Options for Consumers in Crisis:

An Economic Analysis of

The Debt Settlement Industry

(Data as of December 31, 2012)

From Article at GetOutOfDebt.org

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1. Executive Summary

The objective of this report is to provide an independent analysis of the economic consequences of participation in a debt settlement program. The analysis presented below addresses the outcomes of more than 1 million individual Accounts that were enrolled in debt settlement programs from January 1, 2006 through December 31, 2012. These Accounts were associated with approximately 170,000 individual Clients.

As described in greater detail below, the following conclusions are evident (see §2 for a Glossary):

- Debt settlement Clients as a group (including all Active, Terminated or 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) (see Charts 5.1, 5.8, 5.9, 5.10, and 5.11).[1]

- Across the entire data set, Clients with at least four months of program tenure realized Debt Reduction greater than their Fees (*i.e.*, a Savings, see Chart 5.2).

- Version 1.0 Clients (including Terminated Clients) that achieved at least seven months of program tenure realized Debt Reduction greater than their Fees (*i.e.*, a Savings, see Charts 5.3 and 5.6).

- Since Version 2.0 Clients do not pay Fees until a settlement is reached, these Clients have experienced, and will continue to experience, Savings irrespective of program tenure (see Chart 5.4). Further, since Version 2.0 Clients can reject any offered settlement for any reason or no reason at all, it is unlikely that any Version 2.0 Client will experience a lack of Savings in connection with any given settlement. Accordingly, Version 2.0 Clients are virtually assured of realizing Savings with respect to all settlements, as compared with Version 1.0 Clients (compare Charts 5.3 and 5.4).

- Clients across all vintages are achieving substantial reductions to their account balances (see Charts 5.9. 5.10, and 5.11). This finding indicates that, for all vintages (even the earliest), debt settlement is a very effective debt relief option.

In addition to the above conclusions, the data indicates that the economic benefits from debt settlement programs are demonstrably superior to other debt relief (or investment) alternatives. See §6 of this report.

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[1] The charts in this report are numbered by the section in which they appear and sequentially within those sections.

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2. Glossary of Terms Used in this Report

As used in this report, unless the context otherwise requires, the following terms have the meanings given below.

Account. A record of an obligation owed by a Client to a creditor.

AFCC. The American Fair Credit Council. The American Fair Credit Council (formerly known as "TASC," the acronym for The Association of Settlement Companies), is the industry trade association representing virtually all of the national debt settlement companies operating in compliance with the FTC Rule.

Client. A consumer who has enrolled in a debt settlement program.

Debt. An unsecured obligation, represented by an Account, owed by a Client to a creditor. An "**Enrolled Debt**" is a Debt that has been enrolled by a Client in a debt settlement program. Debts eligible for enrollment in a debt settlement program are predominately credit card obligations and other forms of unsecured indebtedness (including medical debt and non-Federally guaranteed student loan obligations).

Debt Reduction. The difference between the amount owed by a Client to a creditor at the time of settlement and the amount for which that Debt is actually settled. By way of example, if a Client owes $10,000 at the time of settlement and the Debt is settled for $4,000, the Debt Reduction would be $6,000.[2]

Fees. The compensation charged by a debt settlement services provider. Note that fees charged by both debt settlement enterprises and credit counseling organizations are very different from each other and vary widely by state. See Exhibit A for further discussion.

FTC. The Federal Trade Commission, the United States governmental agency responsible for oversight of certain aspects of the debt relief industry.

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[2] The FTC Rule mandates that, for purposes of marketing material, "savings" claims must be based upon the difference between the amount paid and the original (i.e., enrolled) balance of a Debt. Using enrolled balance, however, distorts the economic benefit realized by a Client because, by ignoring accretion, actual savings is understated. Accordingly, for analytic purposes, the analyses presented in this report generally use actual savings, meaning savings measured against the amount owed at time of settlement.

FTC Rule. The Amended Telemarketing Sales Rules (16 C.F.R. Part 310 et seq.), as issued by the FTC on July 29, 2010, which rule implemented the "advance fee" ban, effective on October 27, 2010.

Savings. The net economic value of a settlement to a Client. "Savings" is the difference between Debt Reduction and Fees. By way of example, the settlement of a $10,000 Debt for $4,000 with a 20% Fee yields a Savings of $4,000 ($6,000 of Debt Reduction minus the $2,000 Fee).

Version 1.0/Version 2.0. The terms used to denote pre- and post-FTC Rule debt settlement programs. "Version 1.0" programs are debt settlement programs that were entered into on or prior to October 26, 2010; "Version 2.0" programs are debt settlement programs that were entered into on or after October 27, 2010, the effective date of the FTC Rule.

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3. Introduction and Background

a. Debt Settlement

Debt settlement is the process by which a service provider, working on behalf of a Client (a financially distressed consumer enrolled in the service provider's debt relief program), negotiates the settlement and final discharge of the Client's unsecured indebtedness. Debt settlement generally serves those who cannot qualify for or afford other debt relief options, such as consumer credit counseling, or who are unable to satisfy the means test required as a prerequisite to personal bankruptcy. A comparison of debt settlement and credit counseling has been appended as Exhibit A.

Although the debt settlement process involves functioning as the intermediary between the debtor and the creditor, debt settlement service providers do not provide legal representation, nor do they provide bankruptcy advice or counseling services. Similarly, debt settlement service providers do not provide assistance with secured indebtedness, such as mortgages (with the attendant issues surrounding loan modifications and foreclosures) or any other type of secured indebtedness (a creditor holding secured debt has little or no incentive or willingness to accept a settlement of less than the value of the underlying security).

Debt settlement has been available to commercial enterprises for many years, although it only became widely available as an option for consumers in 2003 and took off, as an industry, following the passage of the Bankruptcy Reform Act of 2005. The Bankruptcy Reform Act of 2005 made it more difficult and expensive for consumers to seek discharge of their debts.

b. The American Fair Credit Council

The AFCC's predecessor, TASC, was formed in 2005 for the purposes of articulating clear and fair operating standards for the debt settlement industry and promoting strong legislation that protects consumers from both real and perceived abusive practices. TASC changed its name to the American Fair Credit Council following the October 2010 adoption of the FTC's advance-fee ban, discussed below, to reflect a new and expanded mission. The AFCC also works to establish fair and transparent regulatory frameworks for the industry.

The AFCC's standards, along with industry "best practices" and the association's mission statement, may be found on its website at www.americanfaircreditcouncil.org.

c. The FTC & the Evolution of the Debt Settlement Business Model

Historically, a majority of the debt settlement industry charged fees based on a percentage of the amount of Debt a Client enrolled into the program (commonly around 15% of enrolled debt)[3]. Fees were collected in installments over the first half of a program's term, often with the result that a Client paid a substantial amount of fees in advance of receiving settlements; this business model became known as the "advance fee" model.

Although AFCC members have historically delivered what the data demonstrates are significant results (i.e., the delivery of Debt Reduction substantially in excess of Fees), the experience of some consumers who paid Fees but received little or no Debt Reduction colored the public perception of the industry. In October 2008, in response to this perception, the FTC opened an inquiry into the business practices of the debt settlement industry, focusing specifically on the advance-fee model. In July 2009 the FTC issued a draft rule that prohibited the advance-fee model. The FTC Rule took effect in October 2010.

d. A Paradigm Shift: The Client-Side Risks of Debt Settlement Have Been Absorbed by the Service Providers

The FTC Rule set in place a pay-for-performance model for debt relief service providers subject to FTC jurisdiction.[4] That model effected a paradigm shift in terms of risk assignment, that is, the FTC Rule shifted the economic risk of program success from the consumer to the debt settlement service providers. Providers incur considerable costs

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[3] A small percentage of the industry charged Fees based on a percentage of the Debt Reduction realized by the Client (commonly between 20-40% of the amount of the Debt Reduction), often in combination with a monthly fee.

[4] The FTC's jurisdiction extends only to certain persons who use an instrumentality of interstate commerce in the sale of service, with certain exceptions, including but not necessarily limited to those whose sales process occurs in face-to-face interactions and persons operating under the provisions of Section 501(c)(3) and 501(q) of the Internal Revenue Code.

From Article at GetOutOfDebt.org

prior to obtaining a settlement; now, per the FTC Rule, before the provider is entitled to recoup any of those costs, three contingencies must be satisfied: (1) the provider must negotiate the terms of settlement for at least one debt; (2) the Client must agree to the terms of the negotiated settlement; and (3) the Client must ratify that acceptance by making at least one payment to the creditor. If the Client fails to do any of these things, the provider will experience a financial loss because Fee revenue may only be realized when the Client agrees to a settlement.[5] Moreover, the Fee for the provision of debt settlement services may only be charged on a per-debt basis (i.e., the provider may only collect the Fee attributable to the specific Debt being settled).

Unsurprisingly, according to the AFCC as a direct result of the FTC Rule's prohibition on the collection of fees in advance of delivery of settlements, an estimated 70-80% of the industry has either stopped accepting new clients or gone out of business entirely.[6]

Prior to the implementation of the FTC Rule's pay-for-performance model, consumers largely bore the risk of program participation. If the Client withdrew from the program, for

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[5] While the timing of the obligation to pay Fees now depends upon the negotiation of a settlement that is actually accepted by the client, Fees have generally increased to compensate the providers for assuming both the delay in revenue and the increased risk of Client rejection. However, any negative impact on Savings resulting from higher fees has been more than offset by the improvement in timing of settlements (since funds accumulate more swiftly when Fees are not deducted), see Chart 5.7, and an improvement in the overall risk profile of Clients who no longer have to make an economic investment prior to obtaining Savings.

[6] A proxy for industry attrition may be found in the membership roster of TASC/AFCC: prior to the adoption of the FTC Rule, TASC had approximately 265 members; following the adoption of the FTC Rule, membership has shrunk to about 55 members, an almost 80% reduction. A companion trade association, the United States Organization for Bankruptcy Alternatives (USOBA), which at one point had more than 200 members, has ceased operations entirely.

The exodus from the marketplace of many debt settlement service providers following the adoption of the FTC Rule was accompanied by the reactive – and temporary - rise of the so-called "legal model," which was touted as a way to avoid the reach of the FTC Rule. Under the legal model, a law firm serves as the interface for a debtor, enrolling the client in a face-to-face transaction while outsourcing the functions of marketing, customer service and negotiation to a third-party debt settlement services provider. Advocates of the legal model contend that, because a lawyer is actually enrolling the Client, the charging of advance fees is permissible. Both the FTC and certain state regulators and Attorneys General have sued different attorney model providers, with mixed results.

In addition to coming under fire from regulators, legal models have not proven to be either overly durable or overly efficient. By adding a law firm to the payment chain, consumers utilizing legal models may end up paying more for debt settlement services than they otherwise would have paid for similar results from a traditional debt settlement services provider. Moreover, by paying advance fees it is the consumer, not the law firm or the provider, that bears the economic risk of program success.

Results from legal-model service providers are not included in the analysis presented in this report. Legal model service providers are not eligible for membership in the AFCC based on their charging consumers fees in advance of the provision of debt settlement services.

whatever reason, Fees paid were generally nonrefundable (or refundable only in part). Although 37% percent of Version 1.0 Clients that withdrew had received one or more settlements with a corresponding economic benefit (see §5), there is no dispute that some consumers were disadvantaged by this structure. Accordingly, the FTC Rule has resulted in a model that has a stronger correlation with the consumer's program success.

A quick reference to the Fee-related provisions of the FTC Rule may be found in Exhibit B.

4. Scope of Engagement and Data Considered

From Article at GetOutOfDebt.org

The objective of this report is to provide an independent analysis of the economic consequences of participation in a debt settlement program. It is premised on data provided by debt settlement service providers that adhere to the AFCC's Code of Conduct. More specifically, the statistical data presented herein is representative of and consistent with entities that comply with the FTC Rule that Fees may only be charged at such time as the underlying Debt has actually been settled. The data sets that form the basis of the analysis presented in this report were obtained from several of the nation's largest debt settlement service providers. The analysis includes approximately 170,000 Clients, with approximately 1,050,000 Accounts, residing in most of the 50 states as well as the District of Columbia and Puerto Rico.

Ultimately, this analysis measures whether and to what extent a Client is economically advantaged by debt settlement.[7]

a. Version 1.0 v. Version 2.0 Data

The volume of available data for Version 1.0 Clients and Accounts is substantially greater than for Version 2.0. This relationship will invert over time because the FTC Rule only permits the Version 2.0 model for new Clients. For example, the average Client program tenure for Version 2.0 Clients is currently only 8.5 months, which, as time progresses, is likely to approach or exceed the average Client program tenure for Version 1.0 Clients. Table 4.1 summarizes the distribution of Version 1.0 and Version 2.0 Clients included in the data sets analyzed in this report.

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[7] 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. Further, it was deemed to be beyond the scope of this report to address or attempt to monetize either the "soft" benefits (*i.e.*, the value to a Client of improved cash flow when the Client chooses to stop making minimum monthly credit card payments and substitutes a substantially reduced periodic deposit requirement) or the "soft" costs (the detriments of various debt relief alternatives, such as damage to one's credit report, the social costs of bankruptcy, etc.).

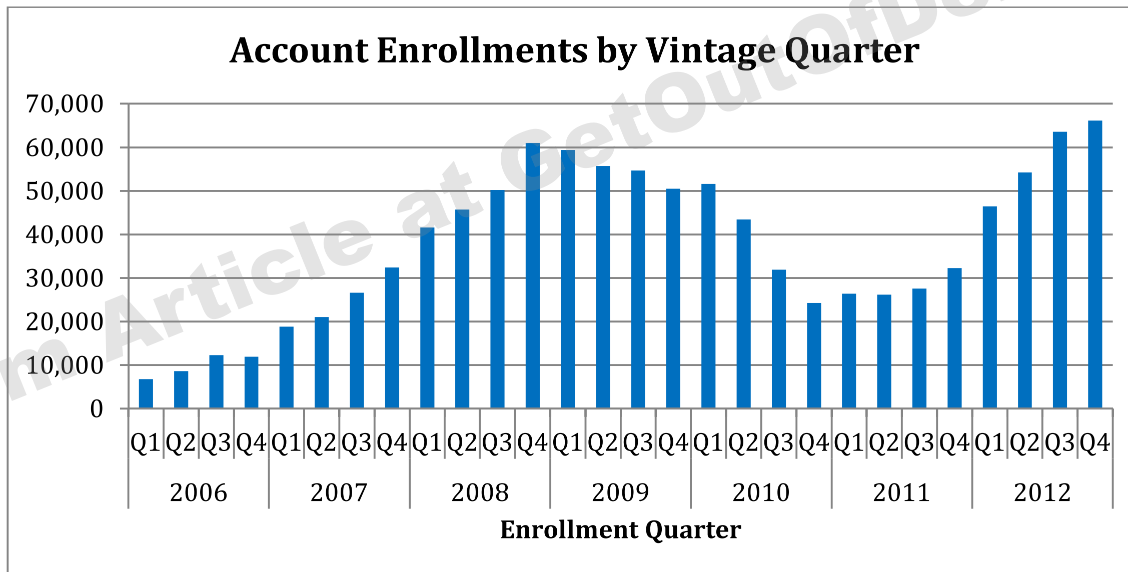
Table 4.1

Fee Model	Version 1.0	Version 2.0
Enrolled Clients	113,000	56,000
Total Enrolled Debt	$3.3 billion	$1.7 billion
Average Client Tenure	21.5 months	8.5 months
Average Account Tenure[8]	12.8 months	5.9 months

Chart 4.2 below summarizes the Accounts included in the analysis herein based upon the date of enrollment as of December 31, 2012:

From Article at GetOutOfDebt.org

Chart 4.2



The number of Account enrollments decreased precipitously in late 2010 as the industry contracted following the adoption of the FTC Rule (*i.e.*, the Version 2.0 fee model).[9] As entities have adapted their businesses to accommodate this new model and consumers increasingly recognize the decreased risk of the "pay for performance" model versus the "advance fee" model, the number of enrolled Accounts has grown significantly, starting in late 2011 and continuing throughout 2012. Notwithstanding the advent of Version 2.0, the economic outcomes of Clients and Accounts have many similarities. As a result, in many instances, this analysis has consolidated Client or Account data.

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[8] Average Client tenure measures the total time that the Client (has) participated in the program based upon the longest-lived Account. Therefore, average Client tenure is greater than average Account tenure, which measures all Accounts irrespective of the related Client's total tenure in a debt settlement program.

[9] Participants in this study have indicated that they initially chose to limit enrollments due to negative cash flow considerations flowing from the adoption of the FTC Rule.

b. Critical Client and Account Attributes

The data included in this report has been segmented into three principal categories:

- Completed: Clients and Accounts that have reached settlements;
- Terminated: Clients and Accounts that have withdrawn prior to completion and/or settlement; and
- Active: Clients and Accounts continuing to participate as of December 31, 2012.

Table 4.3 summarizes the status of the Accounts included in this analysis:

Table 4.3

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

Although these segmentations may be applied literally at the Account level, at any point in time an Active Client is likely to have multiple Accounts, each with a different status. The typical Client enrolled six Accounts, and Debt Reduction can be generated from the settlement (*i.e.*, completion) of any one or more of these Accounts. In fact, there are many Clients that have settled one or more Accounts but have other Accounts that continue to be Active. At the Client level, this Client would be considered Active. It is notable that many Terminated or Active Clients have experienced Savings (see §5 below).

As described above, in the Version 1.0 fee model Fees were assessed irrespective of outcomes at the Account level. For this reason, Savings is generally measured at the aggregate Client level. In the Version 2.0 fee model, Clients do not incur an obligation to pay Fees until they receive Debt Reduction via settlements at the Account level. Thus, for Version 2.0 Clients, it is more relevant to analyze Debt Reduction and Savings at the Account level. For comparability purposes though, at times, this analysis will also present Client-level summaries for Version 2.0 Clients.

c. Vintage Analysis

The data in this report was analyzed and is presented on a vintage basis. A vintage analysis examines the performance of a group of Clients that have been segmented by dates of enrollment. In this way, Clients that enrolled Debt in a given month may be compared more readily to Clients enrolling at different times. For example, the outcomes of Clients enrolling in December 2008 can be compared to the outcomes of Clients that enrolled in

From Article at GetOutOfDebt.org

January 2011 after the same number of months has passed (*i.e.*, how much Debt Reduction was generated within 12 months of enrollment?).

Vintage analyses are the only way to achieve an accurate analysis of performance when time is relevant to Client outcomes. By way of illustration, colleges report graduation rates as a percentage of students eligible for graduation. The graduation percentage is typically calculated by dividing the number of graduating seniors by the number of freshmen that entered the same class four years earlier. Stated differently, the graduation rate is not computed by dividing the number of graduating seniors by the total number students at the college because most college students have not completed enough coursework to be eligible for graduation at that time.

A concept similar to a graduation rate applies in the debt settlement industry (*i.e.*, a completion rate). That is, a Client that enrolled in January 2012 is less likely to have completed the program by December 2012 than a Client that enrolled in January 2010 or earlier. This is why vintage analysis is both relevant and necessary to an accurate presentation of outcomes.

From Article at GetOutOfDebt.org

Chart 4.4 illustrates how Accounts move from Active status to either Completed or Terminated over time:

Chart 4.4

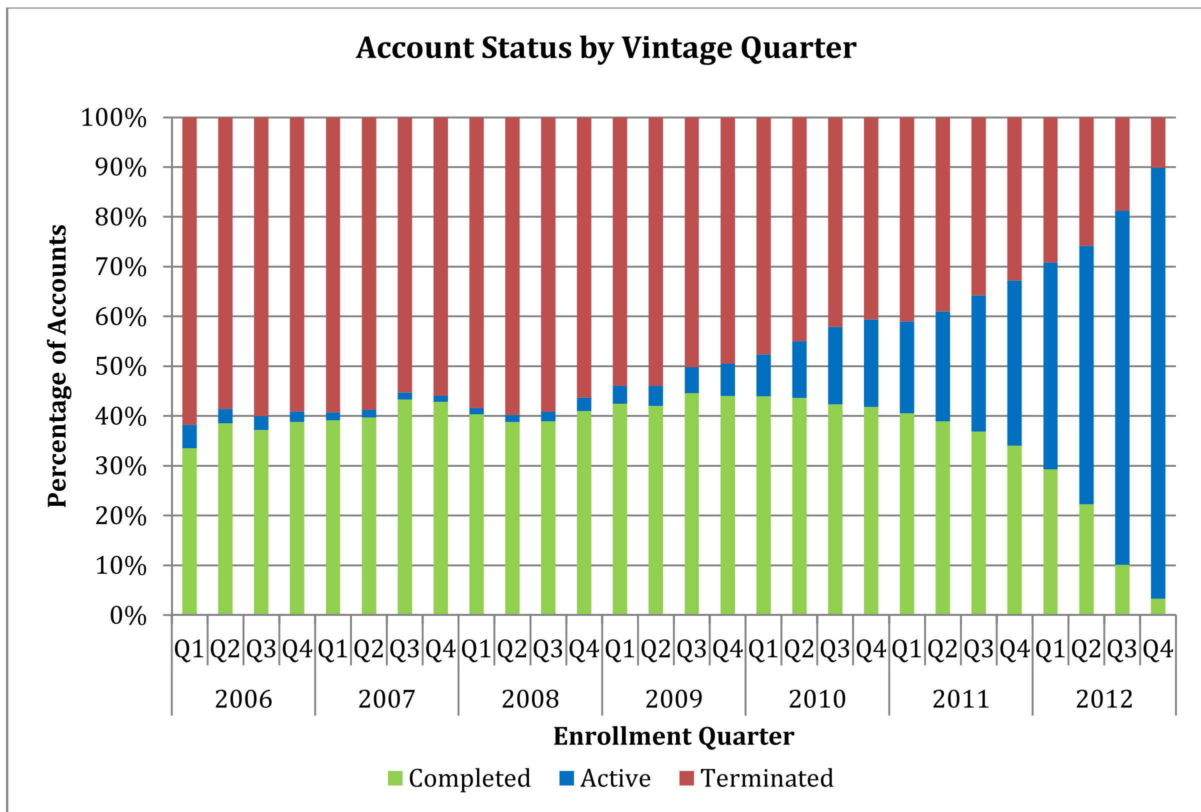


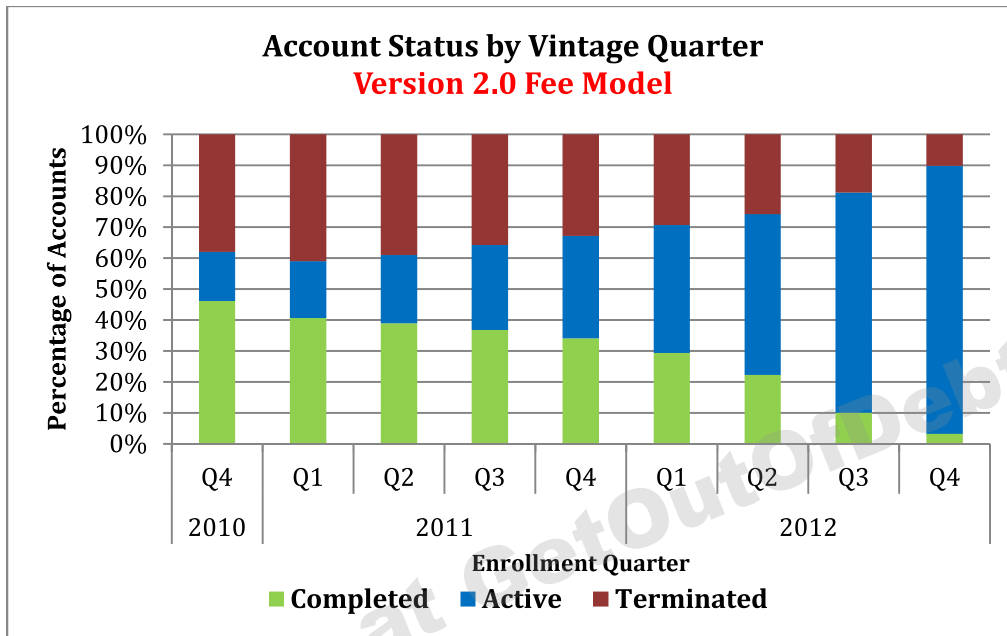
Chart 4.4 demonstrates that Terminated Accounts frequently materialize quite quickly after enrollment in the program. While Chart 4.4 includes all Terminated Clients, it is noteworthy that Version 2.0 Clients did not pay any Fees for Accounts that were not settled. Therefore, a strong argument can be made that classifying Version 2.0 Clients who have withdrawn prior to settlement of all Enrolled Debt as "Terminated" inappropriately inflates the termination statistics. Adopting this position would result in increased completion rates. Nevertheless, to be conservative, this analysis includes all Accounts.

Chart 4.4 also illustrates that activity in vintages from 2006 through 2008 is substantially over (*i.e.*, there are relatively few Active Accounts remaining). In these vintages, the completion rate (which is measured at the Account level) is approximately 40%. Over time, as the debt settlement service providers continue to refine settlement approaches and strategies, improved settlement trends are to be expected. This is demonstrated by the data. For example, the 2009 vintages currently reflect completion rates of 40% or higher but these vintages still contain a substantial number of Active Accounts, constituting approximately 10% of all Accounts from those vintages. As indicated clearly in the trend lines, these remaining Active Accounts are far more likely to be settled (i.e., completed) than to terminate.

From Article at GetOutOfDebt.org

To date, the completion rates for Version 2.0 Accounts have been higher. Although the Version 2.0 model had, at the time of this data pull, only been in place for approximately 26 months, which is considerably less than the expected normal program life of 36 to 48 months, completion rates are already in excess of 40% (see Chart 4.5). In all Version 2.0 vintages, approximately 20% of Accounts continue to be Active. Thus, it is likely that completion rates will stabilize above 50%. Notably, termination rates are currently below 40%, which if that trend continues, will also yield higher completion rates.

Chart 4.5



From Article at GetOutOfDebt.org

5. The Benefits of Participation in Debt Settlement Programs

a. The Aggregate Economic Benefits of Debt Settlement Programs

Chart 5.1 summarizes the total Debt Reduction and Fees experienced across all Client outcomes:

Chart 5.1

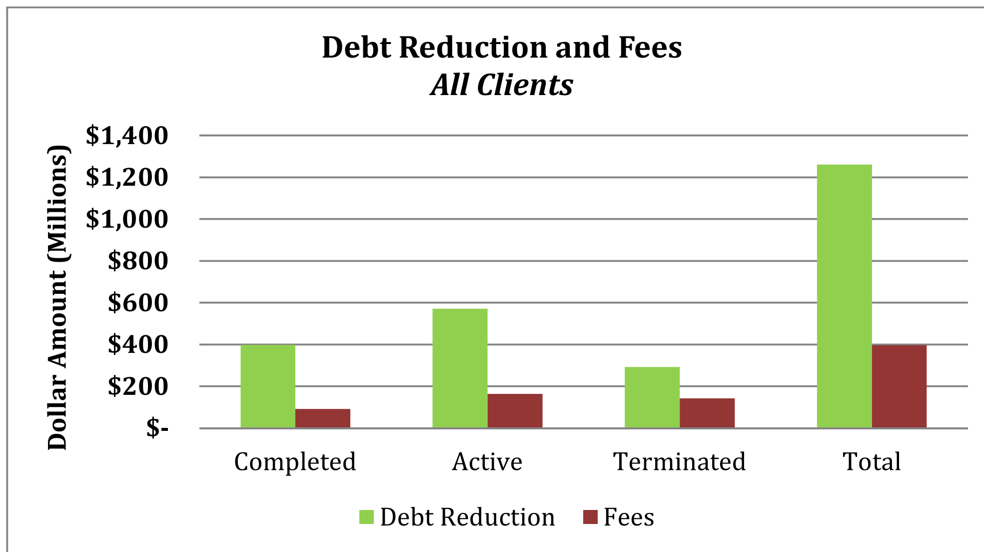


Chart 5.1 illustrates that Clients included in this analysis have realized more than $1.2 billion in Debt Reduction (*i.e.*, the difference between the Debt at the time of settlement and

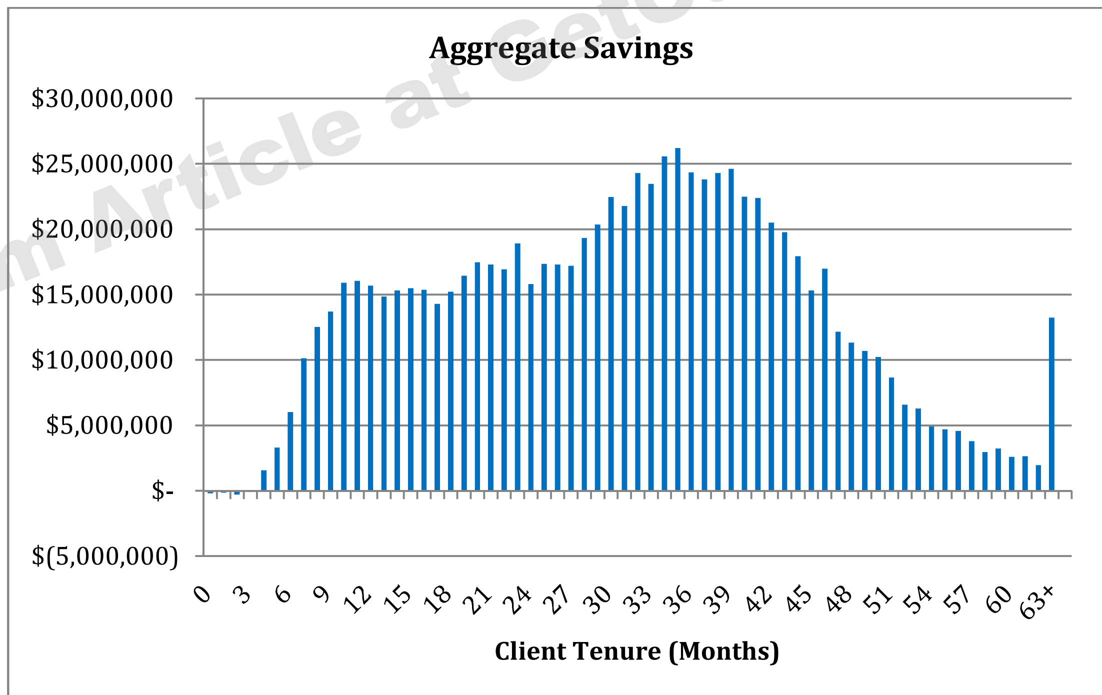
the amount actually paid to settle that Debt) while incurring Fees of $0.4 billion. In the aggregate, each segment of Clients has experienced Savings.

In numerous ways, our analysis found a persuasive relationship between program tenure and Debt Reduction. This relationship is consistent with our understanding that debt settlement providers generally inform Clients that Debt Reduction begins with the first settlement, which commonly occurs within the first six months of program participation, and continues to materialize thereafter throughout the lifecycle of the program. For Version 2.0 Clients, the trend is for Debt Reduction to occur even earlier (see Chart 5.7).

Chart 5.2 illustrates the correlation between Savings (*i.e.*, Debt Reduction minus Fees) and program tenure even more directly:

From Article at GetOutOfDebt.org

Chart 5.2



It is noteworthy that Chart 5.2 understates total portfolio Savings because it does not include an estimate of the Debt Reduction that will be experienced by the more than 21,000 existing Active Version 1.0 Clients that have already paid Fees. This subset of Active Clients has an average tenure of 40 months, which means that these Clients are no longer paying Fees and are virtually certain to achieve additional Debt Reduction in the near future.

Charts 5.3 and 5.4 deconstruct Chart 5.2 to compare the Debt Reduction profile for Clients in Version 1.0 and Version 2.0 Fee models.

Chart 5.3

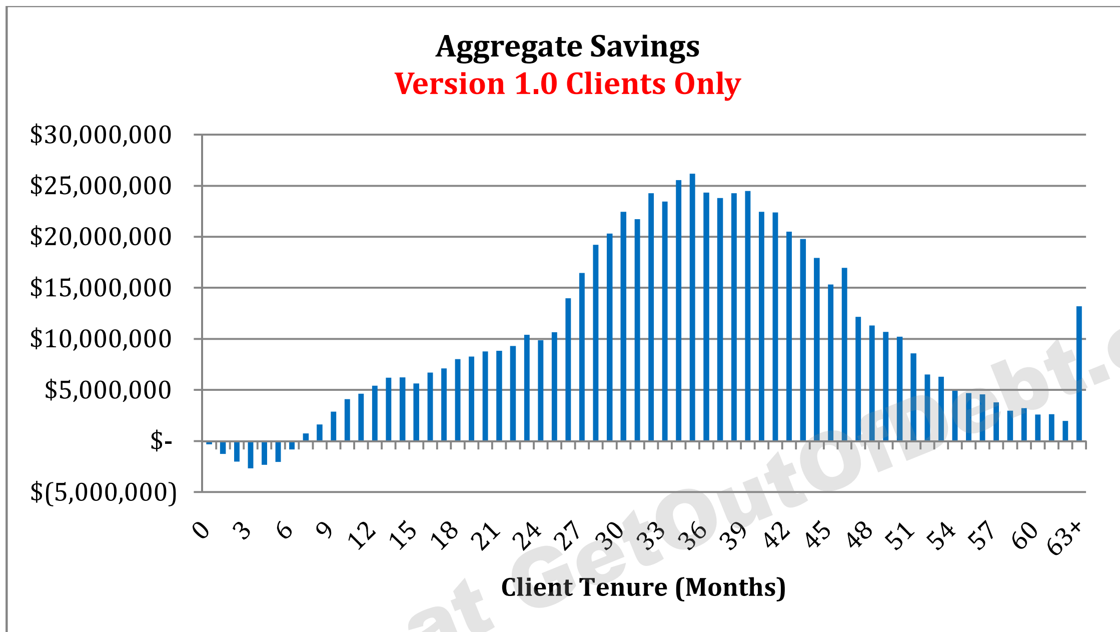


Chart 5.4

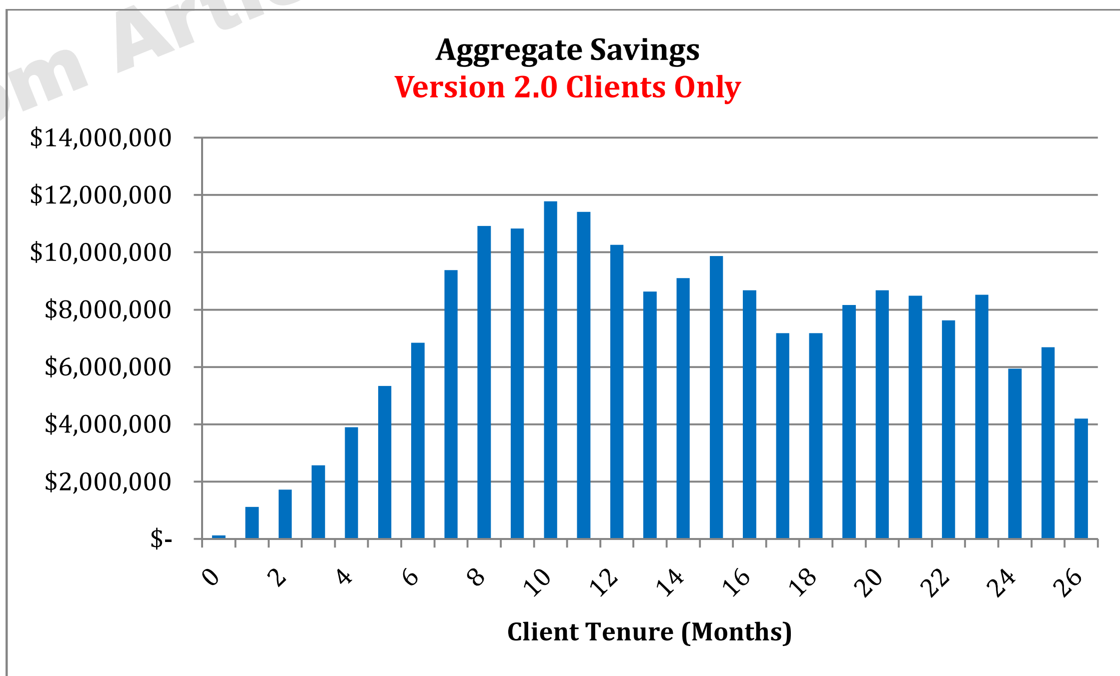


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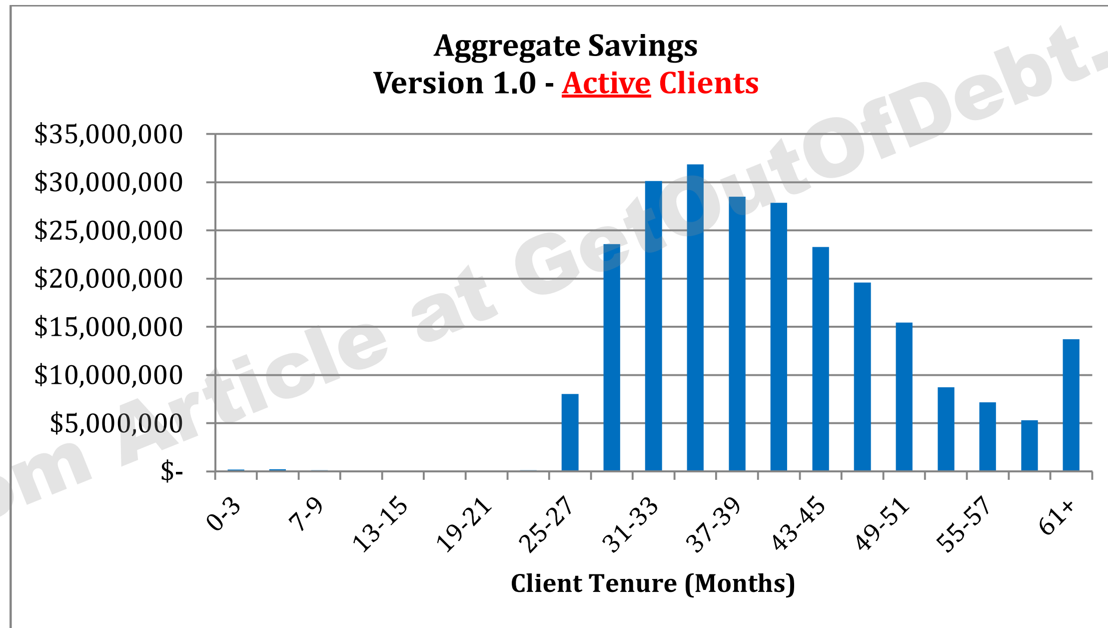
Chart 5.3 illustrates that Version 1.0 Clients typically achieve breakeven (that point where Debt Reduction equals Fees) after approximately six months. The economic outcomes of Version 2.0 Clients are even more clearly positive: because no Fees are paid by Version 2.0 Clients until such time as they realize a settlement, with Fees strictly proportionate to the Debts settled, Clients experience Savings in ***all*** periods. Since almost all settlements result

in Debt Reduction that is greater than the Fees associated with the respective settlement, Version 2.0 Clients experience Savings with each settlement.

In aggregate, all vintages of Completed Version 1.0 Clients have experienced Savings. Similarly, all vintages of Active Clients (Version 1.0 and Version 2.0) have experienced aggregate Savings (see Chart 5.5).[10] Chart 5.6 illustrates that even Terminated Clients achieve Savings between approximately seven to nine months of tenure.

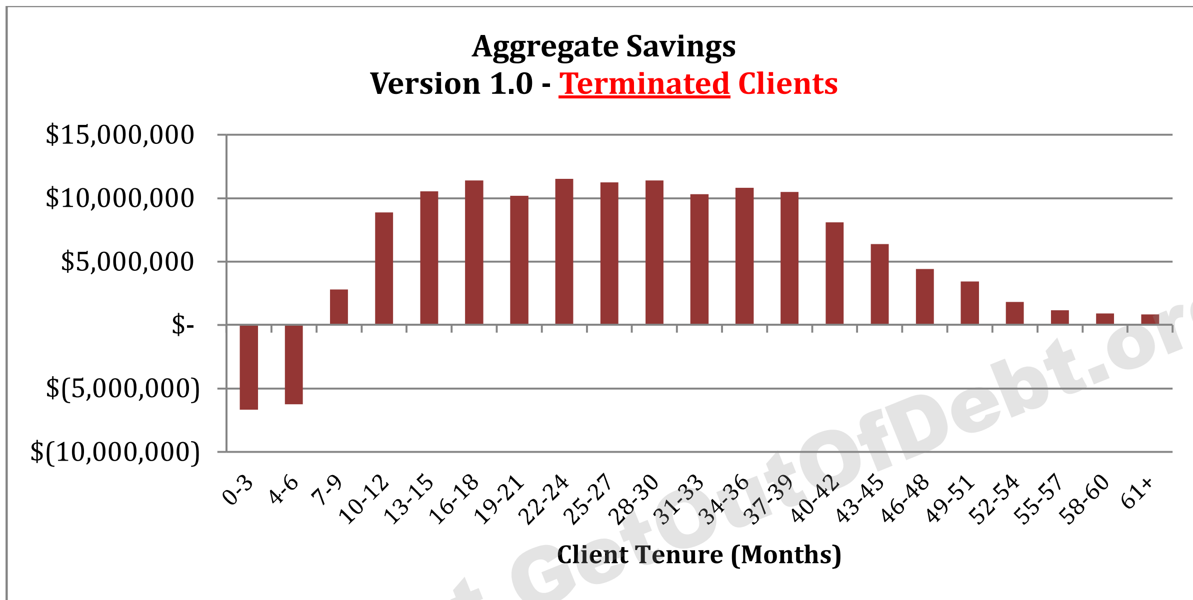
Chart 5.5



From Article at GetOutOfDebt.org

10 There have been no new Version 1.0 Clients since October 26, 2010. As a result, there are no Active Version 1.0 Clients with program tenure less than 26 months as of December 31, 2012.

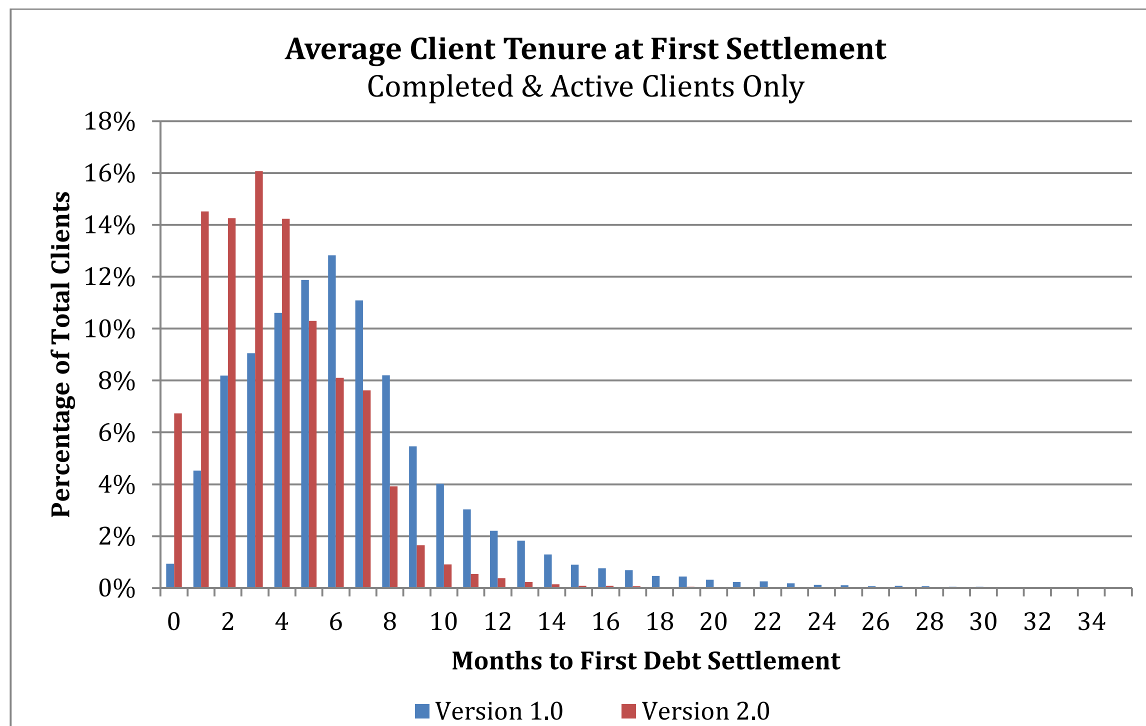
Chart 5.6



From Article at GetOutOfDebt.org

Version 2.0 Clients do not pay Fees until the time a settlement is reached, which for Completed or Active Clients occurs at least once within 4.3 months of enrollment (see Chart 5.7). However, even a Terminated Version 2.0 Client is not exposed to the risk that Fees could be incurred without the realization of Savings.

Chart 5.7



As a result, the only Client categories that did not experience Savings are those 1.0 Clients that did not, or could not, remain in the program for more than six months. The shift to 2.0 Clients leads to the conclusion that going forward all Clients will experience Savings irrespective of tenure.

b. Benefits as Measured at the Client and Account Levels

A useful measure of Client success in a debt settlement program is Debt Reduction per dollar ($) of Fees (*i.e.*, Debt Reduction ÷ Fees). Stated another way, if Debt Reduction is greater than $1.00, the client has realized Savings but if Debt Reduction is less than $1.00, the client has not realized Savings. Figure 5.8 summarizes Debt Reduction per dollar of Fees across all Version 1.0 Client types:

Table 5.8

Client Type	**Version 1.0**
Completed	$4.47
Active	$3.62
Terminated	$1.92

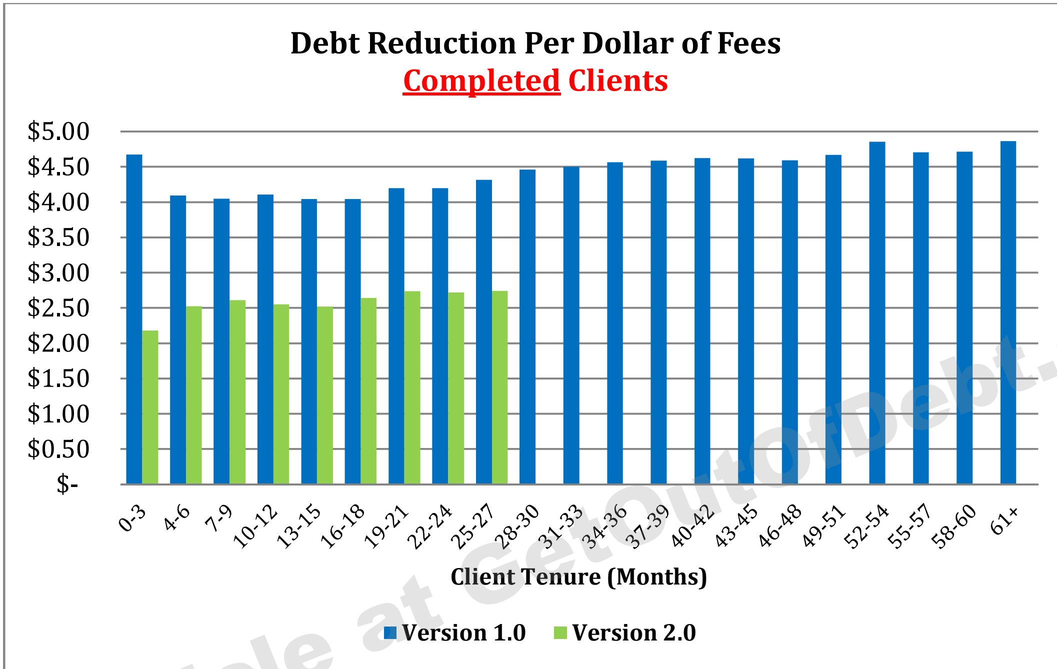
From Article at GetOutOfDebt.org

While all Version 1.0 Client types experienced Savings in the aggregate, because all Clients also paid Fees, Savings were greater for those Clients that achieved more settlements (*i.e.*, remain Active or Completed). For Version 2.0 Clients, Savings are consistently in the range of $2.60 to $2.70 per dollar of Fees for all Client types (Active, Completed *and* Terminated). Once again, this is because Fees are only paid at the Account level once the Client approves a settlement, which eliminates the sensitivity of Savings to Client type. This reduction in the ratio for of Debt Reduction ÷ Fees for Completed Clients from Version 2.0 to Version 1.0 reflects the economic effect of the FTC Rule to consumers: while there is increased certainty that Clients will obtain Savings, the lengthening of the term of the providers' revenue stream (with the attendant effects on cash flow), coupled with an increased risk of receiving Fees at all, has resulted in Version 2.0 Fee levels that are above those found in Version 1.0 programs.

The following series of charts examine this measure further across the Client tenure spectrum. Chart 5.9 summarizes the outcomes of Completed Clients.[11]

[11] For Version 1.0 Clients, each of the data series on the Client tenure axis contains all Accounts of Clients in that discrete segment. For the Version 2.0 Clients, each of the data series contains all Accounts that meet the criteria presented in the accompanying chart. A proportionally small number of Clients completed in less than nine months; notwithstanding the short tenure, however, those Clients also achieved Debt Reduction per dollar of Fees comparable to other Completed Clients.

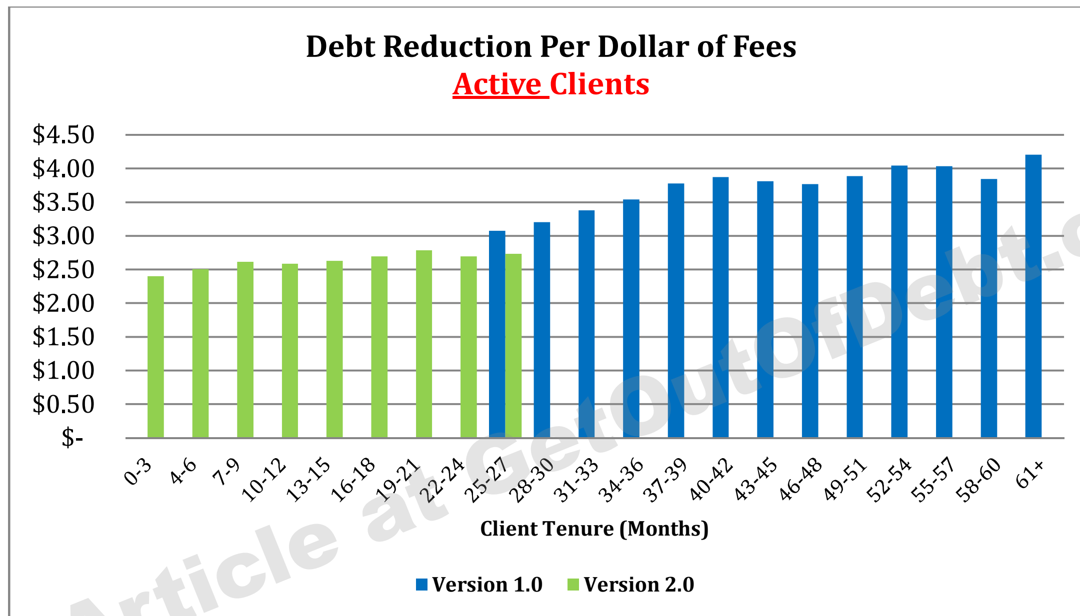
Chart 5.9



From Article at GetOutOfDebt.org

Chart 5.10 presents the same analysis for Active Clients. All segments of Active Clients have also received at least $2.00 in Debt Reduction for every $1.00 in Fees.

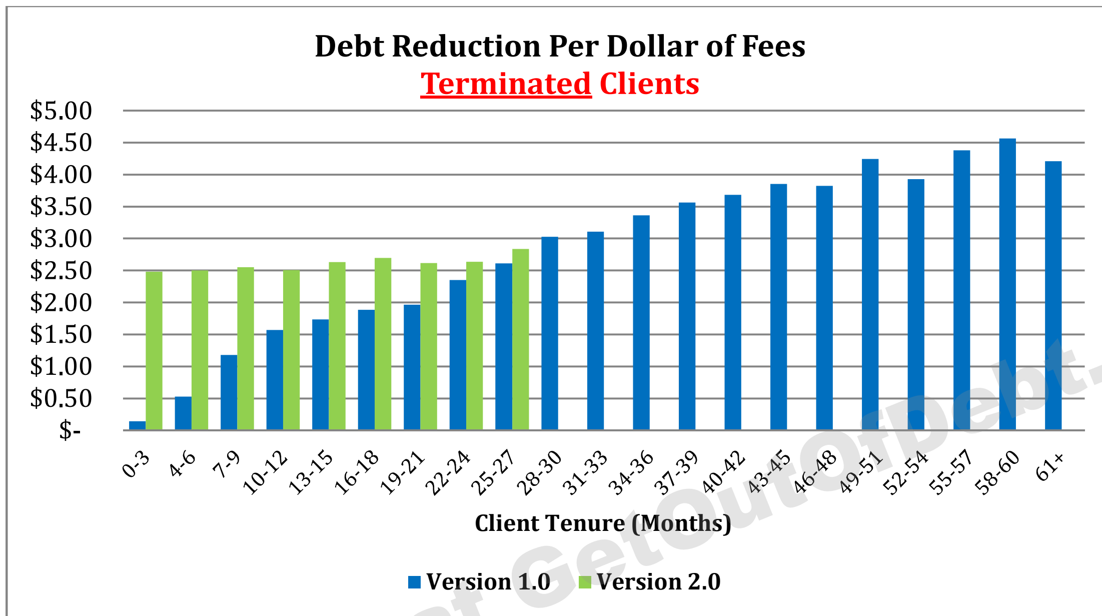
Chart 5.10



From Article at GetOutOfDebt.org

Chart 5.11 illustrates that Terminated Clients exhibit the same relationship between tenure and Debt Reduction. Chart 5.11 is consistent with Chart 5.6 in that the only segment of Clients that have not experienced Savings are, on the average, those Version 1.0 Clients that would not, or could not, commit to a debt settlement program for more than six months. In fact, Chart 5.11 illustrates that all vintages of Terminated Clients with a tenure greater than two years experienced at least $2.00 of Debt Reduction for every $1.00 in Fees (i.e., $1.00 of Savings), and essentially all vintages of Version 2.0 Terminated Clients experienced at least $2.50 of Debt Reduction for every $1.00 in Fees, *regardless of tenure*. This analysis explains why an examination of Client Savings is more meaningful than Client-level completion rates.

Chart 5.11



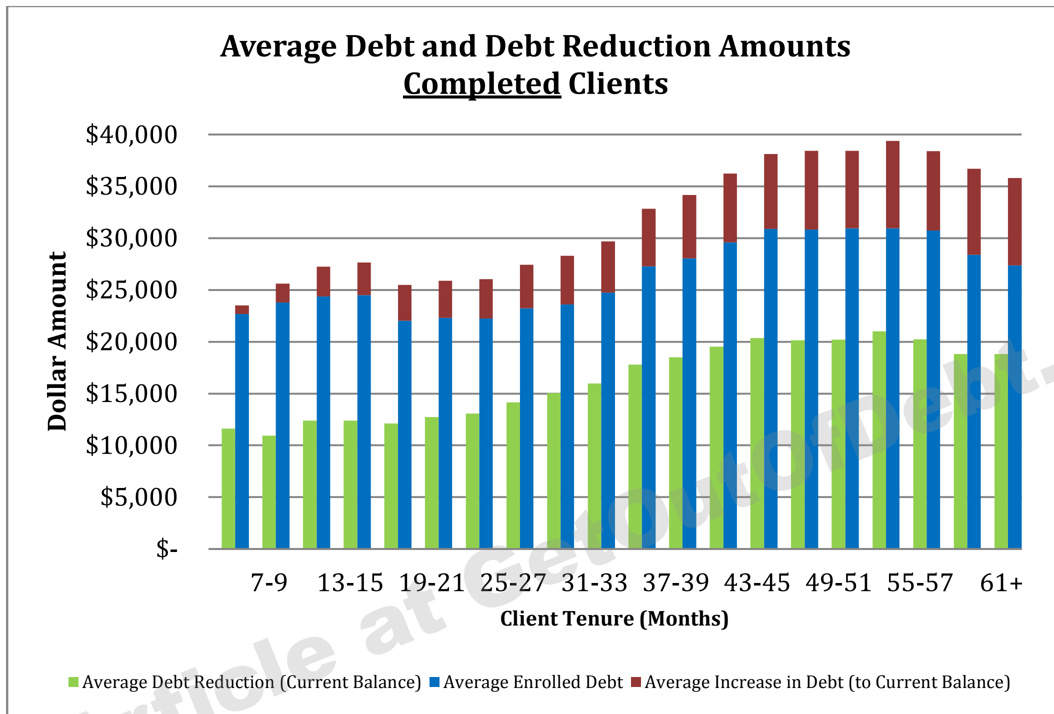
From Article at GetOutofDebt.org

c. <u>The Debt Reduction Experienced By the Typical Client</u>

The typical Completed Client enrolled total Debt of approximately $26,000. While in the program, that Debt increased by ~20% ($5,200) (*i.e.*, to a current balance of about $31,200). The typical Client, however, settled those Debts for approximately 48% of current balance ($15,000), which equates to Debt Reduction of around $16,200.

Chart 5.12 summarizes the weighted-average outcomes for Completed Clients of all tenures included in this analysis. Once again, Chart 5.12 illustrates the correlation between the amount of Debt, Debt Reduction, and tenure.

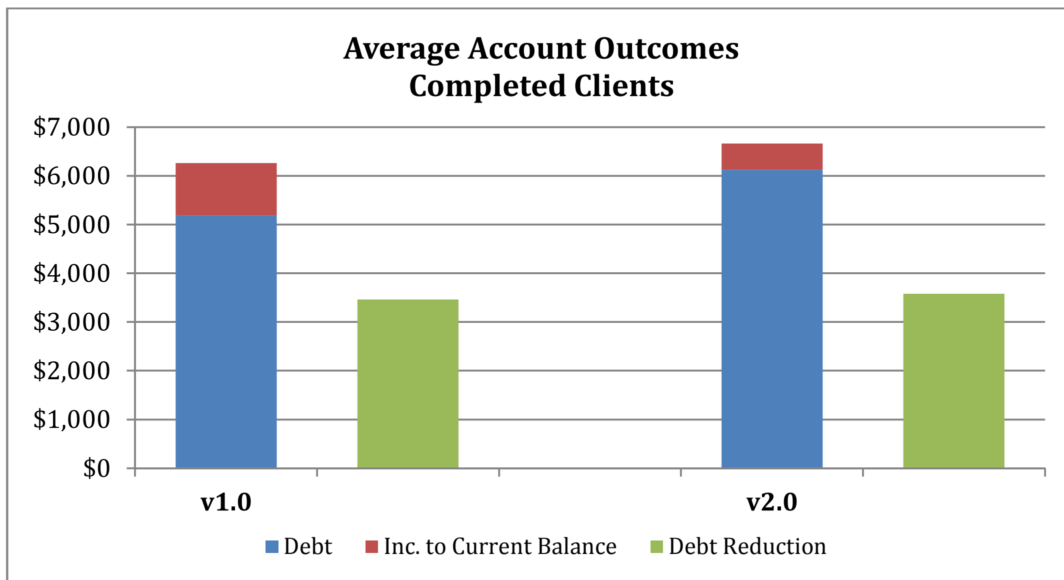
Chart 5.12



From Article at GetOutOfDebt.org

Chart 5.13 compares the Completed Client performance at that level for each Fee model:

Chart 5.13



Collectively, Charts 5.12 and 5.13 illustrate that the typical Savings realized for Completed Clients is approximately 52% of the balance owed at time of settlement (exclusive of Fees) whether the analysis is conducted at the Client-level or Account-level.

6. The Economic Benefits From Debt Settlement Are Demonstrably Superior To Other Alternatives

At the time of enrollment, Clients may have had other alternatives available to them for debt relief, including, filing for bankruptcy, entrance into a debt management plan (DMP) through a credit counselor, securing a home equity loan for debt consolidation purposes or continued attempts at self-management of accounts. Each of these alternatives has different risks and costs as well as different potential benefits. The following section of this report compares the likely outcomes of participation in debt settlement programs with the anticipated outcomes associated with these other possible alternatives.

a. Minimum Credit Card Payments

The average Client (all statuses) enrolled Debt totaling $28,942, substantially all of which was credit card-related. Most of these Clients were either only able to make the minimum monthly payment or were unable even to pay that amount. If a Client were able to pay the minimum monthly payments, the total cost to settle this Debt (i.e., principal plus interest) would be $50,578 over 263 months (approximately 22 years).[12] Stated differently, by making only the required minimum monthly payments, the Client would have incurred a cost of approximately $21,589 *over and above the principal amount owed.* As described more fully below in the presented hypothetical, debt settlement programs compare favorably to this and other available alternatives.

b. Credit Counseling Programs

Another available alternative might have been a consumer Credit Counseling Agency (CCA) offering a DMP. A DMP is available to consumers who are able to make a monthly payment substantially in excess of that required for a debt settlement program but involves only concessions on the interest rate charged on outstanding balances, not a reduction in principal. However, because DMPs have costs that are comparable to, if not slightly greater than, the minimum monthly payments that would otherwise be required by the creditors, DMPs are generally not available to those in situations of serious financial hardship (there is little overlap between CCA and debt settlement constituencies).

From Article at GetOutOfDebt.org

[12] Assumes (1) a minimum monthly payment of 3% of the outstanding principal balance remaining on the credit card obligation, (2) a static interest rate of 15.5% on a declining principal balance, (3) no additional card usage and (4) no additional charges or fees, such as over-limit fees, late fees, etc.

We understand that less than 15% of individuals that contact a CCA qualify for a DMP. Further, it has been reported that persons who qualify for a DMP actually complete the program only at about a 20% rate. [13]

Table 6.1 compares the results of a hypothetical debt settlement client with the anticipated outcomes of enrollment in a DMP, obtaining a home equity loan for debt consolidation purposes and simply continuing to amortize the existing debt on a monthly basis by making only the minimum monthly payments required by the creditors. The comparison analysis assumes the availability of all described options (although, practically speaking, not all options would be available to a consumers in varying states of financial distress) to a consumer with $30,000 of credit card debt under market conditions prevailing as of the date of this report (i.e., as of February 28, 2013).

From Article at GetOutOfDebt.org

[13] "The Truth About The Success Rates, Failure Rates and Completion Rates of Credit Counseling, Debt Settlement, and Bankruptcy," by Steve Rhode, June 17, 2009(a) at 5 http://getoutofdebt.org/7233/the-truth-about-the-failure-rates-and-completion-rates-ofcredit-counseling-debt-settlement-and-bankruptcy

Table 6.1

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

From Article at GetOutOfDebt.org

[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.

Thus financially, a Client's outcome from debt settlement is significantly superior to all other available forms of debt relief.

c. Chapter 13 Bankruptcy Statistics

Some clients may have had the alternative to declare bankruptcy. The chapter of the United States Bankruptcy Code that provides for adjustment of debts of an individual with regular income is Chapter 13.[14] This type of bankruptcy is similar to debt settlement programs in that it enables individuals to establish a plan to repay part or all of their debts, and similar to credit counseling, in that it requires participants to pay a monthly amount to the bankruptcy court for distribution, after fees, to approved creditors. Table 6.2 displays statistics on the completion rates of Chapter 13 bankruptcy matters in the three most recent twelve-month periods for which data is available (years ending December 31st):

Table 6.2

Year	Cases Closed	Plans Completed	Completed/Cases (%)
2009	156,494	9,937	6.4%
2010	206,984	28,751	13. 9%
2011	239,793	53,577	22.3%

From Article at GetOutOfDebt.org

Over this timeframe, the bankruptcy completion rate has increased principally due to the tracking methodology. Since Chapter 13 plans require approximately three-to-five years to complete, and relevant data has been monitored since October 17, 2006, the 2011 data is the first year to include a complete vintage of participants. As a result, the completion rates may continue to improve in subsequent years.[15] Nevertheless, the completion rates appear unlikely to match the equivalent for debt settlement clients (compare Table 6.2 with Charts 4.4 and 4.5). Moreover, individuals typically incur upfront costs to enroll in a Chapter 13 bankruptcy plan, such as filing fees and attorney costs.[16] Those fees are not refundable if the individual does not ultimate complete the plan. As such, the client risk in bankruptcy exceeds the comparable situation in the Version 2.0 of the debt settlement programs.

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14 http://www.uscourts.gov/FederalCourts/Bankruptcy/BankruptcyBasics/Chapter13.aspx

15 2011 Report of Statistics Required by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, p. 13.

16 These costs average approximately $3,000. See, *e.g.*, http://www.nationalbankruptcyforum.com/bankruptcy-myths/how-much-does-it-cost-to-file-bankruptcy/

d. Other Investment Alternatives

Enrollment in a debt settlement program involves costs and benefits similar to an investment in an asset. Specifically, Clients accept a level of uncertainty or risk with a hope to generate Savings that exceed Fees, much as an investor accepts risk on an investment in the expectation of return. On a long-term basis, an investment in the United States stock markets has yielded an average annual return of approximately 8% to 9%%.[17] All segments of Clients experience returns through debt settlement programs that far exceed the returns possible from an investment in an S&P 500 index fund (compare this return to Charts 5.9, 5.10, and 5.11).

From Article at GetOutOfDebt.org

Greg J. Regan, CPA/CFF
March 11, 2013

17 Ibbotson SBBI Valuation Yearbook, 2012.

EXHIBIT A
A Descriptive Comparison of Debt Settlement with Consumer Credit Counseling

Consumer debt settlement grew significantly as an industry following the 2005 passage of the Bankruptcy Reform Act. The Bankruptcy Reform Act made it substantially more difficult and expensive for a consumer to qualify for bankruptcy. Debt settlement arose to provide an option for consumers who sought a solution as a last resort before bankruptcy. On the spectrum of debt relief services, debt adjusting, commonly referred to as credit counseling using debt management plans (DMP's), is the least severe form of debt relief and generally involves, as a concession, only a reduction in interest. Debt settlement is more severe in that it contemplates negotiation of a reduction in principal. Lastly, bankruptcy is for those in the most severe financial hardship.

From Article at GetOutOfDebt.org

Credit Counseling. A consumer in a credit counseling program will pay the entire amount of the debt owed plus interest; participants in a DMP typically receive from creditors a concession in the form of a reduced interest rate in exchange for a commitment to repay the debt within a fixed time period, commonly five years. The amount of the concession varies; based on information available, the average concession rate currently offered by creditors is approximately 9%. The debt is amortized over five years and the consumer makes equal monthly payments over the term of the program to the credit counselor who receives the money from the consumer, deposits it in a trust account and then, after deducting a fee, distributes the funds *pro rata* to the consumer's creditors. Nonprofit debt adjusters also receive compensation from creditors in the form of a "fair share" rebate, currently about 5% of the monthly payment made to the creditor.

Debt Settlement. Unlike credit counseling, debt settlement is an option only for consumers who cannot afford to repay their debts in full or meet the monthly obligations of their debt payments. In a debt settlement program a consumer unable to afford his minimum monthly payments will save a lesser amount on a regular basis. Unlike credit counseling, where funds are held by the credit counselor, in a debt settlement program funds are accumulated by the consumer in a bank account separate from his or her home bank account – the debt settlement services provider will never receive or control consumer funds. These separate bank accounts (called "dedicated accounts" by the FTC, to distinguish them from "trust accounts") are established by the consumer, are FDIC-insured and are administered by a third-party payment agent, unaffiliated with the debt settlement provider who, as mandated by the FTC, receives no financial compensation, incentive or benefit from them. The fees associated with these bank accounts are very similar to those charged by large financial institutions. The consumer maintains control over the accounts at all times and may close them and withdraw the money at any time.

The following chart summarizes the major differences between credit counseling and debt settlement:

Debt Adjusting/Credit Counseling/Debt Management Plans (DMP)	Debt Settlement
• Concession in lower interest rate	• Negotiated reductions in debt principal
• Terms and concessions preset by creditors	• Individually negotiated agreements with creditors
• Agreements fixed at time of enrollment	• Settlements negotiated throughout program
• Amortized repayment plan in equal monthly installment payments	• Lump sum or short-term settlements individually negotiated and paid at various times during program
• Fees paid by consumer and creditor	• No compensation from creditor
• Provider acts on behalf of creditor and consumer	• Provider acts only on behalf of the consumer -
• Fees paid monthly	• Fees paid only upon settlement authorized and accepted by consumer
• Monies received from consumer, held and disbursed to creditor	• Monies deposited in an account owned by and in the consumer's name
• Provider controls funds	• Consumer controls funds
• Often offered by nonprofit credit counselors	• Offered by for-profit providers
• For consumers s who need minor or no payment relief	• For consumers who need more significant payment relief
• Forbearance by creditors of collections actions	• Potential exposure to more aggressive collections activity
• No impact on credit score during program participation	• Credit score deterioration when accounts become delinquent

From Article at GetOutOfDebt.org

Exhibit B
Summary Description of the FTC Rule

The FTC Rule provides significant protections for consumers.

* Fees must be clearly and conspicuously disclosed prior to the consumer entering into an agreement with the provider.

* No fees may be charged or collected until:

    1. A settlement of a debt is negotiated on behalf of, and presented to, the consumer.
    2. The consumer must approve the settlement;
    3. The consumer must re-affirm his approval by making at least one payment towards the settlement to the creditor.

* Fees may not be "front loaded" - fees may only be proportionately collected, in other words only the fees associated with a specific debt may be charged and collected, and then only when those debts are actually settled.

* Fees should be set by the market. The FTC in the release of its Rule stated that the fee amount itself should be determined by the market. See pages 114-115 of the adopting release of the FTC Rule.

    1. Concerns about fees are eliminated by the fact that the consumer always gets to choose whether to pay the fee.
    2. Consumers have complete discretion to reject settlement offers (in which case they pay no fee)
    3. All program contracts are terminable by the consumer at any time without penalty.

The FTC Rule also mandates clear and extensive disclosure around all program features, including risks specific to debt settlement programs. The FTC Rule also regulates the use of dedicated accounts, including requirements that accounts be FDIC-insured, that consumers control such accounts, that such accounts may be closed at any time and that providers not receive any financial benefit or compensation from providers of dedicated accounts.

From Article at GetOutOfDebt.org