



Financial Consumer Agency of Canada

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Information Requests](#)[Proactive Disclosure](#)[A](#) Text Size: [S](#) [M](#) [L](#) [XL](#)**CONSUMER ALERTS**

01/10/2012

DEBT REDUCTION COMPANIES: BEWARE OF "TOO GOOD TO BE TRUE" OFFERS

The Financial Consumer Agency of Canada (FCAC) is warning Canadians to be very cautious about companies that claim they can negotiate a deal to cut the amount of debt you must repay to your creditors. This process is often called "debt reduction," "debt settlement," "debt relief" or "debt negotiation."

"Unfortunately, people do not always see the benefits that debt reduction companies lead them to expect—and some people wind up even deeper in debt than they were before," says FCAC Commissioner Ursula Menke. "If an offer to reduce your debts seems too good to be true, it probably is."

You may see advertisements or get a telemarketing call offering you a quick and easy path out of debt. The debt reduction company usually says it can work out a deal with your creditors that will allow you to pay back just a fraction of the money you owe. If you are having trouble keeping up with payments on your credit card and other debts, offers like these can be very tempting.

Four things you should watch out for with debt reduction**High-pressure sales tactics**

Some debt reduction companies use aggressive, high-pressure tactics on the phone. If you get a telemarketing call, don't agree to anything right away.

Unrealistic claims about slashing your debt

Many companies will claim they can work with your creditors to reduce your debts by a large percentage—maybe 60 percent or even more.

However, there is no guarantee that your creditors will agree to reduce your debts. In fact, they may not even agree to participate in debt negotiations. You could end up paying fees for nothing.

Misleading information about protecting your credit rating

Another claim is that there won't be any negative effect on your credit rating or score if you work with a debt reduction company.

Some companies delay making payments to creditors for a few months in the hope of getting better results from negotiations to reduce your debts. If this happens, your creditors will usually report your missed payments and your credit rating will be damaged. You may also face late payment and interest charges.

False claims about government involvement or approval

Some debt reduction companies may try to give the impression that they are approved by the Canadian government or that their services are part of a government program. This is not true.

While a company usually needs to register with or be licensed by its provincial or territorial government to operate as a business, licensing or registration does *not* mean that the government has approved or endorsed the company.

Four steps you can take to protect yourself**Do a background check**

Before you agree to anything, first do some research to see whether the company is trustworthy and reputable. Check with the government office that handles consumer affairs in your province or territory, as well as the Better Business Bureau.

Watch out for upfront fees

Many debt reduction companies will require you to pay a large fee in advance before you see any reduction in your debt. These upfront fees can cost you hundreds of dollars or even more than a thousand. Don't count on a refund if debt negotiations are unsuccessful.

Be very cautious about paying any fees before you have written confirmation that the company has worked out a deal with your creditors to reduce your debt.

There may also be other fees, such as ongoing monthly fees and fees for cheques sent to creditors.

Make sure you know what's happening with your creditors

A company may encourage you to stop all direct contact with your creditors. Instead, the company will offer to handle all communications for you, including sending your payments to the creditors. Sometimes the company may ask you to sign a document giving it power of attorney.

Be aware that letting the company act without your involvement could mean that you know nothing if problems arise. For example, the company could be making late payments to your creditors. Even worse, it might be making no payments at all.

Consider your other options

There are other ways to deal with your debts besides debt reduction. Another approach may work better for you.

As a first step, try contacting your creditors on your own. You may be able to get interest rate reductions or work out other arrangements to help you pay your bills.

Other possibilities include:

- applying for a **debt consolidation loan** through a financial institution;
- enrolling in a **debt management program** with a credit counselling agency; or
- working with a trustee in bankruptcy to file for a **consumer proposal** or **bankruptcy** (although bankruptcy should only be considered as a last resort).

Some provinces and territories have debt assistance programs or can direct you to organizations in your community that can help. Check with your local consumer affairs office to see what's available in your area.

FCAC information of interest**Tip sheets and online information**

- [Before You Sign Any Contract: 10 Things You Need to Know](#)
- [Dealing with Debt](#)
- [How to Beat that Debt](#)
- [Making a Budget and Sticking to It](#)
- [Managing Debt: Getting Help from a Credit Counselling Agency](#)
- [Tips for Dealing with a Debt Collector](#)

Publications

- [Understanding Your Credit Report and Credit Score](#)