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## PAYMENT PLANS

# Getting Out of Debt: The Truth About Debt Reduction



🕒 6 MINUTE READ

When it comes to knocking out debt, there's no such thing as a quick fix. Slow and steady wins the race in the battle against debt. Still, that doesn't stop people from looking for an easy way to speed up the process. And that's what keeps debt reduction services in business.

## What's Debt Reduction Anyway?

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**Basically, a debt reduction service promises (for a fee) to help clean up your debt mess by working with your creditors.** Usually, those promises come in one of two forms: debt settlement and debt consolidation.

Debt *settlement* companies take the money you pay them and use it to negotiate with your creditors to reduce or eliminate what you owe. The problem is, they charge way more than you would pay if you just settled the debts on your own.

Debt *consolidation* companies combine all your debts into one single debt—usually at a lower interest rate. That sounds good on the surface, but they don't really get rid of your debts. They just move them from one place to another.

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The key thing to remember in both cases is that you really don't need to pay someone else to do what you can do yourself. Believe it or not, you actually have the power to call your creditors and negotiate.

## Your Top Debt Reduction Questions Answered

### Does Using a Debt Reduction Program Help or Hurt Your Credit Score?

If you're repaying your debt through a credit counseling program or using a debt management plan, it won't impact your credit score. But if you end up settling for less than the original amount of the debt, there will almost always be a negative reflection on your credit score.<sup>(1)</sup>

But here's the thing: Your credit score doesn't really matter anyway.

We know this isn't a popular thing to say, but we're used to ruffling a few feathers. A credit score doesn't show how well off you are financially or how great you are at managing money.

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Here's the harsh truth: Using debt consolidation actually means you'll be in debt *longer*.

Sure, you might think it's a quick fix because suddenly you'll have lower monthly payments hitting you, but that doesn't mean much. The term of your loan is probably going to be lengthened—which actually means *more* payments from you in the long run.

Let's say you have \$30,000 in unsecured debt. The debt includes a two-year loan for \$10,000 at 12%, and a four-year loan for \$20,000 at 10%. Your monthly payment on the first loan is \$470, and the payment on the second is \$507. **That's a total payment of \$977 per month.**

So, you talk to a company that promises to lower your payment to **\$541 per month and your interest rate to 9%** by negotiating with your creditors and rolling the two loans together into one. Sounds pretty good, doesn't it? Who wouldn't want to pay \$436 less in monthly payments!

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But here's the downside: **It will now take you six years to pay off the loan. Six years.**

If that's not bad enough, you'll end up shelling out **\$38,935 to pay off the new loan versus \$35,646 for the original two loans**—even with the lower interest rate of 9%. This means your "lower payment" has cost \$3,289 more. We've got two words for you: *Rip. Off.*

As "magical" as debt reduction services might seem on the surface, they won't settle *all* your debt, and it's never fully guaranteed anyway.

If you really want true debt relief, set your sights on getting rid of it **as fast as you can!**

**How Can I Reduce My Debt Without Using Debt Reduction Programs?**

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while throwing everything you have at your lowest balance until it's gone. When that smallest debt is paid in full, take the amount you were paying on it and throw it at the next debt. Using this process will "snowball" the amount you have to put toward each debt.

The debt snowball method works because **it's about a behavior change, not math.**

If you want a proven plan for your money that really works, sign up for [Financial Peace University](#). With our step-by-step process, you'll get debt help that empowers you to start on a new course with a new mindset when it comes to handling your money.

If you're navigating your way through a financial crisis and really don't know where to begin, a [financial coach](#) may be what you need. Our coaches can guide, equip and encourage you to make the best financial decisions for your future.

## A Better Plan Than Debt Reduction

Simply put, debt reduction services only *delay* the inevitable—and they take your money while they're at it. **But you don't want to just "reduce" your debt. You want to eliminate it.** For good! It needs to be gone and out of your life as quickly as possible!

That's what makes the [Baby Steps](#) a better plan. Debt reduction services only deal with the symptoms of a debt problem, not the cause. **But the intentional, step-by-step process of the Baby Steps actually helps you change your behavior.** Because if you don't change your behavior, you'll slip right back into debt once you're done with the debt reduction service.

Let's be honest . . . paying off debt is never quick or easy. While the Baby Steps are simple, they do take some work. **And your progress only moves at the speed of your motivation.**

So, start with saving \$1,000 for an emergency ([Baby Step 1](#)), and then move on to the next Baby Step. [Get on a budget](#)—and stay on it! Build up an [emergency fund](#). Use the [debt snowball](#) to wipe out your debt once and for all. Then you can start building a future where you can [live and give](#) like no one else!

You definitely don't need to pay a debt reduction service to do what you can do on your own. Skip the "quick fix" and focus your energy on a plan that really works.

*Want to know the best way to pay off your debt and rewrite your story? The average family completing Financial Peace University pays off \$5,300 and saves \$2,700 in the 90 days! [Sign up today.](#)*

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