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How debt relief has changed, two years after new FTC rules

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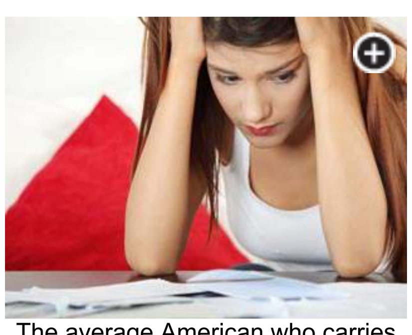

The average American who carries credit card debt owes more than $15,500. (©iStockphoto/Thinkstock)

It has been two years since the Federal Trade Commission (FTC) implemented new rules regulating the debt relief industry. Since then, many unscrupulous debt relief firms have gone out of business. Today, it is easier for consumers to find and work with trustworthy companies. This is good news because many consumers still need help with debt.

Consumers today carry $864.2 billion in revolving debt (the category that includes credit card debt). The average American who carries credit card debt owes more than $15,500. According to recent statistics from the Federal Reserve, the total household debt in the U.S. is now at $11.4 trillion.

Some consumers in financial straits turn to debt settlement for assistance. For these consumers, the FTC regulations introduced in 2010 were a step in the right direction. While the rules exist to protect consumers who need help with unmanageable debts from deceitful players, it still is important to understand what these rules mean when seeking debt relief help.

1. Understanding debt settlement.

With a debt settlement plan, it is sometimes possible to reduce total principal owed by about half. Debt settlement firms can work with creditors on consumers' behalf to obtain lower pay-off balances. Consumers do not make payments while going through this process, but rather accumulate funds to pay off the negotiated balance. Programs generally take two to four years to resolve a consumer's debt. Debt settlement can be helpful for individuals who are unable to make minimum payments on credit card debt, and who might otherwise have to consider credit counseling or bankruptcy.

2. About the FTC rules.

Prior to the implementation of the FTC rules in 2010, it was harder for consumers to identify a reputable debt relief company. The rules require debt relief companies to renegotiate, settle or reduce the terms of at least one debt, with the consumer's agreement, before collecting fees from the consumer. Fees can't be collected until the consumer has made at least one payment to the creditor on the renegotiated plan. In addition, debt settlement companies must disclose how long it should take to see results, program costs and any negative consequences that may result. The rules also define the advertising claims these companies can make.

3. Finding a debt settlement provider.

It is still legal for debt settlement companies (and law firms) that do not participate in telemarketing to charge up-front fees. But there is no need to sign with one of them when there are reputable debt relief firms that charge only when they get results. Look for a firm that belongs to the American Fair Credit Council (AFCC). The AFCC will *not* allow membership to any firm that charges an advance fee, regardless of whether or not the FTC allows the firm to do so. The organization also enforces the strictest code of conduct in the industry (imposing even stricter rules than the FTC's). In addition to AFCC membership, look for a firm that requires counselors to receive certification from the International Association of Professional Debt Arbitrators.

4. Proceed with caution.

While the 2010 FTC rules provide consumers with more protections, some bad players still exist in the field. Consumers should ask a debt relief provider or consumer credit advocate as many questions as necessary to understand how the process works and confirm the firm is legitimate. Impatient debt counselors, high-pressure sales tactics and claims that sound too good to be true (such as "eliminate your debts, guaranteed!") are warning signs of firms that should be avoided. Consumers should look for a firm that has an established, long-term record of successfully getting results for customers.

Fortunately, the majority of credit advocates in business today are committed to investing the effort and resources to help consumers in an ethical manner. Ask the companies you talk to how they comply with the FTC's rules and what they can do to help get you back on your feet financially.

Andrew Housser is a co-founder and CEO of Bills.com, a free one-stop online portal where consumers can educate themselves about personal finance issues and compare financial products and services. He also is co-CEO of Freedom Financial Network, LLC providing comprehensive consumer credit advocacy and debt relief services. Housser holds a Master of Business Administration degree from Stanford University and Bachelor of Arts degree from Dartmouth College.

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