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Debt Relief Promises May Really Be Offering Bankruptcy

Consumer debt is at an all-time high. What's more, a record number of consumers, more than 1.5 million in 2004, are filing for bankruptcy. Whether your debt dilemma is the result of an illness, unemployment, or overspending, it can seem overwhelming. In your effort to get solvent, be on the alert for advertisements that offer seemingly quick fixes. And read between the lines when faced with ads in newspapers, magazines, or even telephone directories that say:

"Consolidate your bills into one monthly payment without borrowing"

"STOP credit harassment, foreclosures, repossessions, tax levies and garnishments"

"Keep Your Property"

"Wipe out your debts! Consolidate your bills! How?"

By using the protection and assistance provided by federal law. For once, let the law work for you!"

While the ads pitch the promise of debt relief, they rarely say relief may be spelled b-a-n-k-r-u-p-t-c-y. And although bankruptcy is one option to deal with financial problems, it's generally considered the option of last resort. The reason: it has a long-term negative impact on your creditworthiness. A bankruptcy stays on your credit report for 10 years, and can hinder your ability to get credit, a job, insurance, or even a place to live. What's more, it can cost you attorneys' fees.

Advance-Fee Loan Scams

These scams often target consumers with bad credit problems or those with no credit. In exchange for an up-front fee, these companies "guarantee" that applicants will get the credit they want — usually a credit card or a personal loan.

The up-front fee may be as high as several hundred dollars. Resist the temptation to follow up on advance-fee loan guarantees. They may be illegal. Many legitimate creditors offer extensions of credit, such as credit cards, loans, and mortgages through telemarketing, and require an application fee or appraisal fee in advance. But legitimate creditors never guarantee in advance that you'll get the loan. Under the federal Telemarketing Sales Rule, a seller or telemarketer who guarantees or represents a high likelihood of your getting a loan or some other extension of credit may not ask for or receive payment until you've received the loan.

Recognizing an Advance-Fee Loan Scam

Ads for advance-fee loans often appear in the classified ad section of local and national newspapers and magazines. They also may appear in mailings, radio spots, and on local cable stations. Often, these ads feature "900" numbers, which result in charges on your phone bill. In addition, these companies often use delivery systems other than the U.S. Postal Service, such as overnight or courier services, to avoid detection and prosecution by postal authorities.

It's not hard to confuse a legitimate credit offer with an advance-fee loan scam. An offer for credit from a bank, savings and loan, or mortgage broker generally requires your verbal or written acceptance of the loan or credit offer. The offer usually is subject to a check of your credit report after you apply to make sure you meet their credit standards. Usually, you are not required to pay a fee to get the credit.

Hang up on anyone who calls you on the phone and says they can guarantee you will get a loan if you pay in advance. It's against the law.

Protect Yourself

Here are some tips to keep in mind before you respond to ads that promise easy credit, regardless of your credit history:

* Most legitimate lenders will not "guarantee" that you will get a loan or a credit card before you apply, especially if you have bad credit, or a bankruptcy.

* It is an accepted and common practice for reputable lenders to require payment for a credit report or appraisal. You also may have to pay a processing or application fee.

* Never give your credit card account number, bank account information, or Social Security number out over the telephone unless you are familiar with the company and know why the information is necessary.

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