

Restructure Your Debt Before Buying a Home

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Sample of Content:

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Content:

The temptation of getting into the runaway housing market is understandable. Simple savings accounts are returning less than 2% per year. CDs and bonds are not much better. "Safe" funds are yielding 5% pre-tax. And real estate is surging, offering both equity appreciation and tax protection. However, if you are in debt, it's important to make sure you restructure it and consolidate it before taking the leap into the housing market.

So many see the risk of taking on a house that is beyond their means as worth taking in order to create value and build a financially secure future. The problem is that the lenders, once predominantly banks prone to conservative lending standards, now include pension funds, insurance companies and other investment entities eager to place loans to keep their money working.

It is not the lenders who will be hurt. They will move swiftly to foreclosure, recover the house, and resell it. It is the borrower who gets burned. Bankruptcy laws are changing in October and it will no longer be convenient to file bankruptcy to avoid creditors. Individuals, once protected from forced liquidations, will find that to be the norm rather than the exception. So it is more important than ever to learn how to renegotiate or restructure debt before one is forced into bankruptcy court.

Renegotiating debt is best done before you are too delinquent. With a solid payment history with your lenders you are more likely to find them willing to work with you when you approach them. Debt can be restructured a number of ways but there are some cardinal rules to observe so that you preserve your ability to control the restructuring of your debt.

1. Do not wait until the debt has been turned over to a collection agency. By then it is too late to deal with the original issuers of the debt who might have an interest in helping you. They have discounted and sold off your debt when it is turned over to collections. That means they have written off what they would have conceded to you to a third party. The third party's only motivation is to make money off your bad situation.
2. Before you seek debt relief, develop a personal budget that is viable and a plan which you can handle. Now you are ready to lift the telephone and call for help.
3. Don't be afraid to ask for help. Advising the lender of a looming problem allows them to help you avoid it becoming a major issue.
4. Be persistent. "No" is easy for creditors to say. You will hear it a lot. Call back and try to get to someone else. Talk to the same person repeatedly until they begin to get to know you and start wanting to help you.
6. Be pleasant. You need to develop a rapport with the other person so they want to help you. Getting mad often makes things worse.

Debt restructuring is a basic form of negotiation. You have a need. The lender also has a need. You have a solution to offer. They have to be convinced to listen to you. You have to convince them of your sincerity and why they should gamble with your plan. Don't ask for a hand out. Ask for approval of a specific plan.

A plan that works for you should give them something as well. The two primary commodities are time and money. If you have money, but not enough, explain your situation and offer to pay off the debt at a discount. If they sell off your debt they will be lucky to get 50 cents on the dollar. You should be able to settle between 50% and 100%. If you offer to pay the full amount, but over time, you will be saving a lot in money and keep your credit rating from being impacted. But be sure to negotiate both the interest rate and a commitment not to report the problem to any credit reporting agency. It does you no good to extend your payment period if you are also going to be paying a higher interest rate. Interest rates are negotiable.

The most important aspect of personal debt restructuring is to ask before you get in too deep and before they start chasing you to pay. A good customer's case always sounds better than a plea from a habitual problem customer.

By successfully restructuring your debt and reducing it to something you can manage, you will have protected your credit for future forays into the housing market or any other venture.

Bill Scarpino is a professional restructuring consultant and mediator. He writes about [debt restructuring](#) and negotiating.

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