

New bill aims at debt settlement

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Thursday, April 29

Posted: 1 pm ET

Washington has taken aim at the [debt settlement](#) industry. On Wednesday, U.S. Senators Chuck Schumer, D-N.Y., and Claire McCaskill, D-Mo., introduced the "[Debt Settlement Consumer Protection Act](#)," which would limit the fees that debt settlement firms can charge and mandate written disclosures before services are performed, including the right to cancel for a full refund.

Enrollment in a debt settlement program usually involves making payments into an account administered by the firm, which uses some of the money for fees but also to negotiate a settlement with creditors when the account has enough funds for an offer. Meanwhile, many companies advise consumers to stop paying their creditors to make the lenders desperate even for a partial payment.

As our [Debt Adviser Steve Bucci](#) points out in his column, this approach will leave you with a ruined credit score and possibly a court summons. A single 30-day late payment can [lower a 780 FICO score](#) by 90 to 110 points, according to the Minneapolis-based score developer.

According to a press release from the Council of Better Business Bureaus, BBBs across the nation have received more than 3,500 complaints about debt reduction companies since the start of the recession in 2007. Some consumers complained that the debt settlement programs not only didn't work, but lead to increased debt and in some cases, a lawsuit from creditors and wage garnishment. A number of consumers who quit the program say they were not refunded for payments they had made.

The bill comes after a hearing last week during which the U.S. Government Accountability Office testified about the [results of a covert investigation](#) into the industry's practices. It found that most companies it mystery shopped charged an upfront fee before any services were performed, and nearly all of them told the undercover callers to stop paying their creditors. In some cases, a consumer's payments into the program would go entirely toward fees for up to four months.

Debt settlement can be a legitimate path to get out of debt, but it should be a last resort. The Federal Trade Commission explains the pros and cons of various debt relief options in this fact sheet, "[Knee Deep in Debt](#)."

The BBB warns of the following red flags for unscrupulous debt settlement companies:

- High upfront fees.
- Guarantees of debt reduction by specific amounts.
- Claims that the process will be swift or easy.

Have you ever settled a debt? Did you do it alone or work with a company?

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