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Granholt: State should regulate debt settlement companies

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East Lansing -- Some debt settlement programs are taking advantage of vulnerable Michigan residents reeling from the down economy, and the state needs to pass legislation to regulate companies offering the service, Gov. Jennifer Granholm said today.

The state Office of Financial and Insurance Regulation says there is anecdotal evidence these companies are proliferating as more families struggle with credit card and other debt.

"People need to understand there's a difference between those who do this legitimately and those who do not," Granholm said at a news conference at the Michigan State University Federal Credit Union.

Credit unions, banks and regulated debt management companies can help consumers with debt relief, she said, while unregulated settlement programs can be a scam.

"Because they're not regulated, you'd better have your antenna up because you could be entering into a scam," she said.

Ken Ross, commissioner of the insurance office, said some of the settlement programs lure people in with unrealistic claims about debt reduction and then charge exorbitant up-front fees. They encourage people to stop paying their creditors, do not protect them when creditors sue, and some consumers wind up deeper in debt, he said.

Ross added consumers should be wary of companies that advertise debt settlement rather than debt management. Also, beware of companies that ask for large fees up front, charge up to 25 percent on liquidated or owed debt and are not licensed or accredited, he said.

Watch out, too, for companies that say "debt relief is just a phone call away" or advertise they can get consumers out of debt "for pennies on the dollar," Ross and Granholm said.

The governor said her administration is drafting a bill calling for these companies to obtain a license, limiting fees, prohibiting advice that consumers stop paying creditors and allowing consumers to receive a refund of fees if they leave the program.

Jane McNamara, CEO of GreenPath, a licensed debt management company, said more and more consumers are coming to them after a bad experience with a settlement program or they're comparison shopping between debt management and settlement companies.

She said GreenPath has 13,000 clients in the state, a number that increased 15 percent last year over 2008 and was up 20 percent in January and February. She said clients who come to her firm for help have an average unsecured debt of \$27,000, an amount that was up 17 percent last year as the economic recession hurts an increasing number of Michigan families.

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