

Debt Settlement Programs: The Financial Relief You May Not Be Looking For

Information for the Everyday Consumer

May 2010

More and more for-profit debt settlement companies have recently emerged, filling consumers with a false sense of hope that they will soon be debt free for only a fraction of the amount they actually owe. Unfortunately, what many of these companies do not tell consumers is that there is a possibility they could end up in a worse financial situation.

What Is A Debt Settlement Company?

A for-profit debt settlement company claims it will negotiate with consumers' creditors in an attempt to obtain a lump sum settlement for a portion of the debt that the consumer owes on credit cards or unsecured debt. Many of these companies charge fees in advance of settling debts while providing *no guarantee* that a creditor will actually work with the company to settle an account. The process usually requires consumers to make monthly payments to a bank account while also paying regular service fees to the company. Some companies do not make regular monthly payments to creditors or begin negotiating with a company until there is enough money in the account to satisfy the terms of a lump sum settlement.

Fraudulent, Abusive and Deceptive Practices

The United States Government Accountability Office released a report in April 2010, which discovered some debt settlement companies engage in fraudulent, deceptive and abusive practices that pose a risk to consumers. Consumers should be cautious of the following practices:

- **Claiming to be Affiliated with Government Programs**
Federal and state authorities do not “approve” or “authorize” debt settlement programs. Such programs are not connected with a “government bailout” for consumers.
- **Collecting Fees without Providing Services**
Most debt settlement companies do not contact your creditors until they are prepared to propose a lump sum settlement. There is no guarantee that a creditor will negotiate with a debt settlement company. Thus, consumers should always *read the fine print* in any contract or agreement before participating in the program as many companies have a *no refund policy*.
- **Misleading Consumers about the Likelihood of a Settlement or the Settlement Process**
Typically debt settlement companies are unable to provide immediate relief to consumers. Some companies place consumers on a fixed payment schedule that takes anywhere from eight months to three years to fulfill. Successfully negotiating a settlement does not remove negative information from a consumer's credit report.
- **Failing to Inform Consumers of Collection Efforts or Legal Action**
If a consumer fails to live up to their obligation to pay a creditor, the creditor retains the right to assess additional late/over-the-limit fees on an account. The account can be charged-off and placed in the hands of a collection agency. The creditor or its agents also maintain the right to bring legal action against the consumer, despite enrolling in a debt settlement program.

Options for Consumers Struggling with Debt

- **Talk to your Creditors**
Some creditors might be willing to lower interest rates, remove various fees, or reduce minimum monthly payments.
- **Contact a Nonprofit Credit Counseling Service**
Look for an organization that offers a range of services, including budget counseling or debt management classes. Some organizations might offer to put consumers on a Debt Management Plan to help pay creditors. To find the nearest nonprofit credit counseling services, consumers can contact the National Foundation for Credit Counseling at 1-800-388-2227 or www.nfcc.org.
- **Know your Rights and your Options**
If you have a question or complaint about managing credit and debt, call or write our office. You can also contact the Massachusetts Attorney General Consumer Hotline at (617) 727-8400.

Contact Us for More Information

The Cambridge Consumers' Council works in cooperation with the Massachusetts Attorney General Office to mediate disputes between consumers and businesses. The Consumers' Council provides consumers with information on their rights in the Commonwealth. The Consumers' Council is available for speaking engagements and information can always be obtained by contacting our office.

For further information about this publication, please contact Corey R. Pilz, Consumer Information Specialist, at (617) 349-6150 or consumer@cambridgema.gov.



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