

Debt Management: The Compromise Agreement

If you are a person for whom bankruptcy is the very last resort, you might consider offering compromise agreements to your creditors. A compromise agreement differs from an installment plan because in a compromise agreement you are offering to pay a percentage of the outstanding debt you owe, say 20 to 30%. Creditors will work with individuals who are trying to avoid bankruptcy and for a compromise agreement to make sense to them you must show them that you have little income and few assets, [debt consolidation](#) is also an option in this situation. If you filed for bankruptcy they would receive nothing, and if they sought judgement might not even receive lawyer's fees!

What creditors will require is your budget. If you can show concrete evidence of a reduced standard of living, due to something like loss of job and making sacrifices that are significant and important, they will be comfortable with your sincerity and accept you as an honest, contrite debtor who simply has fallen on very hard times. For this to be effective, your situation must be dire, and you must be honest about all the hardships you have endured. Cite job loss, layoff, disability, death in the family, health problems or conditions that required your money. Most people wind up in this position due to inability to cover one or more of those issues from current income, and the creditors know this.

Coming to agreement with them through compromise has advantages over bankruptcy in that you can settle in a fair manner and preserve in part your credit rating. Moving all the creditors to negotiation at once has real advantages, and if you can get the majority of your creditors to agree, you can schedule a reduced amount of payment. Be sure to get everything in writing! With compromise agreements, it is better to pay the agreed-upon sum all at once than attempt to put it on an installment basis, so if you can come up with an amount, gather money from any source you can (family, friends etc.) -- after you've gotten agreement from your creditors -- and be sure to get a discharge of debt paper from the creditors once you have paid them off.

About the Author

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