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BEWARE OF DEBT SETTLEMENT TRAP

Consumer Groups Offer Debt-Strapped Consumers Advice on Getting Real Relief

As the holiday bills come due and jobs remain scarce, many families are struggling with their finances and looking for help, sometimes in the wrong places. New tips from Consumer Federation of America, Consumers Union, Consumer Action, and the National Consumer Law Center warn that using a debt settlement company could be a trap that will leave consumers deeper in debt instead of eliminating the debt.

In debt settlement, consumers are instructed to make monthly savings payments, usually to a special bank account, until there is enough to make a lump-sum settlement offer to their creditors. But while consumers are putting money into their accounts, the debt settlement companies are taking their fees out of them. Saving to try to settle one debt can take a year or more, and since consumers typically have multiple debts, the process can take three or four years. However, debt settlement companies usually take out all of their fees, ranging from 14 to 20 percent of the total debt, within the first half of the contract. For debts totaling \$20,000, a consumer could pay fees of \$2,800 to \$4,000.

“Debt settlement companies usually collect most or all of their fees from consumers long before they have eliminated any of their debts, and consumers pay these high fees regardless of whether their debts are settled or not,” said Susan Grant, Consumer Federation of America’s Director of Consumer Protection.

“There is no guarantee that your debts will be settled,” said Gail Hillebrand, Financial Services Campaign Manager at Consumers Union. “The industry’s own statistics show that debt settlement doesn’t eliminate all of the debt for most consumers. The full fee can be deducted from your savings even if you are still stuck with your debts.”

The drop-out rate for debt settlement services is very high; a study of one company’s customers revealed that 60 percent had cancelled within 5 to 6 months after starting debt settlement. Claims for success rates can be very misleading because they often don’t take into consideration the cost of the fees consumer pay or the size of those debts that are never settled.

Using a debt settlement program doesn’t stop debt collection and could make a debt situation worse. “Debt settlement companies may not contact the creditors for months and some even tell consumers not to have any contact with their creditors,” said Linda Sherry, Consumer Action’s Director of National Priorities. “Consumers’ debts increase because of interest and penalties, and they may end up being hounded by debt collectors, sued by their creditors, having their wages garnished, and left with ruined credit ratings.”

The Federal Trade Commission has proposed rules that would stop companies that use telemarketing to sell debt settlement and other types of debt relief services from charging fees before they settle the debts. The FTC proposed rule would also require that debt relief services clearly disclose how long it will take to settle debts and reveal any negative impacts including the fact that not all creditors will make agreements.

Nineteen consumer and community organizations asked the FTC to go even farther and stop debt relief services from making claims about results, telling consumers not to pay their creditors, and interfering with communications between creditors and consumers. They also called for a 90-day “money back” cancellation period.

Tips for Consumers on How to Get Real Debt Relief

- Try to resolve your debt problems with your creditors directly. You may be able to get your interest rate lowered, late charges forgiven, and your monthly payments reduced.
- Contact a nonprofit credit counseling service for advice. It may be possible to work out a plan through the credit counseling service to pay off the debts over time. To find the nearest nonprofit credit counseling services, consumers can contact the National Foundation for Credit Counseling, www.nfcc.org, 800-388-2227 or the Association of Independent Consumer Credit Counseling Agencies, www.aiccca.org, 866-703-8787.
- Know your rights. Ask your Attorney General’s Office if state law limits the amount or timing of debt settlement fees in your state. Find your state AG at www.naag.org.
- Read the fine print. Walk away if the contract doesn’t contain the promises that were made to you, or if the contract contradicts what you were told.
- Look for services that charge a fee only after the service actually settles your debts.
- Take immediate action if you can’t make your mortgage or car payments. (Debt settlement services don’t usually address mortgage or car debt.) Contact your lender or mortgage servicer immediately to try to work out new payment arrangements. For help regarding your mortgage, call 800-569-4287 or go to <http://nhl.gov/offices/hsg/sfh/hcc/hcs.cfm> to find a local housing counselor certified by the federal Department of Housing and Urban Development.
- Consider bankruptcy. Some people who have too much debt need the fresh start that bankruptcy provides. Get legal advice to see if that is the right choice for you.

The complete tips on debt settlement in English and Spanish are available at:

http://www.consumerfed.org/finance/credit_counseling.asp

http://www.defendyourdollars.org/2010/01/what_you_need_to_know_about_de.html

http://www.consumer-action.org/alerts/articles/debt_settlement/

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The Consumer Federation of America is a non-profit association of more than 280 groups that, since 1968, has sought to advance the consumer interest through advocacy and education.

Consumers Union of United States, Inc., publisher of Consumer Reports, is a nonprofit membership organization chartered in 1936 to provide consumers with information, education, and counsel about goods, services, health and personal finance. CU's publications and services carry no outside advertising and receive no commercial support.

Consumer Action is a national non-profit education and advocacy organization that has served consumers since 1971. CA serves consumers nationwide by advancing consumer rights in the fields of credit, banking, housing, privacy, insurance and utilities.

The National Consumer Law Center is a nonprofit organization specializing in consumer issues on behalf of low-income people. NCLC works with thousands of legal services, government and private attorneys, as well as community groups and organizations, from all states that represent low-income and elderly individuals on consumer issues.