

DEBT

CLEANSE

PROTECT ASSETS

STOP PAYING Settlement Wallet
identify deficiencies STOP PAYING

DISPUTE DEBTS Welcome Lawsuits

stop paying PATIENCE settlement wallet

Dispute Debts IGNORE CREDITORS

welcome lawsuits ignore creditors STOP PAYING

Identify Deficiencies protect assets

settlement wallet PROTECT ASSETS

patience DISPUTE DEBTS

PROTECT ASSETS

Patience identify deficiencies protect assets settlement wallet

Ignore Creditors welcome lawsuits ignore creditors

HOW TO SETTLE YOUR UNAFFORDABLE
DEBTS FOR PENNIES ON THE DOLLAR

(AND NOT PAY SOME AT ALL)

JORGE P. NEWBERY

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DEBT CLEANSE

*How to Settle Your Unaffordable Debts for
Pennies on the Dollar (And Not Pay Some at All)*

BY JORGE P. NEWBERY

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Books

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PROLOGUE

Behind on your debts?

Getting relentless collection calls and notices?

Being sued by creditors?

Bank account levied or wages garnished?

Working two jobs or foregoing basic needs in order to pay debts?

Constantly worrying that you are one car repair, medical need, or job cutback from being unable to keep up with your debts?

Staying in a negative relationship only because you don't believe you can afford your debts by yourself?

If any of these apply to you, you are not alone. You are one of the majority of Americans with unaffordable debts:

- 4 million American workers whose wages are being garnished to pay delinquent consumer debts.¹
- 8 million Americans who use payday loans to pay ordinary living expenses.²
- 10 million American families who owe more on their mortgages than their homes are worth.³
- 16 million Americans who owe more than their vehicles are worth.⁴
- 22 million Americans with student loans who are not making payments.⁵
- 43 million Americans with unpaid medical bills.⁶
- 55 million Americans with credit cards who only make the minimum payments.⁷
- 77 million Americans with collection accounts.⁸

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- 1 Arnold, C. "Millions of Americans' Wages Seized Over Credit Card and Medical Debt. NPR, <http://www.npr.org/2014/09/15/347957729/when-consumer-debts-go-unpaid-paychecks-can-take-a-big-hit> (September 15, 2014)
 - 2 "Payday Lending in America: Who Borrows, Where They Borrow, and Why" The Pew Charitable Trusts, http://www.pewtrusts.org/~media/legacy/uploadedfiles/pcs_assets/2012/PewPaydayLendingReportpdf.pdf
 - 3 Hopkins, C., "The Nation's Most Affordable Homes Also the Most Likely to be Underwater", Zillow Blog, <http://www.zillow.com/blog/q1-2014-negative-equity-report-152403/> (May 19, 2014).
 - 4 "Equifax Reports Auto Loan Growth Continues, Subprime Bubble Not Occurring", Equifax National Consumer Trends Report, <http://investor.equifax.com/releasedetail.cfm?ReleaseID=874692> (October 6, 2014) and Apicella, R. and Halloran, G., "The Rising Repossession Tide" Benchmark Consulting International, <http://www.benchmarkinternational.com/Articles/TheRisingRepossessionTide.pdf> (April 2008).
 - 5 Druden, T. "The Fed's Startling Student Debt Numbers That Every Young Person Should See", Zero Hedge, <http://www.zerohedge.com/news/2015-03-30/feds-startling-student-numbers-every-young-person-should-see>
 - 6 Boak, O., "Nearly 43 Million Americans Have Unpaid Medical Bills" The Associated Press, <http://www.dailyfinance.com/2014/12/11/cfpb-us-medical-debt/> (December 11, 2014).
 - 7 "Report on the Economic Well-Being of U.S. Households in 2013", The Federal Reserve, <http://www.federalreserve.gov/econresdata/2013-report-economic-well-being-us-households-201407.pdf>
 - 8 Marte, J. "A Third of Consumers With Credit Files Had Debts in Collections Last Year", The Washington Post, <http://www.washingtonpost.com/blogs/wonkblog/wp/2014/07/29/a-third-of-consumers-had-debts-in-collections-last-year/> (July 29, 2014).

There are more Americans than ever bloated with debt and America's economy cannot fully recover until this glut of debt is cleansed. We are not talking a spare tire around the tummy, but a whole set of tires weighing us down. This burden is one I know from my own experience. I also know how difficult it can be to find helpful advice and resources when you're already underwater in your debt.

Before I started writing *Debt Cleanse*, I researched several "how to get out of debt" books. Although many preach budgeting and teach their readers about compound interest and how to pay off debt faster, there is little practical information about what to do if you are already in over your head with debt. Telling someone who is already overburdened with debt to be mindful of compound interest is the equivalent of telling a lung cancer patient to stop smoking. It might have been good advice at some point, but it's a bit late for that now. The same goes for teaching budgeting to a family that is buried by their unaffordable mortgage, with a car threatened with repo, and payday loan payments overdrawing their bank account. The struggling family needs a viable solution to get them out of a jam, and that's what I am here to share.

Don't worry. There won't be any condescending lectures about what you should have done differently years ago. Instead, I will take you step-by-step through the process of settling your debts for much less than you owe (or make them go away entirely). Better still, you can do most or all of this on your own. If you do need help, stay away from debt settlement companies and nonprofit credit counseling agencies. Both of them often act as agents of the creditors as much as agents of debtors. Instead, if needed, I will also show you how to carefully select an attorney who can really help. In some cases, you can get your legal fees paid by the creditor and, if your circumstances are just right, get the creditor to forgive

your debt and maybe even pay you a settlement.

Debt Cleanse is not an easy process, nor is it a quick one. In fact, it may take years to wipe away your debt. Your time and effort will be worth it, though. Imagine your life without debt.

Debt Cleanse is...

Choosing yourself over creditors

Living a fulfilling life, not just paying bills

Spending time with family and friends

Replacing worry and stress with hope and happiness

Leading a life in which dreams are not financed

INTRODUCTION

Like a bad hangover that will not go away, America is still debt-drunk eight years after the financial crisis began. 60% of the 38 million Americans with student loans are not making payments,⁹ and 53% of the 105 million Americans with credit cards only make the minimum payments.¹⁰ 43% of Americans spend more than they make,¹¹ and 76% live paycheck to paycheck.¹² 50% of women earning around \$100,000 fear that they are going to lose everything and end up as bag ladies.¹³ 60% of women report that their greatest

9 <http://www.zerohedge.com/news/2015-03-30/feds-startling-student-numbers-every-young-person-should-see>

10 "Report on the Economic Well-Being of U.S. Households in 2013", The Federal Reserve, <http://www.federalreserve.gov/econresdata/2013-report-economic-well-being-us-households-201407.pdf>

11 Khan, K. "The Basics: How Does Your Debt Compare?" MSN Money, (2010)

12 "76% of Americans are living paycheck-to-paycheck" CNN Money www.money.cnn.com (June 24, 2013).

13 The Female Affect, <http://www.thefemaleaffect.com/consulting-services/> citing Employee Benefit Research Institute.

financial priority is “just getting by” or paying off debt.¹⁴ The median liquid wealth for Latino families is \$340 and for African American families it is \$200,¹⁵ less than a week’s worth of groceries for many families. The U.S. National Debt of \$18,265,538,166,155 equates to \$56,891 each for every American man, woman and child, and \$154,298 for every taxpayer.¹⁶ Debt intoxication is a silent addiction killing America. How do we sober up?

Debt Cleanse is my solution to this staggering challenge facing America. It is a series of strategies for families who cannot afford their debts to simply stop paying, settle their debts at steep discounts, or not pay them at all, and go on to live debt-free lives. Debt Cleanse can be utilized for mortgages, car loans, student loans, credit cards, business loans, medical bills, equipment loans and other debts—even payday loans!

Debt is a reality I have known all too well. An entrepreneur to the core, I have been running my own businesses since I was a kid. I became a paperboy when I was seven years old and started my first business at 11. I then dropped out of high school at 16, too eager to learn in the real world to stay in a classroom. I built a record company, raced bicycles alongside some of the best in the world, and embarked on a real estate crusade to fix the unfixable. I took on our country’s most troubled buildings and transformed them into assets to benefit residents and communities.

Despite the financial success that came as my real estate empire

14 “Scary Stats” citing 11th Annual TransAmerica Retirement 2010 Survey, by TransAmerica Center for Retirement Studies

15 Figueroa, A. “5 Alarming Facts About the Racial Wealth Gap” AlterNet, www.alternet.org (May 23, 2014)

16 <http://www.usdebtclock.org/>

grew, I eschewed any trappings of luxury, instead living a Spartan lifestyle. The majority of my meals emerged from a Crockpot into which brown rice and beans were mixed with whatever vegetables were on sale that week. I took pride in driving any car to 200,000 miles before casting it away. I even clipped coupons, recognizing that the dollar you save is more important than the dollar you earn (after all, the earned dollar is taxed). I lived with my parents until I was 29, though this would not be considered uncommon in my father's homeland of Argentina. Further, my parents seemed to enjoy having one of their five children stay in the nest so long. It was a sparse existence to be sure, but my thrifty lifestyle maximized the dollars I had available to play with in my real-life game of Monopoly.

Between 1992 and 2004, I amassed over 4,000 apartment units across the United States, paid for by the cash I had earned and saved, resulting in a net worth in the tens of millions. I repeatedly took risks and worked tirelessly to turn my visions into reality. But, I took one risk too many.

One natural disaster erased everything. An ice storm devastated my largest holding, the 1,100-unit Woodland Meadows apartment complex in Columbus, Ohio. The aftermath of the storm triggered an implausible series of events which plunged me into a battle with the elite, those much more powerful than me. In my struggle to survive, I was maligned, publicly shamed, and financially gutted: I lost everything and emerged over \$26 million in debt.

I was too proud to file bankruptcy. Instead I simply did not pay the debts, whether it was \$5,600,000 to KeyBank or \$200 to Sears. Creditors began to call me incessantly, mail letters, and negatively report to credit bureaus. The strain made me grind my teeth at

night. However, what I found time and time again was that after I survived each onslaught, the original creditors would write off the debts and often sell to debt buyers, typically at huge discounts. Collection activity, like a migraine, would come and go as the debts were sold again and again for progressively lower and lower amounts.

I learned what to expect and developed strategies to withstand the offenses. I discovered that proactive planning, patience and, when necessary, offensive attacks could often compromise creditors' positions. As a result, over time, I could settle many of the debts for pennies on the dollar, or simply not pay some at all.

For a minority of debts, the creditors would sue to try to obtain a judgment. In these cases, I found that creditors' attorneys were often "foreclosure mills" or "collection mills" frequently handling thousands of cases. As a result, paralegals often prepared filings that were inaccurate or missing key documents. In many cases, debt buyers receive incomplete files from the banks in the first place. I realized that if I could identify and exploit deficiencies, creditors would typically settle for a fraction of the amount owed in order to spare the expense and risk of continued litigation.

In an extreme example, I fought a creditor all the way to the Missouri Court of Appeals, which ultimately sided with me. In a unanimous ruling, the judges wrote, "We sympathetically recognize, of course, that the potential financial consequences to Vestin [the creditor] probably range from substantial to disastrous." The court ruling went on to state "the entire debt was inadvertently extinguished"¹⁷ by sloppy legal work. The debt was over \$5,800,000.

¹⁷ *Vestin Realty Mortgage, Inc v. Pickwick Partners*, 279 SW 3d 536, 542 (MO 2009).

I wanted to help others facing overwhelming debt and put my newfound expertise to positive use. In 2008, I founded American Homeowner Preservation, a debt buyer that purchases pools of non-paying mortgages from banks at huge discounts. AHP often buys “litigation loans,” in which families fighting foreclosure are in court trying to save their homes. Once acquired, AHP utilizes strategies based on my challenges as a debtor and offers sustainable solutions to borrowers so they can keep their homes with reduced payments and discounted principal balances. Since its inception, AHP has helped hundreds of families keep their homes, eliminating over \$64 million in negative equity and reducing borrowers’ payments by more than \$3 million annually.

All the challenges I have bled through, my destroyed finances, wrecked credit, and ground down teeth, will have been worthwhile. I had to go through all that to write this book. My mistakes, my failures, my reckoning can all be put to good use. I can share what I learned with others in a time of turmoil in America.

Debt Cleanse is not intended to show you how to go out, buy stuff, and then not pay. Instead, I want to show you how to rid yourself of the unaffordable debts you have today and go on to live fulfilling debt-free lives forever more, never again taking on debt. Struggling families across America can collectively utilize Debt Cleanse strategies to clear their debts so that they can live satisfying lives without constant worry, working two jobs, or foregoing basic needs in order to pay creditors. The solution to unaffordable debt is not government handouts, nonprofit counseling programs, bailouts, subsidies, or even protests.

The answer is to simply not pay.

CREDITORS & CHICKENS

“This isn’t just a problem for the people caught up in rising debts. It’s a potential problem for everyone. An economy built on borrowed money is an economy built on borrowed time.”

– GEORGE OSBORNE, BRITISH POLITICIAN

There are 17 billion chickens in the world, 7 billion humans and 1,826 billionaires.¹⁸ The 85 richest people in the world have as much wealth as the poorest 3.5 billion people.¹⁹ 400 American billionaires have as much wealth as the entire African American

18 Dolan, K., “Inside the 2015 Forbes Billionaires List: Facts and Figures”, Forbes, <http://www.forbes.com/sites/kerryadolan/2015/03/02/inside-the-2015-forbes-billionaires-list-facts-and-figures/> (March, 2, 2015), citing “The World’s Billionaires” Forbes, <http://www.forbes.com/billionaires/list/>.

19 Shin, L., “The 85 Richest People in the World Have as Much Wealth as the 3.5 Billion Poorest”, Forbes, <http://www.forbes.com/sites/laurashin/2014/01/23/the-85-richest-people-in-the-world-have-as-much-wealth-as-the-3-5-billion-poorest/> (January 23, 2014).

population of the United States, 41 Million people.²⁰ The average net worth of America's 400 richest rose by \$800 million in 2013,²¹ while the median net worth of African American families sunk to \$4,955,²² poorer than the average household in India. At the same time, the median net worth for single African American women dropped to \$5,²³ less than the cost of a Big Mac with a small order of fries. Half the collective wealth of African American families was stripped away during the Great Recession.²⁴ Where did all this money go? To the elite. Since 2009, 95% of U.S. economic gains have gone to the richest 1%,²⁵ who control more wealth than the bottom 99%. We need to stop being chickens.

What do I mean by that? Chickens allow humans to take all of their lifelong output, their eggs, and eventually their bodies for meat. Humans are the chickens' creditors: we give them food and a place to stay and, in return, they give us eggs and McNuggets. Chickens outnumber humans more than 2 to 1, so they could turn on us, but

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- 20 Collins, C., "Wealth of Forbes 400 Billionaires Equals Wealth of All 41 Million African-Americans", Huffington Post, http://www.huffingtonpost.com/chuck-collins/wealth-of-forbes-400-bill_b_4617743.html (January 21, 2014) citing, Lord, B., "Dr. King's Nightmare The Wealth Possessed by Our Nation's 400 Richest Billionaires is Equal to the Collective Net Worth of All African-American Households" Other Words Blog, <http://otherwords.org/dr-kings-nightmare-racial-wealth-gap-forbes400/>
- 21 Kroll, L., "Inside the 2013 Forbes 400: Facts and Figures on America's Richest" www.forbes.com (September 16, 2013).
- 22 Williamson, K., "A Shocking Number" National Review Online, www.nationalreview.com, (October 26, 2013).
- 23 Grant, T. "Study Finds Median Wealth for Single Black Women at \$5" The Pittsburgh Post-Gazette, <http://www.post-gazette.com/business/businessnews/2010/03/09/Study-finds-median-wealth-for-single-black-women-at-5/stories/201003090163> (March 9, 2010).
- 24 Shapiro, T., Meschede, T., and Osoro, S., "The Roots of the Widening Racial Wealth Gap: Explaining the Black-White Economic Divide", The Institute of Assets and Social Policy, <http://iasp.brandeis.edu/pdfs/Author/shapiro-thomas-m/racialwealthgapbrief.pdf> (February 2013).
- 25 "95% of Income Gains Since 2009 Went to the Top 1%: Here's What That Really Means" Business Insider, www.businessinsider.com (September 12, 2013).

they are comfortable enough that they don't. Similarly, Americans labor a lifetime and the bulk of our output goes to creditors. The majority of Americans are simply McNuggets for the elite. We outnumber the elite 99 to 1 and we could turn on them, but we are typically comfortable enough that we don't.

DEBT SLAVERY

"Those in debt are slaves," said Andrew Jackson, the seventh president of the United States. Debt and slavery have been intertwined since before currency existed. In ancient Rome, those in need of goods or services would agree to *Nexum*, a debt bondage contract in which a free man pledged himself as a bond slave as collateral for a loan. If additional collateral was needed, a son was often pledged. Rome's elite discovered that they could profit more from a motivated contract worker than a slave, as an indebted worker will toil away inspired by dreams of a better life.

America, the purported "land of opportunity," is a country of optimists. We often anticipate that a raise or job is just around the corner, or we will meet a wealthy Mr. or Ms. Right, that Mark Cuban will fund our great business idea on the next season of *Shark Tank*, or our teenager will win *American Idol*, or get a fat pro sports contract. The reality is that something bad happens just as often as something good happens. We are just as likely to move further away from what we want as we are to move toward it.

Nevertheless, spurred by the prosperous futures we envision, millions of Americans are taught from an early age to aspire to pledge big chunks of their income to creditors. Buying the most house we can by committing a third of our income for the majority of our working years is considered wise. Taking out huge student loans to go to college may make us the pride of the family, yet they often

mire us in lifetimes of debt. We freely use credit cards; yet if we are over the age of 43 and live the average American lifespan of 78 years, just paying the minimum payment on \$5,000 at 18.9% will not pay off the cards in our lifetimes. How about allocating 34% of our income to a mortgage, 14% to credit cards, 11% to vehicle loans, and 7% to student loan debt? These are common percentages and, when combined with the typical 23% subtracted from paychecks for taxes and other deductions, result in 89% of many Americans' paychecks being pledged to the elite in the form of debts and taxes. The other 11% goes to pay for food and necessities to actually live on. If we have an unexpected expense, maybe a medical emergency or a car repair, then we join the 43% of Americans whose income is less than expenses, an unsustainable situation. *Bawk-bawk!* The majority of us truly are chickens for the elite.

BEYOND BROKE

Creditors are not our friends. Families challenged by debt are often counseled to contact their creditors and explain the situation. Most creditors then go through a tedious and time-consuming review process in which they determine the most that they can squeeze out of you and still keep you motivated and paying. If you are overwhelmed with an impossible payment, then you lose motivation. However, if your lender gives you a payment that you can just barely afford, then they will take advantage of every penny they can get from your income and leave you with just enough to survive.

Lenders fantasize that you can get Netflix instead of cable, access the Internet at the local library instead of at home, eat all your meals off the dollar menus at McDonalds and Taco Bell instead of Panera and Chipotle, use Cricket instead of Verizon, walk instead of drive, and go to Wal-Mart instead of Whole Foods. Depending on your lifestyle, some of these choices may be wise (and the \$1

Triple Layer Nachos at Taco Bell may be tasty) but you should not be forced into these choices as your lenders guzzle up ungodly chunks of your income. You are the one earning your living and you should have the freedom to decide how to use it best for you and your family.

BREAK UP YOUR BAD DEBT RELATIONSHIP

Debt Cleanse is not an overthrow of the 1%, but rather a disruption to improve the lives of the 99%. Think of Debt Cleansing like breaking up a bad relationship, getting away from an abusive mate who may be tough to shake. Breaking up with a creditor does not demand the usual awkward in-person “I quit you” along with some explanation as to why. Instead, you can take the easy way out with your creditors. Just stop taking their calls and install a free app on your mobile phone to block their numbers. When they send you letters, dispute the debts. “Ours wasn’t that kind of relationship. I don’t know what this fool is talking about,” is the essence of your retort.

Tuck away all the correspondence that goes back and forth as you would love letters. They’ll try to tempt you back, but stand your ground. You don’t need all that emotional push and pull. Make a clean cut and be determined to look forward, not backward. When you are having a weak moment, call another friend to chat: no hooking up with debt for clandestine trysts, like one last credit card purchase. Your relationship with debt is over and done. There are better relationships out there for you.

Chances are you were playing the field, so you have several creditors and not just one. Hey—no judging here. We’re cool. The breakup process works the same way no matter how many debts you have. Most creditors will get the message, write the debt off,

and move on. Their recourse will be to give you a bad grade and mess up your credit score.

We're so over credit scores—we need to make low scores cool. Some people put credit scores in their dating profiles, like on match.com. That is, if they have a high one. That so screams to the world: "I'm a conformist, I bow to The Man." Let's usher in a new era in which a low credit score is sexy. That bad mark on your credit report may prevent you from getting into new relationships with other creditors, but that is what you want: no more creditors in your life, ever. So, welcome the bad marks and plunging credit score as they put you in vogue.

Some creditors just can't move on. Some may get desperate, saying they can't live without you. At this point, they may take matters to an extreme, like getting an attorney to try to get back at you. If that's the case, you have to bring out all the dirt you have on the creditor. They should have stayed quiet. You were ready to move on. So, put together whatever documents you have from when you first met plus all those love letters you've been stashing, and the lawsuit they served.

Then, ask your creditors for their records, some proof of your relationship. If you had a handful of relationships, or even dozens, chances are your creditors had thousands or even millions. "But you were special..." they might say. "Prove it, show me evidence, show me where I signed on the dotted line," you will respond. "Give me a reconciliation of all our time together. Prove I meant something." I am sorry to break this to you, but you were just another number. They didn't care enough about you to even keep the records straight.

I'll teach you to find your creditors' weaknesses and exploit them. I'll show you how to dish it right back at them. You will get a jab in for every time they disappointed you, threatened you mercilessly when you were late, and made staying together so unbearable that you didn't have time for your family, your friends, and even yourself. For every moment of worry, every sleepless night, every speck of enamel grinded off your teeth, every watt of energy wasted by stress over losing your home, your car, even your life: Now is your time to stop being a chicken. Now is your time to Debt Cleanse.