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Beware of offers to help settle debt

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By CHRIS RICKERT cricket@madison.com 608-252-6198 | Posted: Saturday, March 6, 2010 6:49 pm | No

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Debt settlement's long, expensive road

Debt settlement firms can cut your debt significantly but may come with significant downsides, including the firms' steep fees, rising credit card interest rates and late fees, damage to your credit rating, and hassles from collection agencies. The majority of people who sign up for debt settlement do not complete their payment plans.



Faced with \$20,000 in credit card debt, rising credit card interest rates and an uncertain employment future, Ruth Cole of Middleton succumbed to the "very persuasive" pitch the caller from PDM International made in the fall.

The Texas-based financial services company with an F rating from the Better Business Bureau told Cole that for an up-front payment of \$1,490, it could lower the interest rates on her cards, ultimately saving her thousands of dollars and more than making up for the initial fee.

Caught at a vulnerable moment, Cole handed over

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the \$1,490.

She said she was told if she wanted to back out of the agreement, she could do so for a \$199

cancellation fee. But two and a half weeks later, when she tried to do just that, the company changed its story and refused to refund her any of her money.

"In some sense, what they're saying is logical," Cole, 66, remembers thinking at the time. "I feel like I was gullible."

More complaints

Stories such as Cole's appear to have become more common since the stock market crashed and foreclosures spiked in 2008.

Narratives of complaints made to the Better Business Bureau tell of for-profit debt management firms that collect fees but do no work, refuse to return calls, disappear after taking your money, and misrepresent who they work with and what they can do to help.

The state Department of Financial Institutions says complaints about adjustment service companies - a catchall term for businesses that charge consumers a fee to assume management of or lower debt - nearly doubled from 2008 to 2009, from 81 to 152.

In 2009, 104 of the complaints were about loan modification or debt settlement firms, which are operating illegally because the state does not license them, according to Jean Plale, DFI director of licensed financial services.

Figures from the Better Business Bureau show 79 complaints from Wisconsin residents about "foreclosure rescue" or "loan modification" companies in the past three years, but 65 of them have come in the past 12 months.

Tough-to-find firms

Plale said her agency assigns complaints about adjustment service companies to one of four examiners, who try to contact the company and, if it's not licensed, issue a stop-work order.

DFI has the power to take the firms to court and get refunds for their customers if the firms acted unethically, Plale said.

"In some cases we're successful in getting money refunded to the customer," she said. "I don't know if it's even half the time."

Part of the problem is finding the firms, she said. Some close up shop before DFI becomes aware of them.

Janet Jenkins, administrator of the division of trade and consumer protection with the state Department of

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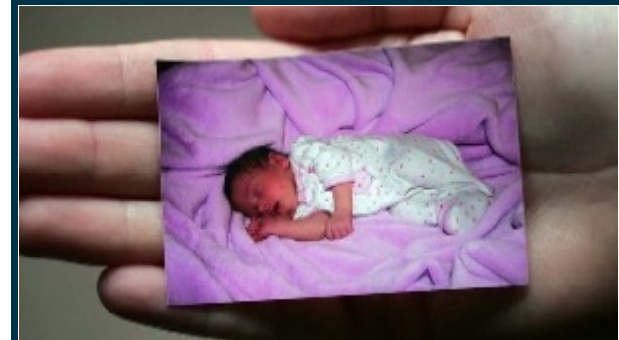
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Agriculture, Trade and Consumer Protection, said that beginning in fall 2008, her department "began to see a lot more" complaints about foreclosure consultants, which promise to work with customers' lenders to save their homes from foreclosure.

The increase played a part in legislators' decision in March to pass a law that allowed DATCP to regulate the firms, although DFI still has jurisdiction over their practices.

In October, the state attorney general filed suit against California loan modification company 21st Century Legal Services, accusing it of misrepresenting itself to consumers and failing to provide them with signed copies of sales agreements, among other allegations. Jenkins said there were about 20 consumer complaints against 21st Century.

'These are scams'

While firms out to scam indebted consumers typically operate under a pretty simple scheme - take their money but don't provide any service in return - debt settlement firms have a multistep modus operandi that is described similarly by detractors and advocates.

The firms offer to cut your debt - almost always on credit cards - by negotiating with a creditor for a lower lump sum payment to wipe out your bill.

The downsides are that while the debtor is paying into an account to build up that lump sum, his credit rating can falter and the total debt he owes continues to rise. The upside, according to the industry, is that you can cut your total debt by far more than if you negotiate yourself.

"For the most part, these are scams," according to Paul Egide, director of consumer affairs for DFI. "The customer doesn't really understand what they're getting themselves into."

But David Leuthold, executive director of The Association of Settlement Companies, said debt settlement is an important option for consumers who have few others for getting out of debt.

"What you have to do is look at the alternatives for the consumer," he said.

They could try to negotiate directly with their creditors, he said, but will likely end up owing more in a shorter period of time than they would had they worked with a debt settlement firm. On average, TASC members have been able to negotiate settlement payments to clients' creditors of about 42 cents on the dollar, he said.

He acknowledged that only about 34 percent of clients stick with the program long enough to achieve such results but contended that's more than other debt-help programs.

State-licensed counselors

Chuck Ritter and other credit counselors licensed by the state operate differently.



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Fees collected by large nonprofit credit counseling agencies such as Ritter's employer, Money Management International, are set by the state and can be next to nothing, based on a client's ability to pay. The length of the client's payment plan also is limited to no more than five years, Ritter said.

Unlike debt-settlement firms, which seek to cut your debt, Ritter's agency helps clients pay their entire principal but works with creditors to get their interest rates cut.

Creditors of unsecured debt - but not mortgage, car loan or other lenders who use property as collateral - are motivated to work with Ritter because they are assured of getting their money, plus some interest.

The client gets one place to pay - the credit counseling agency - sound advice and lower interest payments over time.

"A lot of credit card companies don't want to work (directly) with people," Ritter said, because they don't have the staff or the resources to come up with individualized payment plans for customers who are over their heads in debt. Instead, they refer them to agencies such as his, he said.

Fortunate one

Ultimately, Ruth Cole was one of the lucky ones.

She put PDM's charge on her American Express card and when she called the company and explained the situation, the company forgave the charge.

Today, she's whittled down her credit card debt to about \$11,000.

Cole, who was working as a human resources consultant, said at the time PDM called, she had lost one of her biggest clients, which was making cuts in the poor economy.

She said PDM gave her the impression they knew something about banks and credit card companies that she didn't, and that knowledge could save her a lot of money. But the company - which did not respond to several requests for comment from the State Journal - never specified exactly what it would do to help her.

"They assured me that they knew exactly how to do this," she said.

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