Beware of Debt Settlement Trap

As the holiday bills come due, jobs remain scarce and funds get low, many families and individuals are struggling with their finances and looking for help – sometimes in the wrong places. The Consumer Federation of America, Consumers Union, Consumer Action, and the National Consumer Law warn that using a debt settlement company could be a trap that could leave consumers deeper in debt, instead of eliminating the debt. Here are a few things you need to know if you're considering using a debt settlement company.

- In debt settlement, consumers are instructed to make monthly savings payments, usually to a special bank account, until there is enough money to make a lump-sum settlement offer to their creditors. While consumers are putting money into their accounts, the debt settlement companies are taking their fees out of them. Debt settlement companies usually take out all of their fees, ranging from 14 to 20 percent of the total debt, within the first half year of the contract. Debts totaling $20,000 could cost a consumer $2,800 to $4,000 in fees.
- According to Susan Grant, Director of Consumer Protection at the Consumer Federation of America, debt settlement companies usually collect most or all of their fees from consumers long before they have eliminated any of their debts. Consumers pay high fees regardless of whether their debts are settled or not.
- Gail Hillebrand, Financial Services Campaign Manager at Consumers Union, warns that there is no guarantee that a consumer's debts will be settled. The industry's own statistics show that debt settlement doesn't eliminate all of the debt for most consumers. The full fee can be deducted from one's savings even if you're stuck with the debts.
- The drop-out rate for debt services is very high. A study of one company's customers revealed that 60 percent had cancelled within 5 to 6 months after starting debt settlement.
- Using a debt settlement program doesn't stop debt collection and could make a debt situation worse. Debt settlement companies may not contact the creditors for months and may even tell consumers not to have any contact with their creditors.
- The Federal Trade Commission (FTC) has proposed rules that would stop companies that use telemarketing to sell debt settlement and other types of debt relief services from charging fees before they settle the debt.
- Nineteen consumer and community organizations asked the FTC to go even farther and stop debt relief services from making claims about results, telling consumers not to pay their creditors, and interfering in communications between creditors and consumers.

For tips on debt settlement visit http://www.consumerfed.org and www.edis.ifas.ufl.edu