



The Debt Settlement Company 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. Do **not** fall for this come-on. 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.

The classic debt settlement scam works like this: Before a single debt is settled, the company requires you to pay a series of **non-refundable** upfront fees, often 15 to 20 percent of your total credit card debt, adding up to thousands of dollars. These fees include monthly payments into an escrow account, supposedly for use in negotiating pay-offs with your credit card companies. In addition, the debt settlement company tells you to stop making your credit card payments based on the false theory that this will make your credit card companies more likely to accept a deal.

Debt settlement companies often do not begin negotiations until you have saved a sufficient amount to pay a settlement, usually 12 to 18 months after entering the program. By this time, it is too late. Many debt settlement customers end up being sued by one or more of their credit card companies, resulting in court judgments, wage garnishments, and even liens on their homes, leaving them in far worse financial shape than they were in when they enrolled in the program.

A law pushed by Attorney General Lisa Madigan 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 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 is a sure sign you are dealing with a scam. **Stay away.** Even if you find a company that appears to comply with the law, you should seriously consider trying 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/frmSearchLicensees.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).