How Does Debt Settlement Affect My Credit?

This is one of the most important trade-offs to understand clearly before enrolling. Settlement does affect your credit, and it is worth knowing exactly how and for how long, rather than guessing.

What actually happens

- ✓ **Missed payments show up first.** Since settlement requires accounts to fall behind before negotiation begins, those missed payments are reported to the credit bureaus and your score drops, often before any settlement is even reached.
- ✓ **Settled accounts are marked accordingly.** Once an account is resolved, it is typically reported as "settled" rather than "paid in full," which is a less favorable notation but still closes the account.
- ✓ **The impact is temporary, not permanent.** Settled accounts and the late payments that led to them generally stay on a credit report for up to seven years from the date of the first missed payment, with the impact fading well before that.

How this compares to the alternative

It helps to compare this against what happens if nothing changes. Continuing to carry debt that is not sustainable often leads to its own credit damage over time, sometimes for longer, as accounts fall behind anyway or get charged off without ever being resolved. Settlement front-loads the credit impact in exchange for actually closing the debt out.

What recovery typically looks like

Many people see their score begin recovering within twelve to eighteen months after their last account is settled, especially once they resume responsible use of any remaining or new credit. Recovery speed varies by individual credit history and financial habits going forward.