Debt Negotiation: Strategies to Negotiate Collections and Reduce What You Owe

The Core Principle of Debt Negotiation

"The key to debt negotiation is to create a better outcome for both parties."

Debt negotiation is about finding a resolution that works for you and your creditor, rather than creating confrontation. Some debt is productive (mortgages and auto loans help build wealth), but unpaid loans, credit cards sent to collections, and high-interest consumer debt can be actively harmful to your financial health.

This guide summarizes the strategies and resources shared during the webinar to help you take control.

Know Your Rights: The Fair Debt Collection Practices Act (FDCPA)

The FDCPA is a federal law that protects consumers from abusive, unfair, or deceptive practices by debt collectors. Key protections include:

- Collectors cannot call you before 8 a.m. or after 9 p.m.
- Collectors cannot use threats, obscene language, or harassment.
- You have the right to request written validation of any debt.
- You can request that a collector stop contacting you (in writing).
- Collectors must identify themselves and disclose that they are attempting to collect a debt.

It is always a good idea to consult with legal representation if you feel your rights have been violated.

Where to Report Abuse

Agency	Contact Information
Michigan Attorney General	miag@Michigan.gov · 517-335-7622
Federal Trade Commission (FTC)	ReportFraud.ftc.com
Consumer Financial Protection Bureau	ConsumerFinance.gov/complaint

Understanding the Typical Stages of Debt

Debt typically progresses through a predictable cycle. Understanding where you are helps you choose the right strategy:

- **Missed payments.** The account becomes past due with the original creditor.
- **Charge-off.** After roughly 180 days, the creditor writes off the debt. It still exists, but is removed from their active books.

- **Sold to collections.** The original creditor sells the debt to a third-party collection agency, often for pennies on the dollar.

- **Legal action.** If the debt is left unresolved, creditors or collectors may pursue liens, wage garnishments, repossession, or court judgments. You could be ordered to pay the original debt plus interest and fees.

Three-Step Negotiating Debt in Collections Strategy

Step 1: Learn About the Debt (Without Sharing Personal Information)

When a collector contacts you, gather information before you volunteer anything about yourself:

- Ask who the original creditor was and where the collection company is located.
- Request a debt validation letter. The collector is legally required to provide proof that the debt is yours and that the amount is accurate.
- Cross-reference with your credit report (available free at AnnualCreditReport.com) to verify the balance and date of original delinquency.
- Confirm the collector is registered to operate in your state.

Step 2: Know Your Numbers Before You Call

Preparation is your greatest advantage. Before picking up the phone, you should:

Create a Spending Plan

A spending plan puts YOU in control of where you choose to spend your money. It helps you identify exactly how much you can realistically put toward debt each month:

- List ALL sources of income (wages, child support, side income, etc.).
- List FIXED expenses, which are costs that stay the same each month (rent/mortgage, car payments, insurance, budget-plan utilities).
- List VARIABLE expenses, which are costs that change month to month (groceries, gas, non-budget utilities).
- List SAVINGS, including your emergency fund, large purchases, and home maintenance.
- Calculate your EXTRA, which is the amount remaining after all the above. This is what you can apply to collections.

Example: $1,750 in wages + $200 in child support = $1,950 in income. After $1,185 in fixed expenses, $565 in variable expenses, and $50 in savings, you have $150/month available for debt negotiation.

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Build Your Negotiation Worksheet

For each debt in collections, document the following before you negotiate:

- Creditor name and which credit bureau(s) are reporting it (TransUnion, Experian, Equifax).
- Current balance owed.
- Date of original delinquency.
- Maximum amount you're willing to pay (as a lump sum and monthly payment).
- Target amount you'd like to settle for.
- Starting negotiation amount (always begin lower than your target).
- Estimated date you plan to address the debt.

Step 3: Enter Negotiations and Consider the Statute of Limitations

Negotiations may take several rounds, so be patient and persistent.

Key considerations:

- Negotiation is normal. Collectors often buy debt for far less than the face value, so there is room to settle.
- Always get settlement agreements in writing before making any payment.
- Check the statute of limitations on each debt. How long has it been reported? In many states, collectors lose the ability to sue for very old debts, but a judgment can renew the clock for another 10 years.
- Making a partial payment or acknowledging the debt can restart the statute of limitations in some states, so proceed carefully.
- Be prepared to make changes: new habits, new processes, and new behaviors around spending. Change is hard, but persistence pays off.

Medical Debt

Before Collections

If you have medical bills that have not yet gone to collections, explore these options first:

- Contact the provider's billing department to negotiate a reduced rate or set up a payment plan.
- Ask about financial assistance programs, charity care, or sliding-scale fees.
- Review your bill for errors, since medical billing mistakes are common.

Medical Debt and Your Credit Report

The Consumer Financial Protection Bureau (CFPB) has implemented rules to limit the impact of medical debt on credit reports. The rule covers medical debt sold to collection agencies. It is intended to prevent negative credit consequences from disputed, inaccurate, or unpaid medical bills while protecting consumer access to fair credit opportunities.

Student Loan Debt

Federal student loans offer unique repayment and forgiveness options that differ from those for other consumer debt. If you are struggling with student loan payments, contact your loan servicer to discuss income-driven repayment plans, deferment, or forbearance options.

BEWARE OF SCAMS: You may be contacted by companies offering loan discharge, forgiveness, or debt relief for a fee. You NEVER have to pay for help with federal student aid. Work ONLY with the U.S. Department of Education and authorized loan servicers. Never share your personal information or account passwords with anyone claiming to offer paid assistance.

Report scams to the FTC at 877-382-4357 or reportfraud.ftc.gov.

Negotiating Debt Prior to Collections

If your debt has not been sent to collections yet, you may have additional leverage.

Contact your original creditor directly to discuss:

- Hardship programs or temporary reduced payment plans.
- Interest rate reductions.
- Re-aging the account (bringing it current after a series of on-time payments).
- Settling for less than the full amount owed.

Tax Implications of Debt Forgiveness

When a creditor forgives or cancels $600 or more of your debt, they may report the forgiven amount to the IRS as taxable income. You could receive a Form 1099-C. This means you may owe taxes on the forgiven amount, so plan accordingly and consult with a tax professional if needed.

After Negotiation: Keeping Your Debt Low

Don't sabotage your hard work by getting into debt again!

The effort you put into negotiating and paying down your debt will yield lasting rewards:

- An improved credit score opens doors to better rates and opportunities.
- Less financial stress and greater peace of mind.
- The ability to plan for the future, including homeownership, education, and retirement.

Quick-Reference: Key Contacts and Resources

Resource	Details
OLHSA Housing Counseling	HUD-certified, free counseling services • olhsa.org
Michigan Attorney General	miag@Michigan.gov • 517-335-7622
FTC (Report Fraud)	ReportFraud.ftc.com • 877-382-4357
CFPB (Complaints)	ConsumerFinance.gov/complaint
Free Credit Reports	AnnualCreditReport.com
Student Aid (Federal)	StudentAid.gov
Student Loan Scam Reporting	ReportFraud.ftc.gov • 877-382-4357

Disclaimer: This resource guide is for informational purposes only and does not constitute legal advice. If you have legal concerns regarding your debt, please consult a licensed attorney. Legal Aid resources are available; ask your counselor for the referral sheet.