



Consumer Credit Counseling Service
of Maryland and Delaware, Inc.

Helping people help themselves through Education, Financial Counseling and Debt Repayment

FOR IMMEDIATE RELEASE

November 3, 2010

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FTC Institutes Regulations to Help Struggling Consumers

Avoid Unscrupulous Debt Settlement Practices

(WILMINGTON, DE) We've all seen the ads on tv that promise financially struggling consumers that they can be debt free in just a few months or after paying only pennies on the amount they owe. These spots are generally aired by debt settlement companies, some of whom currently charge large upfront fees that must be paid before any payment to clients' creditors are made. But last week, a new Federal Trade Commission regulation took effect that will help stop these companies from charging for services before they actually do their job.

Debt settlement is NOT the same as credit counseling. However, desperate consumers rarely understand the difference. Debt settlement, which is sometimes called debt negotiation or arbitration, is a process under which creditors agree to accept less than the full amount owed, yet consider the balance paid. Most of the firms that negotiate debt settlements are for-profit businesses. The unscrupulous ones routinely advertise that they can negotiate reductions of 50 percent or more on the debt consumers owe. While this scenario sounds tempting, it often isn't true, and uninformed consumers who request these services may end up in much worse financial trouble than they were before.

Credit counseling is generally provided by independently accredited 501(c)(3) nonprofit agencies. They emphasize financial education through counseling and education. Their counselors are trained and certified, and during the counseling session, they help clients evaluate their financial situation and develop a personal budget. Clients receive advice on ways to cut their living expenses and increase their incomes. They also learn about all the available options for getting out of debt, which may include voluntary enrollment in a debt management program or "DMP."

Nina Heck, Director of Counseling at CCCS of MD & DE, notes: "Most clients who call us don't understand the difference between debt settlement and credit counseling.

But those who have already been in debt settlement may have some idea given the grim financial realities they now face. They often call us confused and in tears, having just received a letter that says they're being sued by a creditor. They don't know what to do. Some have paid large upfront fees and the companies have been taking monthly auto-debits out of their bank accounts, and yet they are still no closer to being out of debt. In some cases, the debt settlement firms have even pocketed their money without contacting their creditors."

In the past few years, the debt settlement industry has grown substantially without much oversight. The Better Business Bureau has received more than 3,500 debt settlement complaints since the recession started. According to Steve Sakamoto-Wengel, Asst AG / Deputy Chief of the Consumer Protection Division, Office of the Attorney General, persons who made these reports complained of "high fees, debts that were never settled, continued harassment and lawsuits by creditors, and the inability to get help or refunds from debt settlers."

Under the new FTC rules that took effect on October 27, a debt settlement company cannot charge fees until they reach a settlement on at least one debt that the consumer has agreed to in writing. Fees cannot be collected until the client has made at least one payment to a creditor as part of the negotiated settlement. The rules also require that debt settlement companies provide a pre-contract disclosure that explains how long it will take to get results and how much the settlement will cost.

When faced with serious money management problems or foreclosure, consumers often experience denial, anxiety, and fear. Those who seek early assistance from a reputable organization are more likely to successfully resolve their financial issues.

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Consumer Credit Counseling Service of MD & DE, Inc. (CCCS) is an accredited 501(c)(3) nonprofit agency that has served the local community since 1966. CCCS helps individuals and families resolve their financial and housing issues and gain economic self sufficiency through education and counseling. For further information about our vision, values, and services, please visit our website at cccs-inc.org. Maryland State License #14-01, Delaware State License #07-01.