



Consumer Corner

by Illinois Attorney General LISA MADIGAN



The Dangers of Debt Settlement Companies

If you find yourself mired in credit card debt, you may be tempted by flashy advertisements that promise to free you from your financial woes by negotiating reduced payoff amounts with your creditors. The truth is, these companies cannot do anything to help you that you could not do yourself for free.

Q. *My credit card balances have gotten out of control and I am in over my head. Recently, I saw an ad for a “debt settlement company” offering debt reduction and help avoiding bankruptcy court. I called the company and they said they could help me pay off my debt for a fraction of what I owe. This sounds like the perfect solution to all my financial troubles. Is this offer really too good to be true?*

A. You are right to be hesitant—debt settlement companies make tempting promises, but they don’t deliver. Signing a contract with such a company could leave you in a far worse financial situation than you are in now.

Consumers who find themselves under a mountain of debt, particularly credit card debt, may be tempted to turn to companies that offer debt settlement. Debt settlement firms claim to be able to arrange deals with creditors to satisfy consumer debts at reduced amounts. Once hired, they typically will advise you to quit paying your monthly credit card bills and instead make monthly payments into an escrow account to accumulate a lump sum (supposedly to make your final payment). They tell you that they will negotiate with your creditors and convince them to accept partial payment in full satisfaction of the amount you owe.

What really happens is that these companies take your money and often leave you even deeper in debt. If you sign up for this company’s services, the first thing the company will do is charge you several **non-refundable** fees: these include a hefty up-front fee (often 10-15 percent of your total debt), fees to set up escrow accounts, and even monthly “maintenance” fees. Meanwhile, if you do as advised and quit paying your creditors, late charges and finance charges will begin to accrue, and your interest rates can increase to much higher penalty rates. To top it off, many credit card companies simply refuse to work with debt settlement firms and instead choose to sue the card holder for the balance due.

If you feel like you need help to manage your credit card debt, there are legitimate alternatives to help you:

- Contact your credit card companies directly to see if they offer repayment programs for consumers struggling to repay their debts. Some credit card companies offer these programs.
- Talk to a reputable credit counselor. To find a legitimate credit counselor in your area, consult the National Foundation for Credit Counseling at www.nfcc.org. Also, make sure that the company is licensed in Illinois, as credit counselors must be by law. To check whether a credit counselor is licensed, visit the Web site of the Illinois Department of Financial and Professional Regulation at www.idfpr.com/dfi/ccd/licensees/Debt_Management_Licensees.HTM.
- Consider consulting with a bankruptcy attorney.

Remember—before dealing with any type of debt settlement or credit counseling firm, check their record with the Better Business Bureau. You can also check with my office’s Consumer Fraud Bureau by calling 1-800-243-0618 (TTY: 1-877-844-5461).