Know All of Your Options

Know All of Your Options

Debt Relief: Understand Your Options and the Consequences

Debt relief can ease the burden of overwhelming debt, but it's not right for everyone. Here is some insight into the pros and cons of each option you might consider.

When you're facing overwhelming debt, debt relief can change the terms or amount of your debt so you can get back on your feet more quickly.

But it is not a magic wand. Debt-relief programs are not the right solution for everyone, and it's important to understand what the consequences might be.

Debt relief could involve wiping the debt out altogether in bankruptcy; getting changes to your interest rate or payment schedule to lower your payments.

Small businesses often take loans to fund operations. Many business owners cannot qualify for traditional lending and they are forced to seek out alternative lending and the APR on these loan can get as high as the triple digits. That can be a problem as loans pile up and become increasingly difficult to manage.

Here are some options to consider when facing a financial hardship:

Beware: Some debt relief can make things worse

Option 1: Do Nothing

If you are behind in payments and you do nothing you will most likely face a frozen bank account and merchant account followed with legal action/lawsuits, judgments and/or liens from the Lenders.

Option 2: Get Another Loan

If you own your home outright and are willing to put your personal property as collateral, there are usually lending options available. If you are able to qualify, any additional unsecured financing stacked on top of existing loans comes with much higher interest rates and may make your cash flow situation worse. Additional unsecured debt is rarely the answer.

Know All of Your Options

SBA loans can be difficult to qualify for, and the application process is time consuming. If you have an immediate need, or if you're not a prime borrower, alternative small business loans might be a better fit.

MCA loans are quick and easier to get based on your company cash flow. Another MCA loan may only provide temporary relief and could further damage your cash flow. While the approval for most small business loans depends on your financial history, a merchant cash advance is predicated more on your current and future financial transactions.

Because your past is of lesser importance, merchant cash advances are a viable option for small businesses that have faced rejection from other lenders, such as new businesses or those with less-than-stellar credit scores. If you have 3 or more business loans already in place, make sure you are doing the right thing. Most people cannot borrow their way out of debt.

Beware #1: Merchant Cash Advance (MCA) loans are expensive. The annual percentage rate, or total annual borrowing cost with all fees and interest included, may be in a range between 40% to 350%, depending on the lender. MCA Contracts often have 1 or all 3 of these:

- Confession of Judgement
- Personal Guarantee
- UCC-1 Filings

This gives the lender a lot of power to go after any and all assets, even personal, which can hurt you in the long run if you ever default on these loans.

Beware #2: Most lenders and brokers will tell you they can get you financing. If you have been turned down multiple times then the chances are you will not be able to get a loan as many brokers have access to shop your loan to 100's of lenders. This process of trying to obtain a loan can take months and quite often you will end up with nothing.

Option 3: Business Debt Modification

Considered in our opinion as the least risky way to **increase cash flow quickly, stay out of court and remain eligible for conventional financing**. Debt Modification is much different from debt settlement (Option 4). Debt Modification renegotiates your existing lender contracts for an extension of terms. The Modification Company will evaluate your financial situation and speak with lenders on your behalf to negotiate for a new payment plan that fits your current financial capabilities. This will reduce your high daily payments and streamline your debt repayment into a smaller much more affordable payment weekly or bi-weekly. This is not a temporary agreement, we are negotiating a new contract. This does extend the length of time you will be paying back the loan, but often reduces your payments 40%-60% giving you the cash flow you need. Such a plan only works if the business can afford the reduced payment plan, if your company can only afford 10% of what you agreed to pay you may need to look at Option 7(BK).

Most MCA Lenders will have Personal Guarantees, Confession of Judgements and UCC Filings that will affect option 7.

Call us today and we can review your agreements and let you know what you may be facing.

Option 4: Business Debt Settlement

On the positive side, debt settlement may help you pay off your debt for much less than what you owe. This may be viable for credit card debt where there are rules and regulations in place to protect debtors if they are unable to pay. However, MCA's are not technically loans, they are considered a "purchase of future receivables" and these types of transactions are not regulated. What does this mean? Aggressive and sometimes unethical collection tactics that can wreak havoc on your business. The lenders have a lot to lose with this option! What you are saying when entering into a "Debt Settlement" is that after 9 months of payments to the settlement company you will offer them 20 cents on the dollar.

National Credit Partners | 1551 N. Tustin Avenue, Suite 190, Santa Ana, CA, 92705 | P: **(888) 766-3998**

A $100,000 loan will often heighten the aggressive collection tactics by the lenders such as;

- Being sued quickly
- Bank accounts and merchant account frozen
- UCC's sent to any Vendors that owe you money which will stop cash flow
- Threatening phone calls and/or visits to your business by the lender.

Debt Settlement programs take time, typically the first couple months of payments go towards the settlement company fee and then it will take 6-9 months to accumulate enough cash to settle one of your loans. Any settled debts will report on the business credit as "Settled for less than full balance." Also, you may be listed on Datamerch as a bad debtor. Datamerch is used by lenders to notify other lenders of potential loan risks. This is almost as bad as a Bankruptcy filing when trying to get future financing.

Option 5: Consolidation Loan

Often a good option, but **very** difficult to qualify for. If you already have 3 or more MCA loans it is virtually impossible to qualify for a conventional consolidation loan. To consolidate, business owners take out a single loan which they use to pay off smaller loans that are outstanding. A single loan simplifies planning and should reduce costs. You are trading a patchwork of payments for a single, predictable payment. Better still; a consolidation loan might have an extended repayment period, meaning you can make smaller payments stretched over a longer time.

Before moving forward, review any prepayment penalties you might have to pay your current lenders and review the fees you might have to pay a new lender. Also compare the annual percentage rate of all your loans to decide how to proceed. If you can replace several high interest rate loans with a lower rate on a consolidation loan, it should be a good choice. But if you have debts that have lower APRs than the consolidation loan, you probably won't want to include them in the consolidation scheme.

In the case of a business consolidating multiple alternative financing positions, such a loan is often required to be secured, as the business owner has already proven a propensity for taking out extra positions.

Option 6: Reverse Consolidation Loan.

This is an extremely high risk loan issued through an MCA lender. Rather than receiving a lump sum amount, the lender will deposit weekly funds to cover your other daily payments. However, they are also drafting their own daily payment at the same time. You WILL NOT be receiving the funds of the loan all at once to pay off your current lenders. Study the terms of any Reverse Consolidation loan very carefully, after 1 or 2 months a business is often simply borrowing their own money. Only very specific short-term needs are appropriate for such a loan, and only if you will be able to repay it very early, have an accountant (not a loan broker) review any contract to see if it is right for you.

Option 7: Chapter 7, 13, or 11 Bankruptcy.

These are the options of last resort, only to be considered when nothing else will work. If you qualify for a Bankruptcy filing there are also the upfront lawyer costs to consider, and your business becomes the courts responsibility, no longer under your own control.

Choosing to seek the protection of the Bankruptcy Code is a serious decision. While the Bankruptcy Code may help alleviate your debt, the choice does not come without consequences. Filing for Bankruptcy should be your last resort when you have exhausted all your options.

First of all, bankruptcy petitions are public information. All of your property will be listed in the files for your bankruptcy case. There are no exceptions. You are required to file documents ("schedules"), under oath, that list all of your property and debts. These documents are public records. Many people feel uncomfortable with their private financial difficulties being exposed to the general public. Filing bankruptcy will also be reported to all major credit bureaus.

Second, you and your financial affairs will be subject to scrutiny by your creditors. Workout arrangements (depending on what chapter you file under the Bankruptcy Code), however, rarely resolve a current financial situation in a manner that is satisfactory to all parties. For one thing, such arrangements are voluntary. All creditors must agree to participate; the debtor can do nothing to force participation. If only some creditors agree to cooperate with the borrower, the likelihood that any workout arrangement will ultimately be successful is limited. There is no court supervision of such arrangements, and there is no disc harge of indebtedness given to the debtor. Unless the debtor can get releases from his creditors as a part of a workout arrangement, they could attempt to collect any unsatisfied portion of their claims at a later time.

Third, most if not all MCA contracts have a Personal Guaranty provision which makes you personally liable for your business debts. Therefore, filing for bankruptcy protection for your business may not necessarily relieve you from personal liability. **Your MCA lenders may still go after you to collect for your business debts.**

- **Chapter 7**

  Chapter 7 bankruptcies, sometimes referred to as liquidation bankruptcy, are the most common type of bankruptcy in the U.S., and the most basic form of bankruptcy. Chapter 7 provides liquidation of an individual's property and then distributes it to creditors. Individuals are allowed to keep "exempt property." The courts may provide businesses that file chapter 7 with a trustee that operates the business for a period of time. In general, the trustee will take charge of asset liquidations and proceeds.

- **Chapter 11**

  Chapter 11 bankruptcy is a reorganization bankruptcy, and is available to individuals and businesses. In contrast to chapter 7, the debtor remains in control of business operations under chapter 11 and doesn't sell off all of its assets. What chapter 11 does is allow a business to come out of bankruptcy as a healthy business. Businesses will attempt to change the terms on debts, like interest rates and values of payments.

- **Chapter 13**

  In chapter 13 bankruptcy, or a "wage earner plan", an individual that has regular income is allowed to develop a plan to pay back parts, or all, of their debts. One advantage of chapter 13 is it allows individuals to avoid foreclosure on their houses, in contrast to chapter 7.

Know All of Your Options

Call us today and we can review your agreements and let you know what you may be facing. Consultation is free.

We are an A+ BBB Rated Company

We are also a

AFCC Member

We are an American Fair Credit Council alliance member business. We strive ourselves to follow AFCC's strict Code of Conduct. AFCC has determined that National Credit Partners meets AFCC Alliance Membership Standards.

Contact us today for a Free Debt Reduction Consultation!

Call us at (888) 766-3998

Email us at info@nationalcreditpartners.org

Learn more on our website at Nationalcreditpartners.org

Our Office

1551 N. Tustin Ste 190

Santa Ana, CA 92705