



Beware of Debt Assistance Scams

From the Office of Minnesota Attorney General Keith Ellison

Do Not Pay Up-Front Fees For Debt Assistance!

Federal rules ban debt assistance companies nationwide from collecting up-front fees before they deliver a service. Before a debt assistance company can collect a fee, it must have resolved at least one of the consumer's debts, have a written agreement between the consumer and the creditor, and the consumer must already have made at least one payment to the creditor as a result of the agreement. Non-profit agencies and some attorneys, such as those that meet face-to-face with their clients, may not be covered by the rule, so make sure that you closely read any written contract before you agree to purchase services from a given debt assistance company. Under the new rules, debt assistance companies must also tell the truth about how long their program will take to resolve a consumer's debts, how much it will cost, and that failing to pay your creditors may damage your credit rating and lead to legal action against you.

Many consumers are struggling with high debt. Some people are forced to use credit cards just to pay basic living expenses like groceries and health care bills. Consumers are facing record-high levels of debt, and many people are falling behind on their bills. If you're struggling to make ends meet, there are nonprofit credit counseling organizations that can assist you for free in managing your debt and coming up with solutions to your financial problems. You should be careful, however, to avoid hiring companies that charge you money to help you but end up making a bad situation worse. There are no easy ways or quick fixes for getting out of debt. Doing so requires developing a careful budget and may take time. Attorney General Lori Swanson offers these tips so that consumers trying to do the right thing by getting help do not get bad and costly advice.

Credit Counseling

Reputable credit counseling organizations help you develop a monthly budget and give you advice on managing your money and paying your debts. Many are nonprofits that do not charge you a fee for their services. Their counselors have training in the areas of finance and consumer credit. They will review your financial situation and help you develop a plan tailored to your needs. To locate a reputable credit counseling organization in your area, contact the following organizations:

LSS Financial Counseling Service

(888) 577-2227

www.lssmn.org

National Foundation for Credit Counseling

(800) 388-2227

www.nfcc.org

You should make sure that any credit counseling organization that promotes itself as a "nonprofit" does not charge you hidden fees.

Bogus Promises of Credit Card Help

Many citizens are struggling to pay their credit card bills. The average U.S. household that carries credit card debt owes an outstanding amount of over \$16,000. Just ten credit card companies control nearly 90 percent of the credit card market. Credit card companies often seem to raise interest rates for any reason or no reason at all, and it's not unusual for credit card interest rates to reach nearly 30 percent. At the same time, credit card companies collect billions of dollars in penalty fees from consumers who paid their bills even a day late, exceeded their credit limit by even a small amount, etc.

There are many fraudulent companies seeking to exploit the fact that many consumers are having a difficult time with credit card bills. These companies make unsolicited phone calls to consumers promising to help lower their interest rates or find them better deals. The companies

often require the consumer to pay high up-front fees of as much as \$2,000 or more. Once the consumer pays the money, however, the companies often fail to deliver the promised services. The end result: the consumer is now \$2,000 more in the hole. Remember: there is no easy way to lower your interest rates or get out of debt. Beware of companies that call you up and promise they have “insider secrets” on how to lower your credit card interest rates.

Debt Management Plans

If you owe more on your bills than you can afford to pay, a credit counseling agency may recommend that you establish a “debt management plan.” A debt management plan should be tailored to your particular financial situation. Under a debt management plan, you deposit money each month with the credit counseling organization, which may work with your creditors to lower your interest rate or waive certain fees. The credit counseling organization then uses your deposits to pay your bills, which may include credit card bills, car loans, medical expenses, and the like. The credit counseling organization should work with you and your creditors to establish a payment schedule. The goal of a debt management plan is to repay the money that you owe through periodic payments.

Most debt management companies are required to be licensed by the Minnesota Department of Commerce. Therefore, before you hire a debt management company, check with the State Commerce Department to be sure it is properly licensed and has not had any enforcement action taken against it. You may contact the State Commerce Department as follows:

Department of Commerce
85 Seventh Place East, Suite 280
St. Paul, MN 55101
(651) 539-1500
www.mn.gov/commerce

Debt Settlement/Negotiation Companies

Debt settlement/negotiation companies promise you quick results to get out of debt. They often tell you to stop paying your bills altogether and instead save the monthly payments you are making in a savings account. Once you have sufficient funds, the company will supposedly contact your creditors to negotiate a lump-sum payoff of your debt. Debt settlement/negotiation companies often promise you that they can cut your bills in half or more.

Minnesota law provides a regulatory framework for debt settlement/negotiation companies, which in the past were largely unregulated. Under the law, debt settlement/negotiation companies must register with the Department of Commerce.

Also, under the law, debt settlement/negotiation companies are prohibited from, among other things:

- Charging up-front fees;
- Telling consumers to stop paying their creditors;
- Advising consumers that entering a debt settlement plan will shield them from interest, fees, collection activity, garnishment, or lawsuits;
- Representing to consumers that entering a debt settlement plan will improve their credit score; or
- Falsely representing that the debt settler can negotiate better settlement terms than a debtor could on their own.

“Mary” is a divorced mother in her 50s with two children. With a reduction in her hours at work, she got behind on her bills. Mary thought she was doing the right thing by hiring a debt settlement company, which promised to reduce her bills and help her get out of debt. The debt settlement company required Mary to pay it hundreds of dollars in up-front fees. It then told her to stop paying her bills so that her creditors would be willing to negotiate with the company. A few months later, Mary was shocked when one of her creditors filed a lawsuit against her. She called the debt settlement company, but it told

her that it could not help her with the lawsuit and that she would have to hire an attorney. Meanwhile, Mary's credit was further ruined, and she was faced with defending a lawsuit in court. Don't let what happened to Mary happen to you!

You should be extremely cautious about using a debt settlement/negotiation company. Most debt settlement/negotiation companies charge high fees, and in some cases take a high percentage of all monthly payments you deposit into your bank account.

Debt settlement/negotiation programs are very risky and can have a long-term negative impact on your credit and ability to get loans or credit in the future.

Some organizations, such as the Consumer Federation of America, warn consumers not to use debt settlement/negotiation companies. Consumers have told the Attorney General's Office that debt settlement/negotiation companies have made serious misrepresentations to them that left the consumers far worse off than when they started.

If you follow the advice of a debt settlement/negotiation company to stop paying your bills, you will likely incur late fees, pay interest-upon-interest, and fall further into debt. This may ruin your credit, and some of your creditors may even file lawsuits against you or garnish your wages and/or bank account.

Tips for Consumers

Minnesota Attorney General Keith Ellison provides the following ten tips:

1. Find a reputable counselor.

Find a reputable credit counseling organization by contacting LSS Financial Counseling Service at (888) 577-2227 or www.lssmn.org or the National Foundation for Credit Counseling at (800) 388-2227 or www.nfcc.org. Before you use any credit counseling organization, also check with the Better Business Bureau at:

**Better Business Bureau
of Minnesota and North Dakota**
220 South River Ridge Circle
Burnsville, MN 55337
(651) 699-1111 or (800) 646-6222
www.bbb.org/minnesota

Try to find an organization that will help you for free as part of its mission.

2. Is the company licensed?

Debt settlement/negotiation companies must be licensed by the Minnesota Department of Commerce. Consumers should *never* do business with a company that is not registered with the Department. Find out whether any company you intend to hire is licensed with the State Commerce Department by calling that agency at (651) 539-1500 or by visiting the Department's website at www.mn.gov/commerce and clicking on "License Lookup." Note that Minnesota's debt settlement law exempts some attorneys from the requirement to register as debt settlement providers with the Department. To be exempt from registration, the attorney must be licensed or otherwise authorized to practice law in Minnesota and must not primarily practice in the area of debt settlement services or have a business relationship with a debt settlement services provider that involves the provision of debt settlement services.

3. Dangerous promises.

Beware of any company that tells you to stop paying your creditors. If you stop paying your creditors altogether, you may ruin your credit, have lawsuits filed against you, and have your wages or bank accounts garnished. Remember, with a debt settlement/negotiation company, you pay it fees, but it does not distribute money directly to your creditors for you.

4. Sound too good to be true?

Some debt settlement companies may "guarantee" to lower your monthly credit card or loan payments or to reduce your payments by 50 percent or more. Other companies might tell you that they have "insider tips" or special expertise in lowering your interest rates on your credit cards. Remember: if a promise sounds too good to be true—it usually is.

5. Beware of money-back guarantees.

In order to allay consumers' concerns, some debt settlement companies promise money-back guarantees. These guarantees, however, may not be worth the paper they're printed on. Don't let a money-back guarantee lure you into a false sense of security.

6. Know the fees.

Some companies charge high up-front and/or monthly fees for enrolling in credit counseling or a debt management or settlement plan. Some credit counseling services are nonprofits, while others are for profit. Take time to know what your total costs are and who is receiving your money. Beware of companies that tell you they'll lower your interest rates on your credit cards and that you can pay for their supposed "services" out of the savings.

7. Watch the fine print.

Debt settlement companies may have you sign written contracts that differ from what they tell you on the phone. For example, the debt settlement/negotiation company may tell you over the phone to stop paying your creditors and that you won't be sued. The contract, however, may say just the opposite. You should read the fine print of any contract. If the contract says something different than what you are told in person or over the phone, do not sign it. Make sure all verbal promises are in writing.

8. A plan tailored to your needs.

A legitimate credit counseling organization should take time to understand your income and expenses, and tailor a plan to your own particular needs. Beware of any organization that gives you generic or "one size fits all" advice.

9. What's the end game?

You should understand exactly how much the service will cost you and whether the company takes its fees before money is paid to your creditors. You should also understand what interest rates you will be paying the creditors, whether the creditors will reduce your lump-sum payments, and how long it will take to completely pay down your debt.

10. No quick fixes.

Remember: there is no magic solution toward getting out from under consumer debt. Doing so takes hard work, time, and careful budgeting.

For more information, contact:

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St. Paul, MN 55101

(651) 296-3353 (Twin Cities Calling Area)

(800) 657-3787 (Outside the Twin Cities)

www.ag.state.mn.us

