



Consumer Federation of America

NATIONAL
CONSUMER LAW
CENTER



August 14, 2009

Chris Kesterson
President
The Association of Settlement Companies
16 N. Carroll Street, Suite 900
Madison, WI 53703

Dear Mr. Kesterson:

The Association of Settlement Companies (TASC) inappropriately and inaccurately cited the Consumer Federation of America (CFA) and the National Consumer Law Center (NCLC) as sources for its assertion that consumers are well-served by debt settlement companies ("Many Consumers Better Served by Debt Settlement Companies," August 13, 2009, <http://www.advertisertalk.com/many-consumers-better-served-by-debt-settlement-companies-8926.zhtml>). Our organizations call on TASC to issue an immediate and public retraction.

Citing our organizations as a source for TASC's incorrect and self-serving conclusion misleads the public about the significant dangers presented by many third-party debt settlement firms. CFA and NCLC have long expressed fundamental concerns about the way debt settlement companies operate, as have state attorney generals and federal regulators. As you know, the Federal Trade Commission just proposed sweeping new rules that would eliminate deceptive and unfair practices in the debt settlement sector.

It is false to claim or imply that CFA or NCLC have in any way endorsed third-party debt settlement practices. As you well know, we have in fact been quite clear in warning policy makers and the public about the dangers presented by many for-profit debt settlement firms.

For example, on February 26, 2009, CFA's legislative director, Travis Plunkett, raised serious, fundamental concerns about the business model used by many firms in testimony before the Senate Commerce Committee:

Ultimately, it appears clear that the business model for debt settlement is structurally flawed. The essential promise made by debt settlement firms to the public, that they can settle most debts for significantly less than what is owed, is often fraudulent. There is a general consensus that credit counseling, if done well, can provide significant benefits for some financially distressed consumers. No such consensus exists for debt settlement.¹

Furthermore, despite repeated requests to trade associations for debt settlement companies, our organizations have not found an independent, credible basis for TASC's claim that some debt settlement companies can reduce outstanding consumer balances. In fact, as Mr. Plunkett noted in his testimony, the existing evidence is that the success rate of debt settlement companies in reducing balances for consumers is very, very low:

Debt settlement firms typically require consumers to pay fees of between 14 and 20 percent upfront (and as high as 30 percent) before they receive a settlement. It is often not made clear to consumers that a hefty portion of the payments they make in the first year will go to the firm, not to their reserve fund or creditors. Many firms also charge monthly fees to maintain accounts as well as a "settlement fee" of between 15 and 30 percent of the amount of debt that has been forgiven. . . . It is unclear what professional services most debt settlement companies offer to assist debtors while they save money to pay for a settlement. Serious negotiation with creditors cannot commence until a significant settlement amount is saved, which could take years once high fees are paid. A persistent complaint by consumers is that settlement companies do not contact creditors at all in some cases.²

TASC has mischaracterized our positions before. For instance, in the report³ it provided to the Federal Trade Commission in connection with its September 2008 public workshop, it cited a report that NCLC wrote which notes the problems with DMPs but then made a completely unsupported assertion that TASC and NCLC had come to the same conclusion regarding debt settlement. We object to our organizations' names being used for the private benefit of TASC's members and our policy positions being grossly misstated.

¹ Testimony of Travis Plunkett, Consumer Federation of America, Before the Committee on Commerce, Science, and Transportation of the United States Senate, "Regarding Consumer Protection and the Credit Crisis," February 26, 2009.

² Ibid.

³ <http://ftc.gov/os/comments/debtsettlementworkshop/536796-00014.pdf>

Our organizations demand that you immediately remove any references to our organizations from this news release and issue a public retraction stating that you have mischaracterized our policy positions. We also demand that TASC refrain from referring to our organizations or our policy positions in the future unless you are willing to provide accurate information about our concerns about debt settlement.

Sincerely,

Susan Grant
Director of Consumer Protection
Consumer Federation of America

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Deanne Loonin
Staff Attorney
National Consumer Law Center

CC: Jon Leibowitz, Chairman
Federal Trade Commission

Evan Zullo, Division of Financial Practices, Bureau of Consumer Protection
Federal Trade Commission



Consumer Federation of America

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TOTAL NUMBER OF PAGES INCLUDING THIS COVER SHEET: 4

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