



Consumer Federation of America

July 29, 2010

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CONSUMER FEDERATION OF AMERICA APPLAUDS THE FEDERAL TRADE COMMISSION FOR NEW RULES CONCERNING DEBT RELIEF SERVICES

More Must be Done to Protect Debt-Strapped Consumers from Scams

Washington, D.C.—The Consumer Federation of America applauds the Federal Trade Commission for new rules that were announced today to curb abuses by debt relief services. These companies offer to help consumers who are struggling with their finances by negotiating lower interest rates, new payment arrangements, or lump-sum debt settlements with their creditors and usually charge most or all of their hefty fees upfront. “Desperate consumers scrape up their last dimes to pay the fees for these services, but too often they never get the debt relief they were promised,” said Susan Grant, CFA’s Director of Consumer Protection. “Consumers are left deeper in debt because their money goes to the debt relief services instead of their creditors.”

The new amendments to the FTC’s Telemarketing Sales Rule require debt relief services to provide important disclosures about how they work, how long the process will take, how much they cost, and the negative consequences that may result from using them, such as damage to the consumer’s credit worthiness. The rules also prohibit debt relief services from misrepresenting the savings that consumers can expect and other aspects of the services.

Most importantly, the new rules prohibit debt relief services from charging a fee before they have actually settled or reduced a consumer’s debt. This is a crucial element of the rules. “This will change the business model of the debt relief industry from one that has been based on taking consumers’ money regardless of whether they ever get the promised results to one in which companies will earn money based on actually achieving successful results for consumers,” said Ms. Grant.

The new FTC rules do not resolve all concerns about debt relief services. For one thing, they only apply to situations in which consumers receive phone calls soliciting them for debt relief services or make calls in response to advertisements for these services. If there is a face-to-face meeting with a company representative before a contract is signed or if the transaction takes place entirely online, the Telemarketing Sales Rule does not apply. Furthermore, the FTC rules do not cap the amount of fees that can be charged. “It’s hard to see how fees typically ranging from several hundred to thousands of dollars are justified or how consumers who are already unable to make ends meet can afford them,” said Ms. Grant. The FTC also declined to require that debt relief services perform a financial analysis of individuals before enrolling them to determine if they will likely benefit from their programs. The advance fee ban, however, should

make debt relief services more cautious about enrolling consumers, since they will only be paid if there is a successful outcome.

CFA and other consumer groups support legislation sponsored by Senators Charles Schumer (D-NY) and Claire McCaskill (D-MO) and Representatives Louis Gutierrez (D-IL) and Gwen Moore (D-WI) that would specifically cover debt settlement services, the services that have caused the most concern. The bills require fees to be reasonable and commensurate with the service provided, and cap them at 5 percent of the difference between the principal amount of debt at the time of enrollment and the amount for which it is settled. They also require debt settlement services to perform a pre-enrollment financial analysis, and to provide disclosures similar to those in the new FTC rules. If passed, the legislation would apply to all debt settlement services, no matter whether they use telemarketing or other means to solicit consumers, closing the loophole created by the limitations of the Telemarketing Sales Rule.

The Consumer Federation of America is an association of nearly 300 non-profit consumer groups that was established in 1968 to advance the consumer interest through research, advocacy, and education.