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Recommending Debt Solutions

This framework helps coaches pair clients with the most appropriate debt solution based on their unique financial circumstances. Use this guide for identifying the right solution for your client or use the free debt solution finder at https://budge.app

Debt Solution Options

1 Consolidation Loan

Consolidate debts into one payment

2 Debt Management Plans

Agency-negotiated lower rates with structured repayment plan

3 Snowball/Avalanche Method

Strategic repayment approaches for those able to pay above minimums

4 Chapter 7 Bankruptcy

Liquidates non-exempt assets to pay creditors; may discharge remaining debts

5 Chapter 13 Bankruptcy

3-5 year repayment plan allowing debtors to keep assets while repaying

6 Balance Transfer Card

Low or 0% introductory APR for transferring high-interest debt

Key Decision Factors

- Unsecured Debt Amount
- Employment Status
- Overdue Accounts
- Cashflow
- Debt-to-Income Ratio
- Current Credit Score
- Credit Score Impact
- Fees

Consolidation Personal Loan

A personal loan provides a fixed sum that you repay in equal installments, often used to consolidate higher-interest debt into a single monthly payment. This solution works best for those with good credit and stable income who are looking to simplify their debt payments.

Fees:

Variable origination fee between 0-8% of total amount based on credit core and lender

Requirements:

Unsecured debt	Greater than $5,000
Credit score	Above 720 for good rates
Employment status	Must have income
Accounts	Not late on payments
Cashflow	Tight but manageable or has extra cashflow available
Debt-to-income ratio	Greater than 36%

Advantages:

- Potential for lower interest rates than credit cards
- Simplified payment structure
- Fixed repayment timeline
- Potential to decrease monthly payments
- Can improve credit by freeing up utilization on credit cards

Disadvantages:

- Risk of increasing overall debt if clients use paid-off cards again
- May not qualify for rates lower than existing credit cards in high-interest environments
- Origination fees may add to the total cost

See if your client is a good fit for a personal loan for free by using the free debt solution finder at **https://budge.app**. If they are a good fit, easily connect them with ethical and responsible lenders.

Debt Management Plan (DMP)

A Debt Management Plan is a nonprofit program that consolidates unsecured debts into one monthly payment with significantly reduced interest rates. DMPs are particularly valuable for clients with fair to poor credit who are struggling with their current payment structure but have some income.

Fees:

Typically ~$35/month is deducted from the monthly savings from the program

Requirements:

Unsecured debt	Greater than $5,000
Employment status	Must have income
Accounts	Can include overdue accounts
Cashflow	Is tight but net positive after program savings

Advantages:

- Consolidates multiple debt payments into one
- Reduces interest rates by over 60% on average
- No minimum credit score requirement
- Can help clients avoid bankruptcy
- Can have a positive long-term affect on credit due to positive payment history

Disadvantages:

- Works best for credit cards and other unsecured debt types
- Requires closing participating credit card accounts
- Client must have positive cashflow after reduced interest rates
- May negatively affect credit score at first when credit accounts are closed.

> ⓘ See if your client is a good fit for a debt management program for free by using the free debt solution finder at **https://budge.app**. If they are a good fit, easily connect them with accredited and trusted credit counseling agencies.

Snowball / Avalanche Methods

These DIY debt reduction strategies require no third-party enrollment but do demand discipline and extra cashflow. The Snowball method focuses on paying off the smallest debts first to build momentum, while the Avalanche method targets highest-interest debts first to minimize interest payments.

Fees:

No fees included. Risk of over drafting if cashflow is tight and autopay is setup

Requirements:

Unsecured debt	Any amount
Credit score	Any
Employment status	Must have income
Account Status	Any status
Cashflow	Has extra income available

Advantages:

- Accelerates debt paydown up to 10x faster than minimum payments
- No enrollment in formal programs required
- Helps build positive financial habits
- Maintains access to credit cards
- Paying down credit cards positively affects credit utilization and can improve credit scores

Disadvantages:

- Requires surplus cashflow each month
- No professional interest rate reductions
- Demands consistent discipline and tracking
- May take longer than consolidated approaches for some clients

See if your client is a good fit for the debt snowball for free by using the free debt solution finder at **https://budge.app**. If they are a good fit, easily create a debt pay-down plan for them directly from their account.

Chapter 7 Bankruptcy

Chapter 7 bankruptcy is a legal process that liquidates non-exempt assets to discharge most unsecured debts. This solution is appropriate for clients in severe financial distress with limited income and assets who need a fresh start.

Fees:

Typically between $1,600 to $2,200 including 2 mandatory education classes, court filing, and attorney fees

Requirements:

Unsecured debt	$10,000 or more
Credit score	Any
Employment status	Any
Accounts	Any status, including severely delinquent
Cashflow	Significant trouble meeting obligations

Previously declared bankruptcy? To declare again, the client must be 8 years after a previous Chapter 7 discharge or must be at least 6 years after a chapter 13 discharge or must be 70% complete with payment plans.

Advantages:

- Eliminates most unsecured debt within 3-6 months
- Immediately stops collection actions
- Exemptions may allow clients to keep essential property
- Provides a clean financial slate

Disadvantages:

- Non-exempt assets must be liquidated
- Doesn't typically discharge student loans, child support, alimony, or recent taxes
- Remains on credit report for 10 years
- Will be difficult to obtain new credit in the near term

Chapter 13 Bankruptcy

Chapter 13 bankruptcy allows individuals with regular income to develop a court-approved repayment plan lasting 3-5 years. This option is ideal for clients who have valuable assets they wish to protect, particularly homes.

Fees:

Typically between $3,300 to $5,000 with most of the expenses included in the repayment plan. Fees include two education courses, court filing fees, attorney fees, and trustee fees for administrating repayment.

Requirements:

Unsecured debt	Any amount (within statutory limits)
Credit score	Any
Employment status	Any, but requires regular income
Accounts	Any status, inc. delinquent
Cashflow	Significant trouble meeting obligations

Previously declared bankruptcy? To declare again, the client must be 2 years after a previous Chapter 13 discharge. If switching from chapter 7 to chapter 13, you must wait 4 years after the chapter 7 discharge.

Advantages:

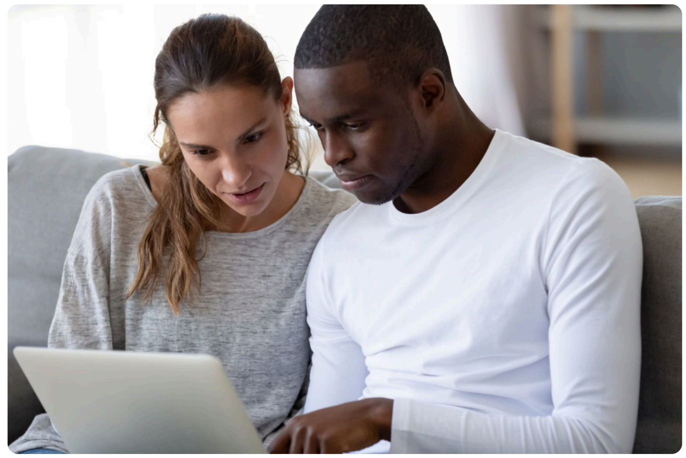
- Stops foreclosure and repossession proceedings
- Consolidates multiple debts into one court-supervised payment
- Allows retention of assets while repaying debts
- Provides structured path to become debt-free in 3-5 years

Disadvantages:

- All disposable income must go toward debt
- May not discharge student loans, child support, or certain taxes
- Property exemptions vary by state and might require liquidation
- Remains on credit report for 7 years
- Will be difficult to obtain new credit in the near term

Balance Transfer Card

A balance transfer card offers a low or 0% introductory APR period, allowing clients to move high-interest debt to a card with temporarily reduced interest. This solution works best for those with good credit, relatively small debt loads, and the discipline to pay off the balance during the promotional period.



Fees:

Balance transfer fees typically range from 2-5% of the transferred balance based on lender and credit score

Requirements:

Unsecured debt	Less than $10,000
Credit score	Above 690
Employment status	Must have income
Accounts	Current (not late on payments)
Cashflow	Tight but manageable

Advantages:

- Eliminates or significantly reduces interest during introductory period
- Simplifies payments by consolidating debt to one card
- No application or origination fees (beyond transfer fees)
- Can accelerate debt payoff if used strategically

Disadvantages:

- Risk of accumulating new debt on paid-off cards
- Interest rates after promotional period may be higher than original cards
- Transfer fees typically range from 2-5% of transferred balance
- Requires disciplined repayment during introductory period

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