



NATIONAL FOUNDATION FOR
CREDIT COUNSELING

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make all the difference.*

NFCC PRESS RELEASE

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NATIONAL FOUNDATION FOR CREDIT COUNSELING SUPPORTS INVESTIGATION INTO DEBT SETTLEMENT INDUSTRY

Financial Counseling and Education Leader Commends Attorney General Cuomo's Effort

Silver Spring, MD – The National Foundation for Credit Counseling (NFCC) applauds New York Attorney General Cuomo's decision to investigate the debt settlement industry, which is taking advantage of financially-troubled consumers to fill its own coffers.

As the recognized leader in financial literacy and education, the NFCC has been active in warning consumers of the risks presented by an unscrupulous Debt Settlement Company (DSC).

“At a time when many consumers are under serious financial pressure and looking for magic solutions, many debt settlement companies have shamelessly responded with the false promise of quick and easy answers,” said Susan C. Keating, president and CEO of the NFCC.

“More often than not, the only beneficiaries of debt settlement are the providers themselves who line their pockets by charging high fees and collecting payment up-front before providing any service to the consumer,” Keating added. “In the end, most consumers who turn to debt settlement firms for help wind up worse off than before – with higher debts and lower credit scores than when they first asked for help.”

Working with a debt settlement company tends to mean that consumers pay exorbitant fees with limited disclosures; see their debts increase in size as they amass more interest and late charges; are subject to legal collection efforts, including litigation, judgments and garnishment of wages; see their credit weakened, and; at the end of the process, receive a bill from the IRS for tax liability on most of the debt reduction the settlement company actually secures.

At the NFCC, we see the damage after the fact, as consumers turn to non-profit agencies when the debt settlement company fails. It can be months before a consumer realizes that what they thought was a responsible effort to address their debts has left him worse off than when he first turned to a debt settlement company

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Attorney General Cuomo deserves our appreciation for going after abuse. But, in the long-term, all of us who care about consumers' interests must work harder to prevent trouble in the first place.

What's needed is financial education and legislation that provides stronger government oversight. The NFCC has launched an extensive educational campaign directed at consumers. On the legislative side, the following strong pre-consumer federal legislative recommendations are made:

- Define the scope of services that DSC's may provide.
- Define the scope of services that DSC's must provide.
- Set caps on the range of fees that DSC's may charge and ensure that the fees are commensurate to the services being provided.
- Prohibit the collection of fees by the DSC until actual services are provided.
- Require DSC's to make full disclosures to consumers to inform them of: the fees being charged; the potential adverse consequences to the consumer of utilizing debt settlement; the potential impact of debt settlement services on the consumer's credit score and history; and the tax consequences of debt settlement.
- Provide consumers with a minimum of a 6-month rescission period to cancel the agreement and to fully recover set-up fees and payments made to the DSC.
- Subject advertising and business practices of DSC's to close scrutiny under the Federal Trade Commission Act.
- Impose significant financial and criminal penalties to deter violations.

“Years ago, the NFCC worked with Congress for effective rules and oversight of our own non-profit sector, but the profit-making sector has been free to do as it pleases. That's backwards,” continued Keating. “It's time to finish the job by establishing tough oversight for those who put their own profit first when working with debt-ridden consumers.”

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The National Foundation for Credit Counseling (NFCC), founded in 1951, is the nation's largest and longest serving national nonprofit credit counseling organization. The NFCC's mission is to promote the national agenda for financially responsible behavior and build capacity for its members to deliver the highest quality financial education and counseling services. NFCC Members annually help more than three million consumers through close to 850 community-based offices nationwide. For free and affordable confidential advice through a reputable NFCC Member, call (800) 388-2227, (en Español (800) 682-9832) or visit www.nfcc.org.