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SENATE PASSES DEBT SETTLEMENT LEGISLATION TO PROTECT CONSUMERS FROM ABUSIVE PRACTICES BY FIRMS PROMISING TO ELIMINATE DEBT

Legislation Supported by Attorney General Madigan Makes Its Way to Governor's Desk

Springfield — Attorney General Lisa Madigan today applauded the General Assembly for passing legislation to prohibit debt settlement firms from engaging in unfair and abusive practices aimed at bilking financially strapped consumers. The Senate today passed the bill with a vote of 56-1 after the House's 106-9 vote late last month. The bill, which was sponsored by Sen. Jacqueline Collins (D-Chicago) and Rep. Marlow H. Colvin (D-Chicago), now moves to the Governor's desk for his signature.

"Debt settlement operators target hardworking people with crushing credit card balances. They claim they're able to pay off your debt for a fraction of what's owed, but most times, this turns out to be a scam," Madigan said. "They take your money and almost never reduce your debt. This legislation provides Illinois consumers with the strongest protection in the nation by stopping debt settlement operators from getting paid without providing a legitimate service. This law will allow them to collect a fee only when they settle your debt."

The bill prohibits debt settlement companies from charging upfront fees, except for a one-time $50 enrollment fee. Instead, debt settlement companies can collect a fee only when they settle a debt, and even then they can charge no more than 15 percent of the savings achieved.

"This legislation will curtail the fraudulent, abusive and deceptive practices of debt settlement companies that seek to enhance their bottom line at the expense of working families struggling with substantial personal debt," Sen. Collins said.

Madigan said the legislation was crafted in response to the sharp rise in complaints against deceptive debt settlement operators. The complaints led Madigan to investigate and file seven lawsuits beginning in 2009 against debt settlement companies targeting Illinois consumers.

Consumers with debt settlement complaints typically report that, after they enroll in debt settlement programs, the firms charge excessive upfront fees and advise consumers to stop paying their credit card bills. All too often, consumers report that after they make high upfront payments, they do not receive the debt free status the debt settlement company touted in its advertisements. As a result, the credit card companies add interest, fees and penalties to consumers' credit card balances and begin collection efforts to recoup the debt, which in turn negatively impacts consumers' credit reports. In many instances, credit card companies have sued consumers enrolled in debt settlement agreements in an attempt to collect the balance of the consumers' accounts.

"As the economic downturn continues, it remains critical to protect people struggling to pay their bills from companies that will only make their situation worse," Rep. Colvin said. "This legislation will serve as a model of consumer protection for other states."

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