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News Release
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What to do if your debt settlement company closes its doors on October 27th, 2010

Clients unaware of the coming changes risk further damage to their credit files, increased balances on the amount of debt owed and potential legal action.

Hundreds of thousands of clients of Debt Settlement Organizations (DSO) have less than 80 days to act before the amendments issued July 29th by the FTC to the Final Rule for the TSR (Telemarketing Sales Rule) go into effect. These amendments will potentially end debt settlement under the current business models that involve unrealistic claims of 40% to 50% reduction in debt and involve excessive fees for services rendered.

With a goal of protecting consumers from abusive and deceptive actions this rule:

- defines debt relief services;
- prohibits deceptive advertising and claims;
- requires the disclosure of actual costs and reasonable expectations for the results of the plan
- prohibits the “front-loading” of fees;
- prohibits the collection of fees until after a settlement has actually been achieved;
- and extends the protections in the Rule to those consumers who make inbound calls to these companies in response to advertisements.

According to the hearings and investigations leading up to the FTC Final Rule, the majority of DSO currently collect a set up fee up to 8% of the debt, a monthly maintenance fee up to $65 per month, a bank account management fee and a settlement fee up to 33% of the amount of savings realized per settlement making debt settlement a very lucrative business. Using these figures in addition to the fees, penalties, interest and legal costs that continue to accrue to the consumers accounts during the settlement period, the amount of savings realized can be negligible.

Debt settlement is not a very transparent industry making it difficult to provide factual statistics versus anecdotal evidence, but statistics from the only company to which the FTC had full access ("*Consumer Protection and The Debt Settlement Industry*" 9/25/08) indicate in that company less than 2% of all clients actually completed the program receiving settlements of their debt (1.4%) and 43% of clients cancelled their program without receiving relief from their debts through settlement after losing 64% of the funds remitted to the DSO in fees. Fee limits and the inability to charge for services unless rendered will cause many players to leave the industry.

Clients currently involved in debt settlement will need to determine their best course of action in dealing with their creditors should their company decide to close. Persons involved in debt settlement may have been advised not to have contact with their creditors; may be experiencing debt level increases up to 33% per year due to fees and penalty interest from creditors while waiting for the DSO to act; and may have suit filed against them by those creditors who do not want to wait 3 to 5 years before it is their turn to settle.

Credit Advisors Foundation urges anyone who finds themselves in this position or any person considering debt settlement to contact a reputable credit counseling agency to develop an action plan to address their debt situation. To learn more about credit counseling and debt settlement, visit www.creditadvisors.org or contact Michaela Harper at Michaela@creditadvisors.org or (800) 942-9027 x3310.

Credit Advisors is a national, non-profit consumer financial education, credit and housing counseling organization with offices in Omaha, Nebraska and Tacoma, Washington. The organization is EOUST approved, HUD certified, COA accredited and provides financial education to the community via publications, speakers, and counseling. For more information visit creditadvisors.org.