

3 Ways to Pay Off a Debt in Collections



A [debt in collections](#) will crimp your credit and leave you open to pestering phone calls from debt collectors. Paying it off can get debt collectors off your back and put you on the path to restoring your credit and reclaiming your finances.

Before you make a payment on a debt, first determine whether it's past the [statute of limitations](#) so you can handle it properly. If it's not, you have three main options to pay off a debt in collections:

- Create a payment plan.
- Pay it off in one lump sum.
- Settle the debt for less than you owe.

Here's a breakdown of each tactic, including the pros and cons. No matter which route you take, make sure you get the agreement between you and the debt collector in writing to ensure both parties stick to the plan.

Create a payment plan

Pros

You can create a payment amount and schedule that works for your budget.

Paying off your debt will help your credit report and credit score.

Cons

Missing a payment can derail the plan.

If your payment amount is unrealistic, a small emergency could blow up your budget.

Creating a payment plan lets you set a payment schedule and amount that works for your budget.

Comb through your finances to see how much you can afford to pay each week or month, whether it's \$20 or \$100. Then contact the debt collector by phone or mail to propose the plan. If the collection agency agrees, it should send you a document outlining the deal. Make sure the terms of this agreement are correct before making a single payment.

This option can help you pay off the debt in a manageable way. It also can lead to the debt being marked "paid in full" on [your credit reports](#), which can offset some of the damage done by delinquent debt.

Be sure you set an amount and schedule that won't strain your budget to the breaking point. If you miss a payment, the debt collector may abandon the agreement and try to sue you for payment, which can lead to [wage garnishment](#).

Pay it off in one lump sum

Pros

Debt is gone in one payment.

Paid-off debt helps your credit report and score.

Cons

Can be hard to pull together the money.

Diverts money from other needs.

If you come into money through a tax refund or inheritance, or if you just [hustle to earn the money](#), paying off the debt with a single payment can quickly resolve your debt collection woes.

First, make sure this fits your financial situation. Weigh the pros and cons of funneling money into wiping out debt versus the loss of money for other expenses.

Paying in full can get the debt off your back for good, but make sure you get the agreement in writing first. Keep this proof in case the payment isn't recorded correctly or the debt somehow gets resold to another collector.

Settle the debt for less than you owe

Pros

You pay a lump sum that's less than originally owed.

Faster than a payment plan.

Cons

Can be hard to strike a deal.

Can look bad on credit report.

Debt collectors might not hold up their end of the deal.

Negotiating a settlement for a single payment of less than you originally owed can make the debt easier to pay off. You can do this yourself, even though many [debt settlement companies](#) will try to get you to pay them for this service.

There are risks. Ramon Khan, a former debt collector in Texas who now works in online marketing, says it's routine for debt collectors to tell a consumer that they will take a partial

payment as a settlement, only to sell the remainder of the balance to another debt collecting company.

“It can put you in a vicious cycle where you still have to pay the rest of the debt, but now there’s another company that’s calling to collect the rest of it,” Khan says.

Note, too, that if you have more than \$600 forgiven, the IRS can consider that taxable income. You may receive a 1099-C form that you must then report on your taxes. There are exemptions to this, so you may want to consult a tax expert.

Negotiating a settlement takes persuasion and caution. Explain to the creditor why you can’t make full payment. The greater the debt — and the longer it’s been in collections — the more likely the creditor is to accept a settlement. As with any negotiation, start lower than your target. If you want to settle for 50% of what you owe, for example, try starting at 30%.

Khan advises being explicit about the terms of the settlement and getting everything in writing. You can start the conversation on the phone, but don’t make the payment until the debt collection company sends you a written agreement. It should state:

- That the agreed-upon amount is sufficient payment for the entirety of the debt.
- How the debt collector will report the debt to credit bureaus. It will likely report it as “partial payment” rather than “paid in full,” but make sure you know before you agree. A “partial payment” on your credit report will crimp [your credit score](#), but it’s better than an unpaid debt.

Next steps

Any of these three options can help you pay off your debt in collections for good. If your debt is unmanageable, however, you may want to consider a [debt relief option](#), such as bankruptcy or credit counseling.

Once you have your debt under control, you can work on good financial habits like setting a budget, building an [emergency fund](#) and working to [rebuild your finances](#).

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