



Debt Settlement: BEWARE

What is Debt Settlement?

Debt settlement companies advertise that they can reduce your credit card debts or other debts. They claim that if you deposit money with them monthly over a period of time, they will be able to settle your debts later on for a reduced, lump-sum amount. This is a nationwide industry involving companies who do business over the telephone and internet. Due to a new regulation of the Federal Trade Commission (see below), debt settlement companies are increasingly operating in New York in offices and storefronts.

What's Wrong with Debt Settlement?

The debt settlement model is flawed from the start. You need money to settle debts. But since settlement companies want to collect their fees up front, your first several months of payments will be taken just to pay the fees. (And the fees are high – typically 15% or more of the total debt owed, plus a monthly transaction fee.) During that time, debt collectors will be calling you, and you may be sued. The fact that you are paying a debt settlement company will make no difference to a collector. Late fees will continue to accrue. The end result is that what you owe to creditors may go up, not down.

Will Debt Settlement Work for Me?

The track record of debt settlement companies being able to resolve any debts at all is very poor. Sadly, most people who have tried the debt settlement process found that they paid out money and got nothing in return. If you are thinking of using a debt settlement company, please reconsider and explore other options.

If you are already paying money to a debt settlement company, you should immediately take stock of your situation before paying another dime. Unless the company has been settling your debts as it promised (which is highly unlikely), you should stop paying, demand a refund of all monies you have paid, and file a complaint with the New York Attorney General, New York City Department of Consumer Affairs, and the Federal Trade Commission.

What are the Latest Developments?

A new rule of the Federal Trade Commission which took effect in October, 2010 prohibits debt settlement companies from charging upfront fees. This was a very positive development. However, the FTC rule only applies if the settlement company deals with a consumer over the phone. An effect of the rule is that companies which operated by telephone and the internet have been setting up physical offices in New York, as a way of getting around the advance-fee prohibition.

You can expect that settlement companies with a physical New York location will try to lure customers with false and deceptive promises at an unfair and exorbitant cost.

What is Debt Consolidation?

This is similar to debt management. You pay money each month to a debt consolidation agency, which then makes payments to your creditors. In theory, the creditors agree to reduce the interest rate, thus reducing your total monthly cost. You pay a monthly fee to the consolidation agency, and the agency also receives compensation from the creditors. In practice, debt consolidation doesn't work well for most people. Even if the agency is able to obtain reduced interest rates from creditors, the monthly payment is still too high. Do not enter into debt consolidation unless you have obtained independent professional advice!

What are My Options?

Your best option is to obtain qualified professional advice (see how below) addressing the debts that you have. These options could include one or more of the following: obtaining financial and budget counseling, prioritizing your debts and deciding which ones to pay first, defending against any lawsuits that may be pending, or filing bankruptcy. Don't be fooled into digging yourself into a deeper hole – seek advice now!

- If you are a DC 37 MELS-eligible City employee or retiree, call the MELS Screening Unit at (212) 815-1111 to arrange for legal advice.
- You may also obtain free one-on-one financial counseling at a New York City financial Empowerment Center. Call 311 or visit nyc.gov/ProtectYourMoney.

Remember: Think twice before being talked into using a debt settlement company! You will only be spending good money after bad. Instead, you should seek independent qualified professional advice.

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