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Debt Settlement Companies on Life Support and Two US Senators Ready to Pull the Plug -- Observations from Debt Resource Company, Debt Help and Beyond

New legislation called "The Debt Settlement Consumer Protection Act" was recently introduced by Democratic Senators Schumer (D-NY) and McCaskill (D-MO) in an attempt to protect consumers seeking debt relief from fraudulent business practices. But the consumer debt resource website [Debt Help And Beyond](#) reveals that some critics say the people who are really behind this legislation are motivated by something other than the best interests of consumers.

Seattle, WA([PRWEB](#)) June 11, 2010 -- New legislation called "The Debt Settlement Consumer Protection Act" was recently introduced by Democratic Senators Schumer (D-NY) and McCaskill (D-MO) in an attempt to protect consumers seeking debt relief from fraudulent business practices. But the consumer debt resource website [Debt Help And Beyond](#) reveals that some critics say the people who are really behind this legislation are motivated by something other than the best interests of consumers.

"Outrageous"... "appalling"... "wrong"... "profoundly un-American"... are just some of the words that Senator Jay Rockefeller, Chairman of the Senate Commerce, Science, and Transportation Committee, used to describe the actions of many [debt settlement companies](#) following a recent Senate Committee hearing on the 'debt settlement industry and the consumer experience'. Not stopping there he went on to say that "These debt settlement companies are kicking people when they are down."

Why such strong sentiments? Well, it seems that results of a recent investigation into practices within the industry (conducted by the U.S. Government Accountability Office) revealed that many consumers who entered into agreements with companies offering debt settlement services were not only misled as to how the program would work, they ended up further in debt (partly due to the fees they were charged), facing legal action from their creditors and with substantially lower credit scores than when they started.

One such consumer was Mark Spaulding from South Charleston, West Virginia. Faced with over \$20,000 in credit card debt and medical debt, he contacted a company called "U.S. Debt Settlement", whose representative told him they could negotiate with his creditors to cut his debt by up to 50%. After 14 months on their program Mr. Spaulding is out \$2,400 in fees to the company (paid before any results were obtained), his debt has grown by 40%, his credit score is in tatters, he has two court judgments against him and has been advised to consider declaring bankruptcy.

As a result of all of this, U.S. Senators Schumer (D-NY) and McCaskill (D-NY) have introduced new legislation called... "The Debt Settlement Consumer Protection Act" aimed at providing greater disclosure about fees and services, limiting the fees charged (including how and when they are collected) and providing state and federal agencies with greater enforcement power to protect consumers from scams.

By far, the item that is drawing the most attention in this bill is the proposed restrictions on fees, both the amounts that can be charged

“ These debt settlement companies are kicking people when they are down. ”

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CONTACT INFORMATION

David
[Debt Help And Beyond](#)
6047361390
[Email us Here](#)

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and when they can be collected. Under the new legislation, fees would be limited to a maximum enrollment fee of \$50, and a maximum settlement fee equal to 5% of the reduction in the consumer's debt. And in addition to limiting debt settlement fees to 5% of the savings realized by the consumer, these fees would not be collectible until the settlement amount is actually paid to the creditor.

This proposed fee structure differs greatly from the [debt settlement fee structure](#) typically used by debt relief companies at present. Most companies currently charge fees based on a percentage of the consumer's total debt (usually 15% to 18%), and collect most if not all of those fees before any debt settlements take place. The remaining companies only collect their fees after a debt has been settled, and typically charge a fee equal to 30% of the savings realized by the consumer. It doesn't take a mathematician to realize that there is a huge disconnect between what is proposed and what is actually taking place today with respect to settlement fees.

Because of this, many, if not all, industry insiders say that this bill is not really meant to force reform upon existing debt settlement companies, but rather to force them out of business altogether. They argue that fees equal to 5% of the debt savings realized by their clients is simply nowhere near enough compensation for the work involved in negotiation and settling consumer debts.

To back up their contention they cite the fees collected by non-profit credit counseling companies over the course of a debt management program. Whereas under the proposed legislation a debt settlement company would earn only \$300 from a client with \$10,000 in debts that were settled for \$5,000 (5% of \$5000 plus \$50 enrollment fee), a non-profit company offering a debt management plan could earn 10 times that amount from a client with similar debts. Based on a 60 month program (a typical length) at \$35 per month plus a \$50 enrollment fee, the total fees collected from the consumer would amount to \$2,150. Add to this the so-called "fair share" fees that creditors pay these companies for in essence collecting their debts for them, and the total overall compensation could easily reach \$3,000 (ten times the \$300 collected by the settlement company).

So why the disparity? According to Mike Croxson, President of CareOne Services Inc., a company that provides a wide range of debt relief services to consumers including debt settlement, you need not look further than the lobby group pushing this legislation, namely the National Foundation for Credit Counseling (NFCC). As the legislation stands, debt relief providers operating with non-profit tax status (over 80% of the debt relief industry, including all members of the NFCC) are exempt from having to comply with the consumer protections contained within the bill. Mr. Croxson contends that... "The NFCC is pushing for an artificially low success fee because it creates a large barrier of entry for debt relief providers who are not operating with a non-profit tax status and will clear the way for more non-profit debt relief companies to enter this space."

While Mr. Croxson does agree that the debt settlement industry needs higher standards and tougher regulation, he does not agree that over 80% of the industry should be exempt from having to follow these regulations and standards based solely on their tax status adding... "There is a perception that non-profits in the debt relief space are similar to a non-profit charity... but this in no way creates a standard for services, fee structure nor does it provide for consumer protections." In addition, he also agrees that high upfront fees and fees collected before the consumer has settled a debt should be banned. But he does not agree with a cap of 5% on the savings. CareOne currently charges a fee equal to 30% of the principal amount of the debt and the settlement amount, and collects this fee only after the debt is settled. Mr. Croxson contends that this 30% figure would make much more sense, and leave the fees charged for debt settlement programs in line with fees charged by non-profit companies for debt management plans.

So who is right? When contacted, a representative of the independent consumer debt information site Debt Help And Beyond had this to say... "While there is no doubt that the debt settlement industry needs more regulation and tougher standards in order to protect consumers, the legislation as written would effectively eliminate this debt relief option for consumers. And for many consumers dealing with a financial hardship and facing a possible bankruptcy filing, negotiating a settlement of their debts is a viable solution. The real problem in the industry is that consumers whose debt situations do not lend themselves to debt settlement, are being sold on the program so that the company salespeople can earn a commission, not because it is in the best interest of the consumer. At Debt Help And Beyond we encourage consumers to do their own homework and learn about all of the [debt relief options available](#) to them before they contact any company. Education is the key. We also advise people that debt settlement should only be viewed as an alternative to bankruptcy, not as a way for someone who has the means to pay back their debts to try and get out of paying them back in full."

So who will have the final say on this issue? Only time will tell, but for now perhaps it is the Chairman of the FTC who says... "In my view, debt settlement can provide some real benefits for consumers."

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Debt Help And Beyond

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Charting Your Debt Help Course

How To Navigate Your Way To Financial Freedom

Admitting you need debt help can sometimes be akin to jumping into infested waters with an open wound. The smell of blood quickly attracts a host of predators looking to feed off your financial misfortune. And if you're not careful, in addition to *drowning in debt*, you'll soon be **eaten** alive.

But what do you do? How do you tell the "sheep" from the "sheep in wolf's clothing"? Errrr, something like that anyway. After all, you need

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