



PRESS RELEASE
FOR IMMEDIATE RELEASE:
June 15, 2010

Media contacts:
Susan Grant, CFA, 202-387-6121
Andrew Pizor, NCLC, 203-570-4249
Gail Hillebrand, CU, 415-431-6747
Linda Sherry, CA 202-544-3088
Marceline White, MCRC 410-624-8980

Consumers Need Relief from Debt Settlement Rip-Offs Consumer and Privacy Groups Support Senate and House Bills to Curb Debt Settlement Abuses

With unemployment high and many families struggling with their finances, debt settlement firms are aggressively advertising on the radio, television, and the Internet that they can help by “eliminating your debts”. However, consumer groups warn that using debt settlement services often leaves people deeper in debt rather than debt-free. They are calling on Congress to act quickly to enact S. 3264, the Debt Settlement Consumer Protection Act of 2010 sponsored by Senators Charles Schumer (D-NY) and Claire McCaskill (D-MO) and H.R. 5387, the companion bill sponsored by Representatives Louis Gutierrez (D-IL), Keith Ellison (D-MN) and Gwen Moore (D-WI). This legislation will protect consumers who are deeply in debt and desperately looking for solutions from deceptive practices and misconduct in the debt-settlement industry.

Debt settlement companies claim to help consumers pay settle debts by paying less than what is owed. They typically instruct consumers to pay into a special account until they save enough to make a settlement offer to creditors. But first, settlement companies grab hefty fees from the account, and keep the fees even if they never settle the consumers’ debts. The fees are usually very high, ranging from 14 to 18 percent of the total debt, payable within the first half of the contract. For debts totaling \$20,000 to \$30,000, the fees would be from \$2,800 to as much as \$5,400. “Desperate consumers are paying these debt settlement services thousands of dollars with no guarantee that even one penny of their debts will ever be settled,” said Susan Grant, Director of Consumer Protection at Consumer Federation of America. “These people are the least able to afford being ripped off by paying for help and getting nothing in return.”

To make matters worse, as consumers wait for their debt settlements, interest and late fees pile up on their accounts, their bills may be turned over to collection agencies, their

credit reports are damaged, and they may even be sued for nonpayment. “The promises that debt settlement companies make are not born out by the facts,” said Gail Hillebrand, Financial Services Campaign Manager at Consumers Union. A recent Government Accounting Office study found the debt settlement companies’ claims of success to be “suspiciously high” and “significantly higher than is suggested by evidence obtained by federal and state agencies.” “The industry’s own statistics show that debt settlement doesn’t eliminate all of the debt for most consumers,” said Ms. Hillebrand. “Many are left much worse off than they were before.”

The federal legislation addresses the central abuse of the debt settlement industry by eliminating this misaligned fee structure and capping the fees at reasonable amounts. The bills would allow a set-up fee of no more than \$50 at the beginning of the contract and limit the settlement fee to 5 percent of the difference between the principal amount of the debt at the time it is first enrolled for debt settlement and the amount for which it is settled. Most importantly, the bills would *not allow the settlement fee to be collected until the debt has actually been settled and the debt discharged.*

Other unfair and deceptive practices that are common in the industry would also be prohibited, and clear disclosures would be required about how debt settlement works and its potential impact on consumers’ credit-worthiness and tax liability. The bills would also require debt settlement companies to perform a financial analysis before signing consumers up to determine if there is a reasonable likelihood that they can benefit from the service.

“The Senate and House bills would curb the outrageous fee structures on these services by capping fees and prohibiting debt settlement companies from getting paid until the consumer has proof that a debt has been settled,” said Linda Sherry of Consumer Action. “In addition, fees would be subject to a test that they are reasonable and commensurate to the services actually provided.”

Marceline White, Executive Director of the Maryland Consumer Rights Coalition, said, “Marylanders have been turning to debt settlement firms for relief but instead have ended up with less money, more debt, a worse credit score and dwindling options. The number of complaints in Maryland has risen 144 percent in just three years. This legislation is a common sense approach which allows the industry to collect fees when they actually perform work. It will provide important protections for consumers across the country.”

“It is an outrage that unscrupulous debt settlement companies are allowed to peddle their false promises and take the last dollars from working families that have fallen on hard times,” said Sally Greenberg, executive director of the National Consumers League. “In the current economic environment, we can no longer sit idly by while the debt settlement industry rakes in billions at the expense of desperate consumers. The Debt Settlement Protection Act will reign in the most egregious practices of this industry, and we urge Congress to quickly pass this bill to protect America’s vulnerable consumers.”