



Consumer Corner

by Illinois Attorney General LISA MADIGAN



Debt Settlement Companies: Legitimate Help or Scam?

Debt settlement companies advertise that they can settle all of your credit card debt in two to three years for only a fraction of what you owe. But **beware**. If you sign up with a debt settlement company, you could end up even deeper in debt than you are now.

Q. *I am drowning in credit card debt. Recently, I saw an ad for a “debt settlement company” offering debt reduction and bankruptcy protection. When I called the company, they assured me that they could help me pay off my debt for only 40 percent of what I owe. But there’s a catch: They said I’ll have to make several upfront payments before they’ll even talk to my credit card companies. This makes me wonder—is this offer really too good to be true?*

A You are right to be hesitant—debt settlement companies make tempting promises, but they seldom deliver. While a new Illinois law provides consumers with protections against debt settlement scams—including a prohibition on upfront payments—there are better solutions to your financial problems than signing a contract with a debt settlement company.

Consumers who find themselves under a mountain of unsecured debt, particularly credit card debt, may be tempted to turn to companies that offer debt settlement. Debt settlement firms claim to be able to arrange deals with creditors to satisfy consumer debts at reduced amounts. Once hired, they typically will advise you to quit paying your monthly credit card bills and instead pay the money into an escrow account to accumulate a lump sum (ostensibly to make your final payment). They tell you that they will negotiate with your creditors and convince them to accept partial payment in full satisfaction of the amount you owe.

What too often happens is that these companies take your money and leave you even deeper in debt. In the classic debt settlement scam, the first thing the company will do is charge you a wide variety of **non-refundable** fees. These include a hefty up-front fee (often 10-15 percent of your total debt), fees to set up escrow accounts, and even monthly “maintenance” fees. Meanwhile, if you do as advised and quit paying your creditors, late charges and finance charges will begin to accrue on your credit card balances. To make matters worse, many credit card companies simply refuse to work with debt settlement firms and instead choose to sue the card holder for the balance due.

A new law goes into effect this month that clamps down on the debt settlement industry’s abusive practices and requires all debt settlers to provide common-sense consumer protections if they want to do business in Illinois. This tough new law:

- **Prohibits all upfront and monthly fees, except for a one-time \$50 application fee;**
- **Caps fees at 15 percent of the *savings* achieved from settling a debt, ensuring that a debt settlement company only gets paid when it does what it promised to do;**
- **Prohibits debt settlement companies from advising consumers to stop paying their creditors; and**
- **Allows consumers to cancel a contract at any time, with a prompt refund of fees.**

If you come across a debt settlement company that fails to offer one or more of these legally required protections, it's a sure sign you're dealing with a scam. ***Stay away.*** Even if you find a company that appears to comply with the law, you should seriously consider one of these alternative sources of help instead:

- Contact your credit card companies directly to see if they offer repayment programs for struggling consumers. Many credit card companies offer these programs.
- Talk to a reputable credit counselor. To find a legitimate credit counselor in your area, consult the National Foundation for Credit Counseling at www.nfcc.org or 1-800-388-2227. Also make sure that the company and its credit counselors are licensed and bonded, as required by Illinois law. To check whether a credit counselor is licensed, visit the Web site of the Illinois Department of Financial and Professional Regulation at <http://www.idfpr.com/dfi/LicenseeSearch/frnSearchLicensees.asp> and select "Debt Management" in the "License Class" search field.
- Consider consulting with a bankruptcy attorney. Contact your local legal aid office to find out if you qualify for their services at a reduced cost.

Remember—before dealing with any type of credit counseling firm, check their record with the Better Business Bureau. You can also check with the Illinois Attorney General's Consumer Fraud Bureau by calling 1-800-243-0618 (TTY: 1-877-844-5461).