of the other needs, wants, and obligations you pay each month that are not debt. These include:

- Rent
- Savings

- Taxes
- Insurance
- Utilities
- Food
- Clothing
- Childcare
- Health care (that has not turned into debt)
- Child support and other court-ordered obligations
- Charitable contributions and gifts
- Other family expenses

Using *Tool 2: Debt-to-income worksheet*, you will determine what your debt load is. And if you find out that it is higher than you want, you can use *Tool 3: Debt reduction strategies worksheet* to make a plan to get out of debt.

Debt-to-income ratio

The debt-to-income ratio is a simple calculation:

Total of your monthly debt payments ÷ Monthly gross income (income before taxes).

The result is a percentage that tells you how much of your income is going toward covering your debt. For example, if you have a debt-to-income ratio of 36%, you have 64 cents out of every dollar you earn to pay for everything else, including all of your living expenses and taxes.

Avoiding debt traps

If you are considering loan products that meet an immediate need, it's important to avoid debt traps on your path to your goals.

A debt trap is a situation where people take a loan and have to take new loans to make the payment on the first loan. It is called a trap because for many people, it becomes difficult to escape the cycle of borrowing and taking on more debt to cover the loan payment and still be able to pay for other expenses like food, rent, and transportation.

A debt trap can happen when people use short-term loans that have to be paid back in just a couple of payments such as payday loans. Signature loans and deposit advance loans are other examples of short-term loans.

These loans have many things in common. They:

- Are small dollar loans— generally under $500.
- Must be repaid quickly—14 days is the median term of payday loans.
- Require the borrower to give creditors access to repayment through an authorization to present a check or debit a borrower's deposit account.

Common misunderstandings about payday loans and deposit advance products

If you are considering these products, it's important to be aware of common misunderstandings and the facts about payday and deposit advance loans.

1. The money is borrowed for emergencies.

   Fact: Most borrowers do not use their first loans for emergency expenses. The Pew Charitable Trusts' *Payday Lending in America*[1] found that 69% of first-time borrowers use the loan to pay for regular bills, while only 16% use them for emergencies such as a car repair.

2. The borrowers can pay back the loan.

   Fact: While they may pay it back on time, many borrowers have to either immediately take a new loan or take another one in the same pay-period. A CFPB study[2] found that payday borrowers are in debt for a median of 199 days (nearly seven months) of the year and pay a median of $458 in fees (not including the principal). The Pew Charitable Trust[3] found similar results – that on average, borrowers are in debt for five months out of the year and pays an average of $520 in fees on top of the money they have borrowed.

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[1] The Pew Charitable Trust State and Consumer Initiatives. Payday Lending in America. October 2013. http://www.pewstates.org/research/featured-collections/payday-lending-in-america-85899405692.

[2] Consumer Financial Protection Bureau. Consumer Financial Protection Bureau Study Finds Debt Trap Concerns with Payday and Deposit Advance Loans. April 2013. http://files.consumerfinance.gov/f/201304_cfpb_payday-factsheet.pdf.

[3] The Pew Charitable Trust State and Consumer Initiatives. Payday Lending in America. October 2013. http://www.pewstates.org/research/featured-collections/payday-lending-in-america-85899405692.

Deposit advance loans

Deposit advance loans are short-term loans made by banks. The loan is secured by the borrower's deposit account to which the bank has access. The loan is limited to a percentage of the recurring direct deposit: the lesser of $500 or 50% of the scheduled direct deposit based on the amount from the previous deposit into the account.

Repayment is due the next time the direct deposit is made into the account. The bank sweeps the amount of the loan plus the fees from the account before any transactions can be made from the account. In some instances, this puts the borrower into overdraft (where she is charged more fees for any subsequent draws on the account).

Many banks are discontinuing this product, but clients may still find them at some banks.

How do payday loans work?

Here is an example of how a 14-day payday loan generally works:

Borrower visits a storefront payday lender and completes an application (there is generally no credit check or consideration of ability to repay the loan; the borrower only needs a personal deposit account so he can write a post-dated check). Loans can also be taken out online.

↓

Borrower gets loan (the median loan amount is $350) and pays $10-$20 per $100 borrowed ($15 per $100 is the median fee).

↓

The borrower provides the lender with 14-day post-dated check for the amount of the loan + the fee or $350 + $52.50 = $402.50 or authorization to present a debit against the borrower's account.

↓

In 14 days, the loan is due. Often, the borrower does not have $402.50 to satisfy the debt. Instead he will pay the fee ($52.50) and renew the loan for another 14 days.

(Note: 14 days is used for example purposes only. Repayment may fall on the next payday or another minimum period as specified by state law.)

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Every 14 days, the borrower must pay the full amount or renew the debt for $52.50. The average borrower has 10 transactions a year. Applied to this loan, that would mean a fee of $525 to borrow $350.

Alternatives to high-cost credit

There are ways to avoid a debt trap if you're in a situation where you need money quickly?.

If you are short on cash, consider other alternatives, including:

- Using your own emergency savings.
- Using lower-cost short-term loan alternatives from a credit union or bank.
- Borrowing from a friend or family member.
- Using a credit card – while it will increase your monthly card payment, it may prove cheaper in the long run.
- Negotiating for more time to pay if the loan is for a bill that is due.
- Bartering for part or all of what you are borrowing the money to cover.
- Determining whether the item or circumstance you are borrowing the money for is a need, an obligation, or a want. If it's a want, consider whether it's possible to spend less money for it or not purchasing it.

The cost of high-cost credit

Here is an example scenario using different options for taking care of emergency expenses. The example examines the costs of paying for an unexpected expense with emergency savings, a credit card, or a payday loan.

TABLE 1: COST TO REPLACE SPARK PLUGS IN YOUR AUTOMOBILE = $350

	Emergency savings	Credit card	Payday loans
Expense amount	$350	$350	$350
APR[4]		**21.99%** annual percentage rate (APR)[5]	$15 for every $100 borrowed for 14 days. This means a **391%** annual percentage rate (APR).
Payment		Must pay at least a certain amount each month.[6] (For the purposes of the example, the individual is choosing a fixed monthly payment of $50.)	Must pay back loan amount ($350) plus fee ($52.50) within 14 days. If entire loan cannot be paid within 14 days, it can be rolled over (or extended) for another 14 days for an additional fee of ($52.50).[7]
Total Cost and Time to Repay	$0	You would pay **$28.11 in interest** in addition to the principal borrowed. It will take just over eight months[8] to pay back the full amount.	The total cost depends on how long it takes you to save up to pay back the entire loan. **If you renew or roll over this loan seven times**, you would be in debt for 14 additional weeks and could pay up to **$367.50 in fees**.[9]

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[4] These are for example purposes only. Actual credit card and payday loan terms vary. The CFPB notes that APRs on credit cards can range from about 12 percent to 30 percent. For payday loans, the CFPB notes that cost of the loan (finance charge) may range from $10 to $30 for every $100 borrowed. A typical two-week payday loan with a $15 per $100 fee equates to an APR of almost 400%. See Consumer Financial Protection Bureau, *What is a payday loan?*, November 6, 2013.

[5] Some states have adopted laws that limit the amount of loan above a certain amount and/or limit the interest rates of these loans.

[6] Most credit card companies allow customers to pay a percentage of the amount owed, which makes the minimum payment vary from month to month. For the purposes of this example, we are showing a fixed monthly payment.

[7] These numbers and terms are for example purposes only. Actual costs and terms of payday or signature loans will vary. See Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products: A White Paper of Initial Data Findings*, April 2013. http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

[8] To pay off this credit card balance in full, the individual will have to make $50 payments for seven months, and then pay just over $28 in the eighth month.

[9] Two–thirds of repeat payday borrowers take more than seven loans in one year. Consumer Financial Protection Bureau, *Payday Loans and Deposit Advance Products*, April 2013. http://files.consumerfinance.gov/f/201304_cfpb_payday-dap-whitepaper.pdf.

Dealing with a debt collector

Often people find out they have a debt in collection when they receive a letter or phone call from a debt collection agency. Sometimes, they don't remember owing a debt, so they are surprised when they're told a debt has gone to collections. For some people, this can feel overwhelming.

Debt collectors use persuasive techniques to get you to send in money. **Do not send money or even acknowledge the debt the first time you are contacted.** This is because:

- **You want to make sure you actually owe the debt; and**
- **You want to make sure the individual contacting you really has the authority to collect the debt.**

If you know the debt is not your debt, you can ask the debt collector to stop contacting you.

Before sending money or acknowledging the debt, ask the debt collection agency to verify the debt. Do this by sending a letter within 30 days of the debt collector's first contact asking them to verify the debt is yours and that they have the authority to collect it. Use the sample letters in *Tool 5: When debt collectors call* to get started.

Even if the debt may be yours, you have the right under the Fair Debt Collection Practices Act (FDCPA) to ask the debt collector to stop contacting you. Once you make this request, they can contact you to tell you that they won't contact you again. Or they may notify you that they or the creditor could take other action (for example, filing a lawsuit against you).

Stopping them from contacting you does not cancel the debt. You still might be sued or have debt reported to the credit reporting agencies (Equifax, Experian, and TransUnion).

You can ask a debt collector to stop contacting you at any time, so keep in mind that you could ask them for more information before deciding whether to tell them to stop contacting you.

Your rights in debt collection

The Fair Debt Collection Practices Act (FDCPA) says what debt collectors can and cannot do. This law covers businesses or individuals that collect the debt of other businesses. These are often called “third party debt collectors.” This law does not apply to businesses trying to collect their own debts.

The law states that debt collectors may not harass, oppress, or abuse you or any other people they contact. Some examples of harassment are:

- Repeated phone calls that are intended to annoy, abuse, or harass you or any person answering the phone.
- Obscene or profane language.
- Threats of violence or harm.
- Publishing lists of people who refuse to pay their debts (this does not include reporting information to a credit reporting company).
- Calling you without telling you who they are.

The law also says debt collectors cannot use false, deceptive, or misleading practices. This includes misrepresentations about the debt, including the amount owed, that the person is an attorney, threats to have you arrested, threats to do things that cannot legally be done, or threats to do things that the debt collector has no intention of doing.

Keep a file of all letters or documents a debt collector sends you and copies of anything you send to a debt collector. Also, write down dates and times of conversations along with notes about what you discussed. These records can help you if you have a dispute with a debt collector, meet with a lawyer, or go to court.

TOOL 1

Debt management worksheet

Before you can make a plan for your debt, you have to know where you stand. You can start by making a list of **who you owe money to and how much you owe them**. This is the first step in managing and reducing your debt.

Be sure to include debts to friends and family, credit card companies, banks, department stores, payday lenders, and the federal government (for student loans and income taxes, for example).

On the debt management worksheet, you will include:

- The person, business, or organization you own money to.
- The amount you owe them.
- The amount of your monthly payment, which includes the principal, interest payments, and any fees you may owe.
- The interest rate you are paying and other important terms.

To complete this worksheet, you may need to get all of your bills together in one place.

Use this worksheet to list who you owe money to and how much you owe them. This is the first step in managing and reducing your debt.

	Lender	Total Amount Borrowed	Amount Out-standing	Total Payment Amount	Payment Due Date	Secured? If Yes, by What?	Interest Rate	Other Important Terms
Mortgage								
Vehicle Loan								
Appliance / Furniture Loan								
Student Loan								
Credit Card / Charge Card Debt								
Pay Day Loan								
Other								
Other								
Total Monthly Debt Payment								

TOOL 2

Debt-to-income worksheet

Your debt-to-income ratio is like your blood pressure. Your blood pressure measures the amount of pressure on your heart; your debt-to-income ratio measures how much pressure debt is putting on your budget.

Your debt-to-income ratio is a simple calculation. It is the total of your monthly debt payments divided by your monthly gross income. Gross income is the amount of your income before any taxes or other deductions are taken.

The result is a percentage. This tells you how much of your income is going toward covering your debt.

Another way of seeing the debt-to-income ratio is that it represents how much of every dollar you earn goes to cover your debt.

For example, if your debt-to-income ratio is .45, or 45%, then 45 cents out of every dollar you earn goes toward your debt. This leaves you with 55 cents of every dollar to cover your rent, taxes, insurance, utilities, food, clothing, child care, and so on.

In addition to using the debt-to-income ratio to measure how much pressure debt is putting on your budget, you can also use it as a benchmark if you implement a debt reduction plan. As you pay down your debts, your debt-to-income ratio will also decline. And this will result in money being freed up to use on other things, such as saving for your goals, unexpected expenses, and emergencies.

Use the following tool and the analysis to figure out your debt-to-income ratio.

Your Total Monthly Debt Payment (from Tool 1)	
DIVIDED BY	
Your Monthly Gross Income (Income before taxes)	
EQUALS	
Your Current Debt-to-Income Ratio	

Understanding your debt-to-income analysis

If your debt-to-income ratio is higher than these percentages, it could be difficult to pay all your monthly bills because so much of your income will be going to cover debts. A high debt-to-income ratio may also impact your ability to get additional credit because creditors may be concerned that you would not be able to handle their debt on top of what you already owe.

The following debt-to-income ratio ranges are guidelines. These ranges are not rules. In fact, many creditors set their own guidelines. What is an acceptable level of debt to one creditor may not be to another.

- **For Renters:** Consider maintaining a debt-to-income ratio of 15% - 20% or less.
  - This means that monthly credit card payments, student loan payments, auto loan payment, and other debts should take up 20% or less of your gross income.
- **For Homeowners:** Consider maintaining a debt-to-income ratio of 28% - 35% or less for just the mortgage (home loan), taxes, and insurance.
  - This includes the monthly principal, interest, taxes, and insurance (called PITI).
- **For Homeowners:** Consider maintaining a debt-to-income ratio for all debts of 36% or less.
  - This means that if you have a mortgage and other debts—credit card payments, student loan payments, auto loan payment, and payday loan payments–your debt-to-

income ratio should be below 36%.

- If you have court-ordered, fixed payments, such as child support, count these as debt for this purpose.
- Some lenders will go up to 43% or higher for all debt, but it is up to you to decide how much you can afford.

If your debt-to-income ratio is above these limits, you may want to use *Tool 3: Debt reduction worksheet* to develop a plan to reduce your debt and lower your debt-to-income ratio.

TOOL 3

Debt reduction worksheet

When it comes to reducing your debt, there are two basic strategies:

Highest Interest Rate Method

Focus on the unsecured debt with the highest rate of interest, and eliminate it as quickly as possible, because it is costing you the most. Once it is paid off, focus on the next most expensive debt.

PRO	CON
You eliminate the most costly debt first.	You may not feel like you are making progress very quickly, especially if this debt is large.

Snowball Method

Focus on the smallest debt. Get rid of it as soon as possible. Once you have paid it off in full, continue with the payment, but now dedicate it to the next smallest debt. This is called the "snow ball method." You create "a snow ball of debt payments" that keeps getting bigger as you eliminate each debt. How? You keep making the payments, but you are redirecting them to the next debt as each debt is paid off.

PRO	CON
You may see progress quickly, especially if you have many small debts. For some people, this creates momentum and motivation.	You may pay more in total because you are not necessarily eliminating your most costly debt

There are other things you can do, too.

- Call your creditors to see if they will lower your interest rates. If you have paid all of your bills on time, they may lower it to maintain your loyalty. If you are in a difficult position, you could explain your hardship and ask them to lower the rate.
- Get another job in the short-term. Use all of your additional earnings to eliminate debts.
- Sell something, and use the income to pay off a debt or debts.
- If you are eligible, file for tax credits, and use your refund to pay down or eliminate debts.

Check the method you are going to use, and then follow the instructions.

- **Highest Interest Rate Method**
    - List your debts from highest rate to lowest rate.
    - In the column labeled Extra Payment, list the extra payment you will dedicate to the debt with the highest interest rate until you have it paid off.
    - When this debt is paid off, allocate the entire payment (monthly payment + extra payment) you were making to the next debt on the list.
- **Snowball Method**
    - List your debts from smallest to largest in terms of the amount outstanding.
    - In the column labeled Extra Payment, list the extra payment you will dedicate to the smallest debt until you have it paid off.
    - When this debt is paid off, allocate the entire payment (monthly payment + extra payment) you were making to the next debt on the list.

Lender	Total Amount Borrowed	Amount Out-standing	Monthly Payment	Extra Payment	Monthly Due Date	Date Paid Off In Full

TOOL 4

Student loan debt

The CPFB has a section on its website dedicated entirely to helping you plan for ways to pay for postsecondary education. In fact, the tool will help you think through the entire process of planning for and paying for school including:

- Researching schools.
- Filling out the Free Application for Federal Student Aid (FAFSA), a first step in figuring out how to pay for college.
- Choosing a loan.
- Comparing financial aid packages and college costs across more than one school.
- Managing your money while in college.
- Repaying your student loans.

If you have student loan debt, start with the Repaying Your Student Loans section of the tool, which can be accessed at: http://www.consumerfinance.gov/paying-for-college/repay-student-debt/#Question-1.

Repaying federal student loans

There are two general kinds of student loans: federal student loans and private student loans. **Federal student loans** are loans that are funded by the federal government. **Private student loans** are nonfederal loans made by a lender such as a bank, credit union, state agency, or a school. In both federal and private student loans, delinquent payment will impact your credit history and scores and may result in collections. Private student loans do not offer the flexible repayment terms or borrower protections featured by federal student loans.

There are many options for paying back federal student loans. **Do not ignore student loan paperwork—**nonpayment and delinquency reduces options for payment plans as many require loans in good standing to qualify. A summary of some of the repayment options includes:

- **Standard Repayment.** Most borrowers start with this payment plan. This repayment plan has fixed payment of at least $50/month for up to 10 years.
- **Graduated Repayment.** The payment is lower the first year and then gradually increased every 2 years for up to 10 years.
- **Extended Repayment.** The payment is fixed or graduated for up to 25 years. The monthly payments are lower than the standard or graduated repayment plans, but you will pay more interest over the life the loan(s).
- **Income-Based Repayment (IBR).** Payment is limited to 15% of discretionary income, which is the difference between your adjusted gross income and 150% of the Federal Poverty Guidelines. Payments change as income changes and the terms can last up to 25 years. After 25 years of consistent payment (you have missed no payments or caught up with payments), the loan will be forgiven. You will have to pay income tax on the portion of the loan that is forgiven. To qualify for IBR, you must be able to show partial hardship.
- **Pay as You Earn.** Payment is limited to 10% of discretionary income as defined above, payment changes as income changes, and the loan term is 20 years. After 20 years of payments, the loan is forgiven as described above, and taxes will be owed on the amount forgiven. To qualify for pay as you earn, you must be able to show partial hardship.
- **Consolidation Loan.** You pay off all of your existing federal student loans with a new loan. This simplifies paperwork and payment for you—you go from monthly payments on multiple loans to one payment per month on the one new loan. Your loans must be in good standing to qualify. This results in lower monthly payments as the term is 30 years; however, you will pay more interest over the life of the loan.

You may also qualify for **deferment** or **forbearance** in certain circumstances. In deferment, payment of both principal and interest is delayed. If you have a subsidized federal loan, the government pays your interest during the deferment. Otherwise you must pay interest or it accrues, which means builds up. When interest builds up on student loans, it becomes part of what you owe. This means you ultimately end up paying interest on the interest. **Deferments are only granted for specific circumstances including:**

- Enrollment in college, a trade school, a graduate fellowship, or a rehabilitation program for individuals with disabilities.

- During unemployment.
- During military services.
- During times of economic hardship, including Peace Corps service.

Forbearance means that you stop paying or pay a lesser amount on your loan for a 12-month period. Interest accrues during forbearance.

When applying for a repayment option, be sure to continue making your loan payments until you receive written notification that you have been approved for IBR or forbearance, for example. This ensures your loan continues to be in good standing.

Finally, you may also apply for **loan forgiveness**, **cancellation**, or **discharge** in the following situations:

- Total and permanent disability
- Death (someone would apply on your behalf)
- Closed school
- Teacher loan forgiveness (if you are a teacher working in certain educational settings)
- Public services loan forgiveness (if you work in a public service sector and have made 120 loan payments)

Except for the above circumstances, it is nearly impossible to eliminate federal student loan debt even in bankruptcy. And your wages and bank accounts can be garnished for nonpayment.

Resources

For more information on student loan repayment options, visit:

StudentAid.ed.gov, Repay Your Loans: http://studentaid.ed.gov/repay-loans

ConsumerFinance.gov, Paying for College: http://www.consumerfinance.gov/paying-for-college/

TOOL 5

When debt collectors call

Ask for more information

Before sending money or acknowledging the debt, ask the debt collection agency to verify the debt. You can do this by sending a letter within 30 days of the debt collector's first contact asking them to verify the debt is yours and that they have the authority to collect it.

You can use the sample letter on the next page to ask for more information about this debt.

- Read the information below.
- Edit the letter as needed to fit your situation. Delete any bullets that don't apply to you, or isn't information you're looking for.
- Print and send the letter as soon as you can. Keep a copy for your records.

Send this letter as soon as you can and, if at all possible, within 30 days of when a debt collector contacts you the first time about a debt. Even if 30 days have passed, and a debt collector isn't legally required to give you certain information, you can still ask for it.

If you ask in writing before the deadline, **a debt collector has certain legal responsibilities to give you some information**. But if the collector doesn't provide everything you request, that doesn't necessarily mean the debt collector has broken any laws or has given up a legal right to collect a debt. The debt collector could still be allowed to demand that you pay, or file a lawsuit. If you have specific questions, contact an attorney.

If the debt collector makes vague statements about what will happen if you do not pay, read their response to your letter carefully. **Federal law prohibits a debt collector from deceiving you by threatening to take actions they can't take or don't intend to take.** But if they tell you that they intend to sue you, you should take that seriously.

State laws, have statutes of limitations, or limited time periods when creditors or debt collectors can file a lawsuit to collect a debt. These periods of time can be two years or longer; the period of time varies by state and by the type of debt. In some states, even a partial payment on the debt will restart the time period. You may want to consult an attorney or the applicable law in your state to know when the statute of limitations expires before making any payment on a debt.

Knowing whether or not a debt collector is licensed is useful (though not all states require licenses) because if the debt collector isn't conducting itself properly, you can contact the state licensing agency which in many cases is the state attorney general.

Example letter to a debt collector asking to verify the debt

[Your name]
[Your return address]

[Date]

[Debt collector name]
[Debt collector Address]

Re: [Account number for the debt, if you have it]

Dear debt collector:

I am responding to your contact about a debt you are trying to collect. You contacted me by [phone/mail], on [date] and identified the debt as [any information they gave you about the debt]. Please supply the information below so that I can be fully informed:

<u>Why you think I owe the debt, and to whom I owe it, including</u>:

- The name and address of the creditor to whom the debt is currently owed, the account number used by that creditor, and the amount owed.
    - If this debt started with a different creditor, provide the name and address of the original creditor, the account number used by that creditor, and the amount owed to that creditor at the time it was transferred. When you identify the original creditor, please provide any other name by which I might know them, if that is different from the official name. In addition, tell me when the current creditor obtained the debt and who the current creditor obtained it from.
    - Provide verification and documentation that there is a valid basis for claiming that I am required to pay the debt to the current creditor. For example, can you provide a copy of the written agreement that created my original requirement to pay?

- If you are asking that I pay a debt that somebody else is or was required to pay, identify that person. Provide verification and documentation about why this is a debt that I am required to pay.

The amount and age of the debt, specifically:

- A copy of the last billing statement sent to me by the original creditor.
- State the amount of the debt when you obtained it, and when that was. If there have been any additional interest, fees, or charges added since the last billing statement from the original creditor, provide an itemization showing the dates and amount of each added amount. In addition, explain how the added interest, fees or other charges are expressly authorized by the agreement creating the debt or are permitted by law.
- If there have been any payments or other reductions since the last billing statement from the original creditor, provide an itemization showing the dates and amount of each of them.
- If there have been any other changes or adjustments since the last billing statement from the original creditor, please provide full verification and documentation of the amount you are trying to collect. Explain how that amount was calculated. In addition, explain how the other changes or adjustments are expressly authorized by the agreement creating the debt or permitted by law.
- Tell me when the creditor claims this debt became due and when it became delinquent.
- Identify the date of the last payment made on this account.

  Have you made a determination that this debt is within the statute of limitations applicable to it? Tell me when you think the statute of limitations expires for this debt, and how you determined that.

I have asked for this information because I have some questions about this debt. Because of my questions, please consider the debt to be disputed at this time. If you stop your collection of this debt, and forward or return it to another company, please indicate to them that it is disputed. If you report it to a credit bureau (or have already done so), also report that the debt is disputed. In addition, you should state in any report that you have failed to fully verify the debt in response to my request (unless you have already provided all the necessary information).

If you fail to provide any of the information or documentation I have asked for, please say why. If you do not provide it, and do not adequately explain why, I will understand that you are unable to confirm or document your claims.

Details about your authority to collect this debt.

- I would like more information about your firm before I discuss the debt with you. Does your firm have a debt collection license from my state? If not, say why not. If so, provide the date of the license, the name on the license, the license number, and the name, address, and telephone number of the state agency issuing the license.
- If you are contacting me from a place outside my state, does your firm have a debt collection license from that place? If so, provide the date of the license, the name on the license, the license number, and the name, address, and telephone number of the state agency issuing the license.

Please let me know whether you are prepared to accept less than the balance you are claiming is owed on this account. If so, please tell me in writing your offer to accept less than the full balance.

Thank you for your cooperation.

Sincerely,

[Your name]

You can ask a debt collector to stop contacting you

The following example letter tells the debt collector to stop contacting you unless they can show evidence that you are responsible for this debt. Stopping contact does not cancel the debt. So, if the debt collector still believes you really are responsible for the debt, they could still take other action. For example, you still might be sued or have the status of the debt reported to one or all of the three credit reporting agencies—Equifax, Experian, and TransUnion.

You may not want to make a request to stop contact if the debt is your home mortgage. If you ask your mortgage servicer to stop contacting you, the servicer will not have to reach out to tell you about options that you may have to avoid foreclosure.

Example letter

[Your name]
[Your return address]

[Date]

[Debt collector name]
[Debt collector Address]

Re: [Account number for the debt, if you have it]

Dear debt collector,

I am responding to your contact about collecting a debt. You contacted me by [phone/mail], on [date] and identified the debt as [any information they gave you about the debt]. I do not have any responsibility for the debt you're trying to collect.

If you have good reason to believe that I am responsible for this debt, mail me the documents that make you believe that. Stop all other communication with me and with this address, and record that I dispute having any obligation for this debt. If you stop your collection of this debt, and forward or return it to another company, please indicate to them that it is disputed. If you report it to a credit bureau (or have already done so), also report that the debt is disputed.

Sincerely,

[Your name]

contain sensitive personal and financial information; and shred hard copies that contain sensitive personal and financial information when no longer needed.