



Helping America, one consumer  
at a time.

# Options for Consumers in Crisis: An Economic Analysis of the Debt Settlement Industry

Executive Summary of Consumer Outcomes across  
1.1 Million AFCC Member  
Debt Settlement Accounts

AFCC Administrator (888) 657-8272

# The Regan Report

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In 2012 the AFCC commissioned Greg Regan, one of the nation's leading forensic accountants, to analyze consumer outcomes over a statistically significant portfolio of debt settlement accounts.

- Analysis of ~1.1 million individual accounts associated with ~170,000 individual clients over a ten-year period (January 1, 2006 - December 31, 2012)
- Objective was to provide an independent analysis of the economic consequences of participation in an AFCC member's debt settlement program. The analysis addressed the outcomes of both pre and post FTC Rule Clients.
  - This report **has not excluded** any Clients or Accounts based on their respective outcomes (*e.g.*, whether the Client terminated within one month of enrollment) despite the fact that valid reasons exist to consider such exclusions.
- Pre-October 27, 2010 clients are referred to as "Version 1.0" clients and post-October 27, 2010 clients are referred to as "Version 2.0" clients

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# Executive Summary

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- AFCC members deliver significant value to their clients. Across the entire pool (Active, Terminated and Completed, for both 1.0 and 2.0), AFCC members delivered **\$3.15 in debt reduction for every \$1.00 in fees charged**.
- Client across all vintages are achieving substantial reductions to their account balances.
- The TSR amendments cleared out many (but not all) companies that were not delivering value to consumers.
- Post-TSR, we have seen a significant shift to faster settlements for clients.
- Post-TSR, clients receive substantial savings (debt reduction minus fees) regardless of tenure.
  - Pre-TSR, clients achieved savings (i.e., debt reduction minus fees) after ~7 months of program tenure.
- AFCC members deliver substantial value to clients (even before the TSR amendments).

# Overview of Accounts Included in Analysis

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## Type of Accounts

Type	Version 1.0	Version 2.0
Completed	304,000	83,000
Terminated	357,000	91,000
Active	33,000	180,000
Total	694,000	354,000

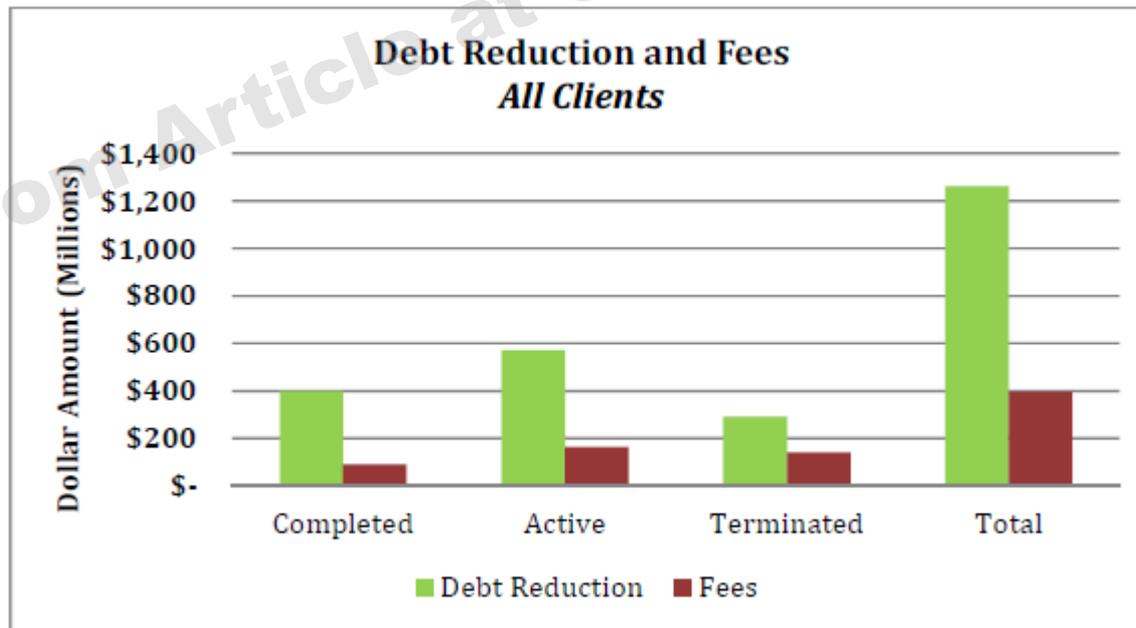
The outcomes described herein are, generally, at the account level (a typical client enrolled ~6 accounts, each of which may have a different status at any point in time).

Data is presented on a vintage basis to enable the examination of outcomes on a consistent and comparative basis.

Completion rates (account level) for 2.0 programs are expected to stabilize above 50%, based on 26 months of data.

# Economic Benefit of Participating in a Debt Settlement Program: *Savings vs. Fees*

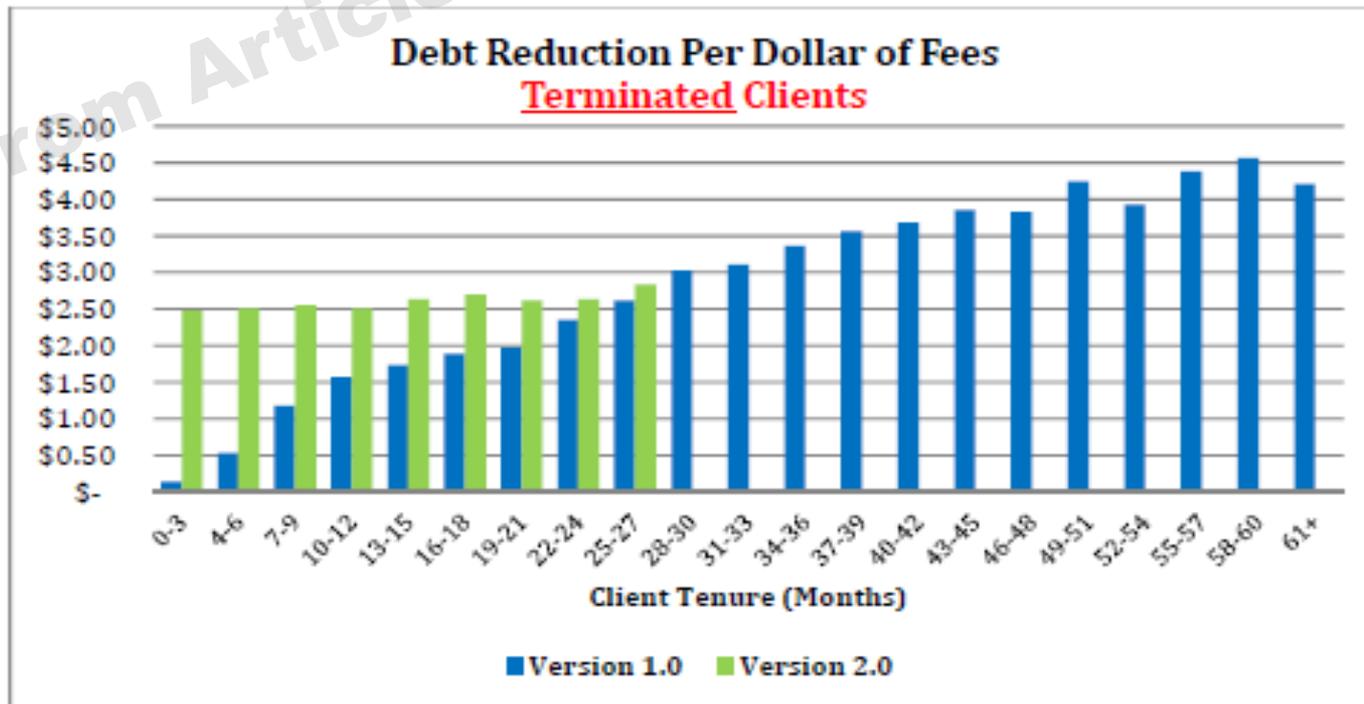
Debt settlement clients enrolled pre- and post-TSR Amendments, as a group (including all Active, Terminated and Completed), have realized \$3.15 in debt reduction for every \$1.00 of Fees (i.e., \$2.15 of Savings).



Completed clients have realized \$4.40 in debt reduction for every \$1.00 of Fees (\$3.40 of savings).

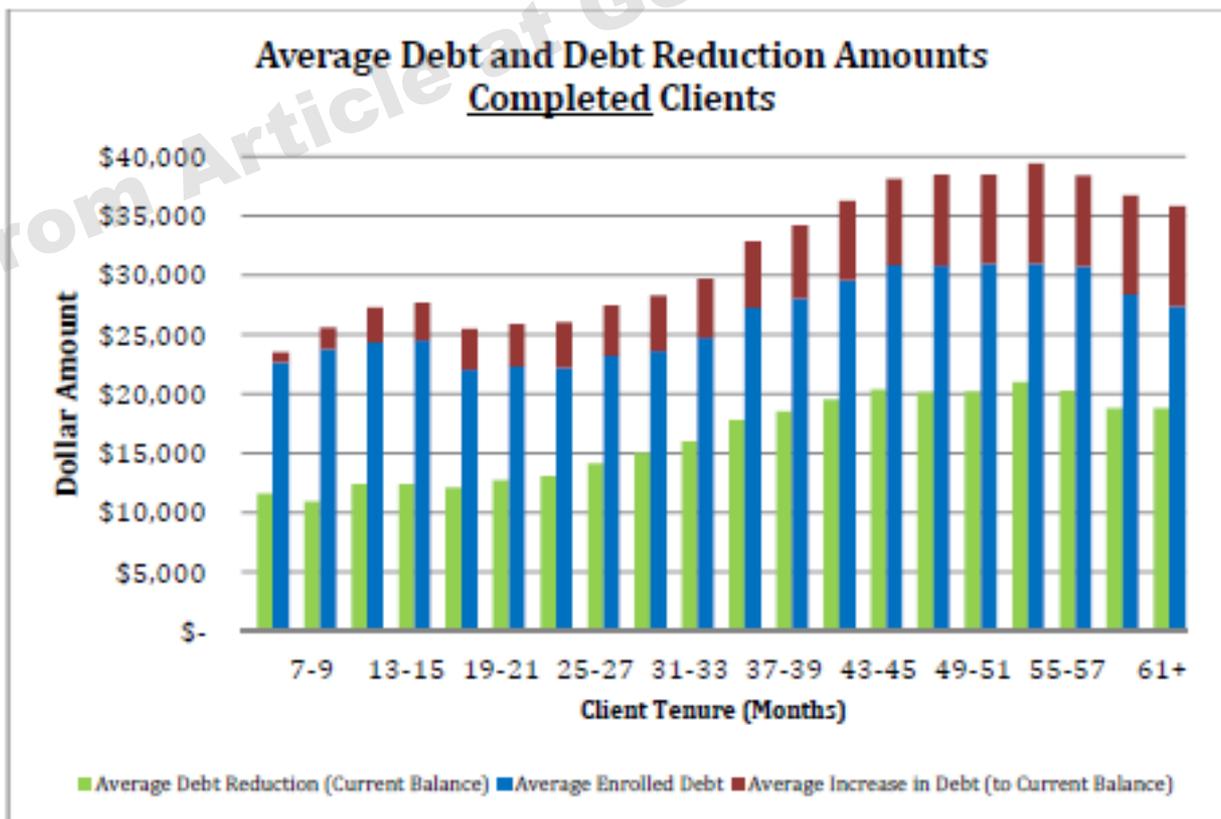
# Economic Benefit of Participating in Debt Settlement Program: *Debt Reduction Per Dollar of Fees*

Even terminated clients receive considerable debt reduction per dollar of fees charged. Note that Version 1.0 terminated clients break even (i.e., receive \$1.00 of debt reduction for \$1.00 of fees) at month 7; Version 2.0 clients realize savings regardless of tenure.



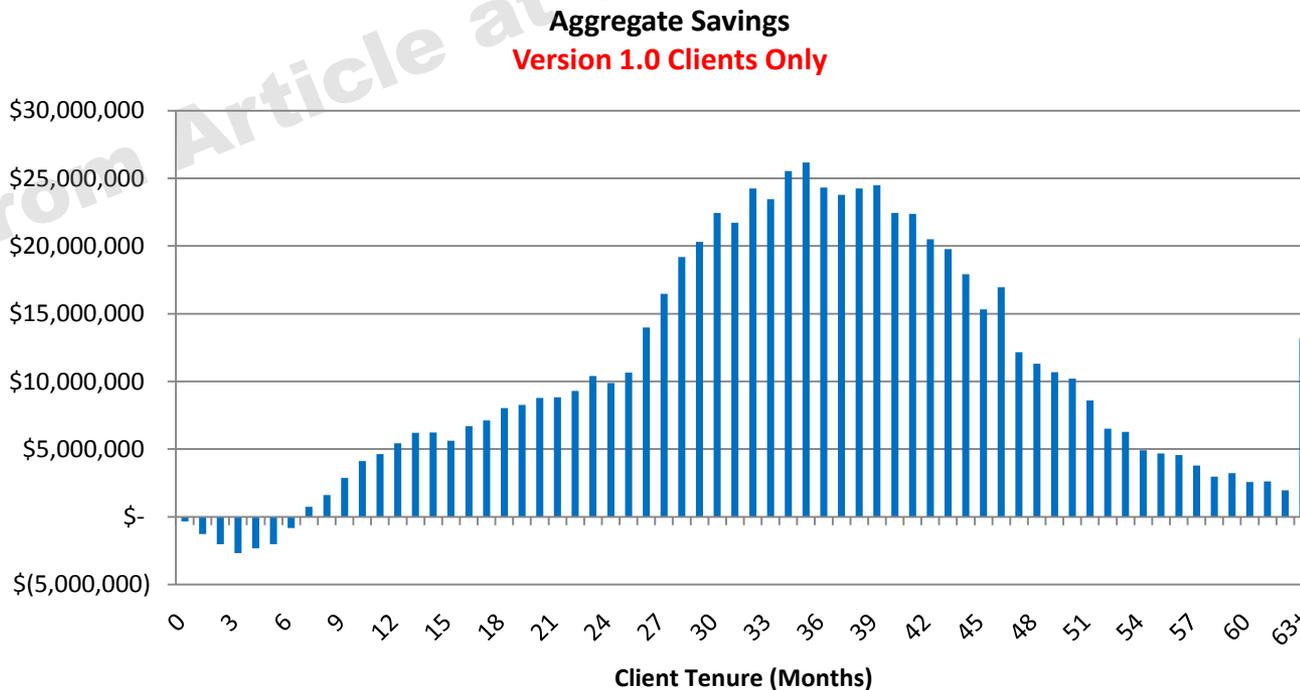
# Economic Benefit of Participating in a Debt Settlement Program: *Results for Completed Clients*

Completed clients experience significant debt reduction, regardless of how long it takes them to complete the program.



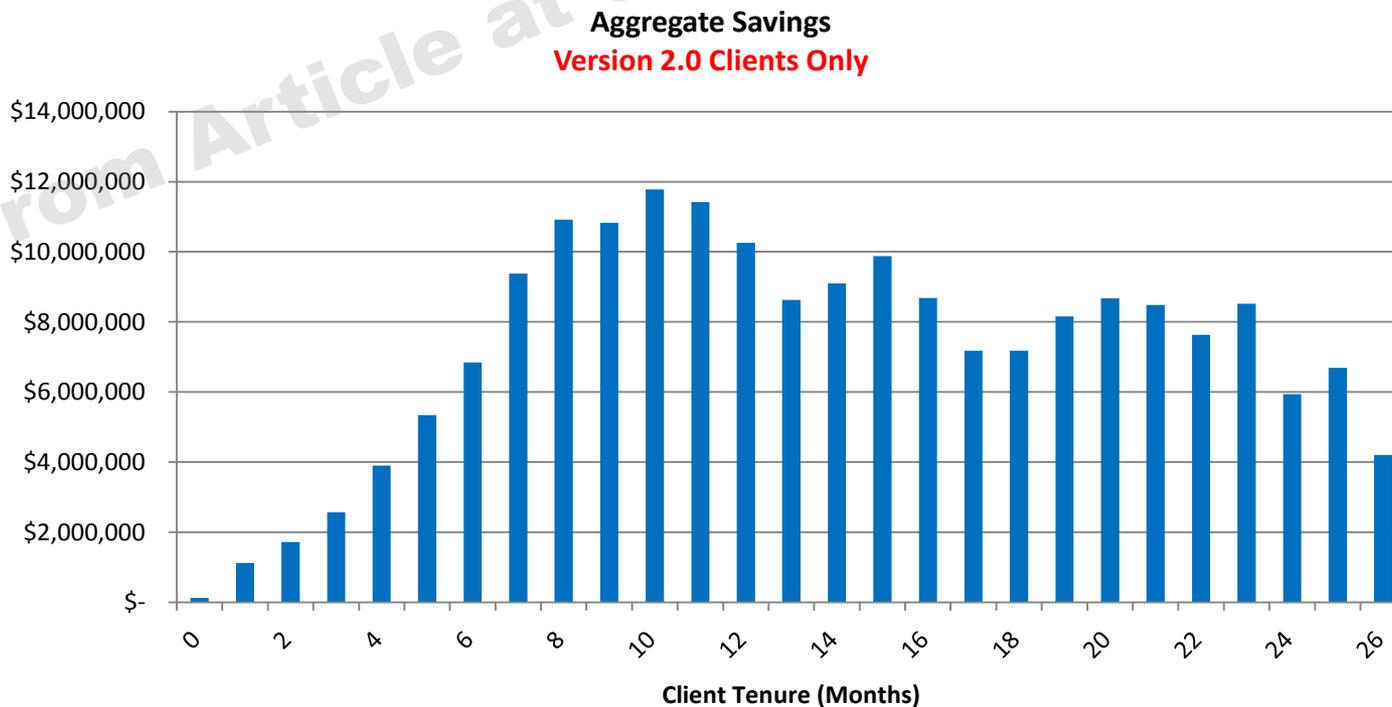
# Pre-TSR Amendments: Most Consumers Receive Savings Regardless of Tenure

Version 1.0 clients received an aggregate savings (debt reduction minus fees), with the exception of clients who were in the program for 7 months or fewer.



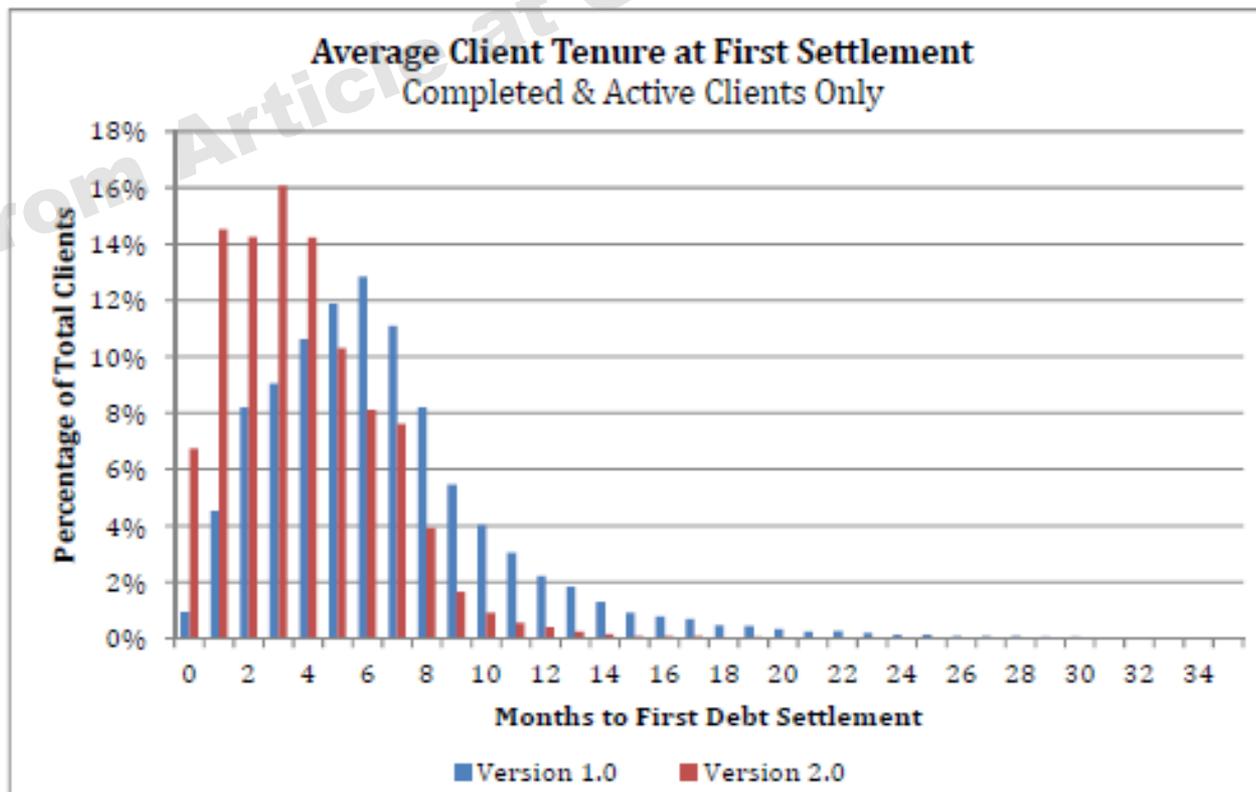
# Post-TSR Amendments: All Consumers Receive Savings Regardless of Tenure

Version 2.0 clients received aggregate savings, across every single vintage, regardless of tenure.



# Post-TSR Amendments: Consumers Get Results Faster

Since the effective date of the TSR Amendments, the average time until a client experiences a first settlement has decreased significantly.



# About the Author

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- Greg Regan is a Partner in the Litigation and Forensic Consulting Services Group in the San Francisco office of Hemming Morse, LLP. He serves on the American Institute of CPA's Forensic and Litigation Services Committee.
- Mr. Regan has worked on more than 100 forensic investigations and economic damage analyses, and has testified in federal and state court as well as in arbitrations.
- Mr. Regan is the current Chair of the AICPA's Damages Task Force and is an Adjunct Professor at Golden Gate University, where he teaches graduate-level courses in forensic accounting.
- Mr. Regan is a Certified Public Accountant, a Certified Financial Forensic Accountant, a Certified Fraud Examiner, a member of the California Society of Certified Public Accountants (CalCPA), and a graduate of the CalCPA's Leadership Institute. Mr. Regan received his B.S. degree in Accounting from Georgetown University, Washington, D.C., and his Masters in Business Administration with an Emphasis in Finance from the University of San Francisco.

# About the American Fair Credit Council

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- The non-profit American Fair Credit Council is the trade association of the consumer debt resolution industry. The AFCC has organized around a few very simple yet very powerful principles:
  - **To support consumers dealing with overwhelming unsecured debt problems;**
  - **To promote and enforce industry “best practices”;** and
  - **To advocate for legislation at the state and federal level that will protect consumers, regulate the industry and encourage a robust and transparent marketplace for all types of debt relief options.**
- AFCC-certified Consumer Credit Advocates help consumers get back on the road to financial independence by negotiating directly with creditors to secure a resolution that reduces the amount owed to a level the consumer can afford.
- AFCC members accept compensation from the consumer (never from the creditor) **ONLY WHEN THE CONSUMER ACCEPTS AN OFFERED SETTLEMENT AND MAKES AT LEAST ONE PAYMENT TO THE CREDITOR.**
- AFCC members do not handle, manage or otherwise control client funds and must abide by the association’s strict Code of Conduct.

# American Fair Credit Council

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# Appendix: Comparison of Debt Relief Options

\$30,000 of Debt At Enrollment	Debt Settlement	Credit Counseling	Minimum Monthly Payments <sup>[1]</sup>	Home Equity Consolidation Loan <sup>[2]</sup>
Months to Pay Off or Settle All Debt	42 <sup>[3]</sup> (3 years, 6 months)	60 (5 years)	263 (21 years, 11 months)	120 (10 years)
Monthly Payment/ Program Deposit	\$554.29	\$672.75	\$900.00 <sup>[4]</sup>	\$307.31 <sup>[4]</sup>
Interest Rate On Outstanding Balance	n/a	9% <sup>[5]</sup>	15.5%	4.25% <sup>[6]</sup>
Total Program Interest	n/a	\$7,365.04	\$22,389.71	\$6,877.20
Program Fees	\$6,000.00 <sup>[7]</sup>	\$3,000.00 <sup>[8]</sup>	n/a	\$1,500.00 <sup>[9]</sup>
Amount to be Paid to Pay off Enrolled Debt	\$17,280.00 <sup>[10]</sup>	\$30,000.00	\$30,000.00	\$30,000.00
<b>Total Program Cost Paid By Consumer</b>	<b>\$23,280.00</b>	<b>\$40,365.04</b>	<b>\$52,389.71</b>	<b>\$38,377.20</b>
Fair Share Payments by Creditor to nonprofit CCCS	n/a	\$1,868.25 <sup>[11]</sup>	n/a	n/a

- [1] Assumes (1) minimum payment of the greater of (A) 3.0% of principal balance or (B) \$20, (2) static interest rate of 15.5% on declining principal balance, (3) no additional card usage and (4) no additional charges or fees, such as over-limit fees, late fees, etc.
- [2] Assumes good credit, sufficient home equity and no change in interest rate over the term. See <http://www.bankrate.com/calculators/mortgages/mortgage-calculator.aspx?MSA=4472>.
- [3] Program term depends upon such factors as creditor composition, rate of funds accumulation, account accretion, etc. Debt settlement programs generally require between 24-48 months to complete.
- [4] Initial payment. Payment amount will decline as principal is reduced (or increase if interest rates rise).
- [5] Estimate, based on inquiries with three separate credit counseling organizations.
- [6] HELOC rate quoted by Wells Fargo Bank, NA, as of November 25, 2012.
- [7] Assumes a Fee of 20% of enrolled Debt.
- [8] Assumes a fee of the lesser of (1) \$50 per month or (B) 15% of client payment.
- [9] Assumes 10-year term loan with fees and costs of 5% of loan value.
- [10] Assumes (1) average account accretion of 20% from time of enrollment to time of settlement and (2) average settlement percentage of 48% of amount owed at time of settlement.
- [11] Assumes 5% of client payments, see page 16 of Wilson, "Meeting the Demand for Debt Relief," Federal Reserve Bank of Philadelphia (August 2011). Fair share payments are returned to the credit counselor by the creditor as a portion of the principal/interest payment made by the debtor.