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Do-it-yourself options to debt-settlement firms

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The scenario is no longer uncommon: You find yourself without a job and thousands of dollars in debt.

Here's what not to do: rush into a deal with a debt-settlement firm.

Debt settlement is a process in which a creditor agrees to accept less than the full amount owed and consider the balance as paid. Regulators and others warn that if borrowers get involved with the wrong outfit, they could lose thousands, ruin their credit, be sued by creditors and possibly forced into bankruptcy.

Is there another way out? Possibly, but you're going to need to brush up on your negotiating skills and do your research.

Be prepared: Nichole Buchanan took a loan against her retirement account to climb over a mountain of credit card debt. It's not a move that many people could, or should, make.

But Buchanan, 36, an associate professor of psychology at Michigan State University, saw putting that money toward a debt-settlement plan as her one way out.

She had gone through a divorce and tried making payments for several months on about $55,000 in credit card debt and student loans. But with two children, Buchanan soon could not manage more than $1,000 a month in minimum payments with four creditors.

She spent nearly $1,200 in fees to work through a program with a debt-settlement company.

Buchanan spoke with creditors monthly, then weekly. She made counteroffers on their requested amounts and settled with four creditors once she was three to five months late on her bills. Buchanan said it cost her $12,000 to erase about $35,000 in credit card debt. She's crossing her fingers that this arrangement works.

It's not without risks because you could be sued or see paychecks garnished.

Have a strategy: As regulators and others warn about settlement outfits, more consumers may consider working on their own. But you have to be careful about strategy and even the words you choose in asking to make a deal.

Look at your budget and consider how much money you have for a settlement. You will need to hand over a chunk, though some creditors might agree to two or three installments.

"The credit card company may come up with some options," said Gerri Detweiler, who has a Web site, Reduce Debt, Reduce Stress (www.reducedebtreducestress .com).

Detweiler, a personal finance expert for Credit.com, said one mom who e-mailed about her debt-troubled daughter could have the daughter call her credit card companies and explain that she is unemployed and cannot pay. Do not volunteer too much information, though.

Weigh the risks: Would a credit card company listen to a request for a settlement? Possibly, experts say, especially if a creditor is concerned that the consumer would otherwise file for bankruptcy.

"There are a lot of consumers right now who just can't pay all their bills," Detweiler said. "With (high) unemployment, you just don't know when things will turn around."

Still, there are risks.

It's likely that the card issuer will close your account if you call and say you're jobless and cannot pay. If you're making payments on time, credit card firms usually aren't going to offer a settlement.

Typically, a creditor will be more apt to offer a settlement if the debtor is a few months behind, said **Dorothy Guzek**, certified financial counselor for **GreenPath Debt Solutions**.

"The higher the risk, the more they settle," Guzek said. "The creditor is usually looking at, 'Am I going to get my money back?' "

Any settlement will hurt your credit score, and get it in writing so there are no demands for more money later.

Sidebar:

Gasping to survive when mortgage is underwater

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Nationally, strategic defaults -- people who walk away from mortgages that are underwater -- were up 128 percent in 2008 from 2007, according to Experian-Oliver Wyman, the credit reporting company.

And the number of underwater mortgages is expected to grow in the next two years.

"There is not a ready supply of buyers waiting to gobble up these properties," said Rick Sharga, senior vice president of RealtyTrac Inc., a realty Web site that specializes in foreclosures.

Negative equity is concentrated in five states, according to First American CoreLogic. Here's the ranking of those states with the most residential properties with mortgages underwater.

* Nevada: 70 percent, or 421,155 properties

* Arizona: 51 percent, or 698,645 properties

* Florida: 48 percent, or 2.2 million properties

* Michigan: 39 percent, or 532,774 properties

* California: 35 percent, or 2.4 million properties

How to get help

* Visit makinghomeaffordable.gov or call the Homeowners HOPE hot line at 888-995-4673.

* Beware of scam artists who might charge for mortgage counseling, require an upfront fee of $1,500-$5,000 or pressure you to sign papers immediately.

* Visit **greenpath.com** or call 888-860-4167, from 8 a.m.-8 p.m. Eastern time Monday-Thursday and 8 a.m.-7 p.m. Friday. Your mortgage loan number and basic budget information are required for free, HUD-approved counseling.

* The federal government's Making Home Affordable refinance program expires in June. Unless it's extended, some homeowners who owe more than their home's value could have more trouble refinancing this year.

* To get information about your loan, call your lender or visit fanniemae.com/loanlookup or freddiemac.com/mymortgage.