Debt Settlement Disclosure

Important Information Below

Debt Settlement is an approach to debt reduction in which the debtor and creditor agree to "settle" the debt for something less than the full amount, but regard the settlement as payment in full. While debt settlement can often be a beneficial debt reduction solution for debtors, it is not without its risks. Below is a disclosure of the key components of debt settlement that every consumer should be aware of in order to have reasonable expectations of the outcome of a debt settlement service. The information below is not specific to any one debt settlement company, but rather applies to debt settlement as a whole and is therefore applicable to all debt settlement companies. Additional detail is provided below in regard to the following disclosures.

1) Debt settlement service providers act on a "best efforts" basis and may not guarantee any specific results.
2) Any savings obtained as a result of a debt settlement service may be taxable as ordinary income.
3) A creditor is not obligated to participate in a debt settlement negotiation, and may file a lawsuit or seek repayment through an Arbitration Forum in an attempt to collect on the debt in full.
4) Participating in a debt settlement program will have a negative impact on your credit throughout the duration of the service. Creditors may still attempt to contact a debtor directly in an attempt to collect on the debt.
5) Payments made by a debtor to a debt settlement service provider are not immediately forwarded to the debtor's creditor(s). As such, late fees, penalties and interest will continue to accumulate on the debt.
6) Debt settlement service providers charge fees in a variety of ways. How and when fees are charged may impact how quickly debtor funds accumulate for settlement purposes.

Results Not Guaranteed: A debt settlement service provider can not guarantee or predict the results of their Debt Settlement service. All services are performed on a best efforts basis. Each debtor's results are unique to that debtor's circumstances and individual creditor negotiations. Any result projections used in advertising or in determining a debtor's payment plan are simply estimates and should not be relied upon as an indication of actual results. Such projections are often based on the average results obtained by the debt settlement service provider on behalf of other clients. It is possible that a creditor will not enter into a debt settlement negotiation with the debt settlement service provider and that the creditor will pursue the debtor directly in regard to repayment of the debt.

Tax Consequences of Debt Settlement: When a debt is successfully settled, the savings obtained (i.e. the difference between the total debt owed and the reduced amount the creditor agrees to accept) is considered a "forgiveness of debt" by the IRS. Outside of bankruptcy, in most cases a debt that is forgiven by the creditor is treated for tax purposes as though the debtor got that amount in cash, and is therefore considered taxable income. This only applies if the savings are equal to or greater than $600. The creditor issues an IRS Form 1099 identifying the forgiven debt amount and sends one copy to the debtor and one copy to the IRS. Therefore, a consumer participating in a Debt Settlement program may

More Information On Next Page

owe taxes on any savings received as a result of the settlement. For example, if a creditor accepts $6,000 as payment in full for a debt that is valued at $10,000, than the savings achieved as a result of the settlement is $4,000 (i.e. $10,000 - $6,000 = $4,000). The $4,000 is considered a forgiveness of debt by the IRS and is therefore taxable income for the year in which the debt was forgiven. If the consumer in this example is in the 20% tax bracket, then they will owe $800 in taxes (i.e. $4,000 x 20% = $800). Consumers considering Debt Settlement should take into account the potential tax consequences when determining the actual savings obtained by the program. A consumer should consult with an accountant to discuss this issue further and determine whether or not they qualify for an exception.

<u>Legal Actions Available To Creditor</u>: A creditor is not obligated to participate in a debt settlement negotiation and has legal options in regard to their right to collect on the debt. A creditor may file a lawsuit or seek repayment through an Arbitration Forum in an attempt to collect on the debt in full. In the event that a creditor is successful through a lawsuit, the creditor may receive a judgment against the debtor. A judgment is a court order that allows the creditor to obtain payment from the debtor, typically by garnishing the debtor's wages or bank account. That means that the creditor can legally deduct money directly from the debtor's wages or bank account as a result of the court order. Whether or not a consumer's wages may be garnished is determined by state law. In addition, a creditor is entitled to pursue debt collection via telephone and other methods of communication, as long as the creditor's actions are not in violation of the Federal Fair Debt Collection Practices Act.

<u>Impact On Credit</u>: By participating in a debt settlement service and voluntarily withholding payment from one's creditors, the creditor will report the debtor as delinquent and the credit file and related credit score of the debtor will be negatively impacted. In addition to reporting the debtor as delinquent, a creditor may "charge off" the debt and send it to a collection agency or attorney. Reporting of a "charge off" will also reflect negatively on the debtor's credit file. Debtors participating in a debt settlement program should anticipate that their credit score will be negatively impacted throughout the entire duration of the debt settlement service. Debt settlement service providers do not provide services intended to restore a debtor's credit score during or upon completion of the debt settlement service.

<u>Timeliness Of Payments To Creditors</u>: Payments related to a debt settlement service are not immediately or routinely forwarded to the debtor's creditors. Such payments accumulate in an account until such time as a successful settlement has been negotiated with a creditor, and enough funds have accumulated in the account to pay the agreed upon settlement amount. Each creditor negotiation is unique, and it can take months or even years before a settlement is agreed upon a paid. During that period the creditor will continue to apply late fees, penalties and interest on the applicable debt.

<u>Impact Of Fees On Settlement</u>: How and when a debt settlement service provider charges their fees can impact how quickly a debtor's payments accumulate and are available to pay settlements. Many debt settlement service providers withdrawal all or some of their fees from the initial payments made by the debtor, and therefore those payments are not applied to the debtor's set-aside account and are not available to pay settlements.

More Information On Next Page