



Consumer Federation of America

The Honorable Jim Hughes
Chairman
Ohio Senate Financial Institutions Committee
1 Capitol Square
Columbus, Ohio 43215-4210

The Honorable John Eklund
Vice Chairman
Ohio Senate Financial Institutions Committee
1 Capitol Square
Columbus, Ohio 43215-4210

The Honorable Kenny Yuko
Ranking Minority Member
Ohio Senate Financial Institutions Committee
1 Capitol Square
Columbus, Ohio 43215-4210

November 30, 2015

Dear Chairman Hughes, Vice Chairman Eklund, Ranking Minority Member Yuko, and Members of the Senate Financial Institution Committee:

The Senate Financial Institutions Committee is currently reviewing Senate Bill 226, which would allow debt settlement companies to remove fee caps on “debt adjusting.” The Consumer Federation of America¹ (CFA) believes that such a change would not be in the consumers’ best interest. While debt settlement companies claim to offer substantial reductions in a consumer’s debt load, they also require consumers to default on all of these debts, resulting in a cascade of problems such as late fees and penalties, debt collection ending in lawsuits and wage garnishment, and far lower credit scores guaranteeing high rates on future loans.

Debt settlement companies take advantage of desperate consumers by offering seemingly magical solutions to financial problems – creditor approval of sharp reductions in substantial debts. But these reductions do not occur unless creditors agree, and they often do not. Consumers have no way of knowing up front if creditors will agree to a debt reduction or, instead, will impose fees that increase total debt. For some consumers, the debt settlement company settles some debts, but the remaining debt load balloons as creditors hike fees and interest rates. Even when debts are settled, consumers are often surprised to learn that they have incurred debt-cancellation income tax liability.

In 2010 the Federal Trade Commission (FTC) took commendable action to curb bad practices of debt settlement companies. Among other provisions, the FTC rule prohibited advance fees before the consumer had made at least one payment to a creditor as a result of a

¹ CFA is an association of approximately 280 non-profit consumer organizations that was established in 1968 to advance the consumer interest through research, advocacy and education.

negotiated agreement, provided some protection to consumer savings in “dedicated accounts” managed by the companies, and required new disclosures when the companies telemarket their services. While this rule eliminated some of the worst abuses, it did not address the fundamental flaw in debt settlement – requiring consumers to default on their debts.

Some companies have ignored the FTC rule by continuing to charge large up-front fees before any debts are settled. Other companies are using law firms as a “front,” charging large retainers instead of advanced fees. Recently, the Consumer Financial Protection Bureau (CFPB) sued a debt settlement company for charging consumers exorbitant illegal upfront fees and for failing to provide the legal representation it promised.² In an effort to “legitimize” their work by forming an association, the American Fair Credit Council, purports to have created standards and to conduct annual on-site audits of “accredited companies.” Yet, a review of Better Business Bureau and consumer complaint websites reveals complaints against all seven accredited members, and a relatively large number of complaints against one accredited member, Freedom Debt Relief, which claims to be the largest debt settlement company.

CFA supports Ohio’s Debt Adjusters Act, which contains effective consumer protections. We urge the Committee not to change this pro-consumer law.

Sincerely,

A handwritten signature in black ink, appearing to read 'Stephen Brobeck', with a large, sweeping initial 'S'.

Stephen Brobeck
Executive Director

² “CFPB Sues World Law Group for Charging Illegal Fees and Making False Promises in Debt-Relief Scheme.” Consumer Financial Protection Bureau, September 15, 2015. <http://www.consumerfinance.gov/newsroom/cfpb-sues-world-law-group-for-charging-illegal-fees-and-making-false-promises-in-debt-relief-scheme/>