# A DISCUSSION OF THE VALUE THE DEBT SETTLEMENT INDUSTRY PROVIDES TO CONSUMERS

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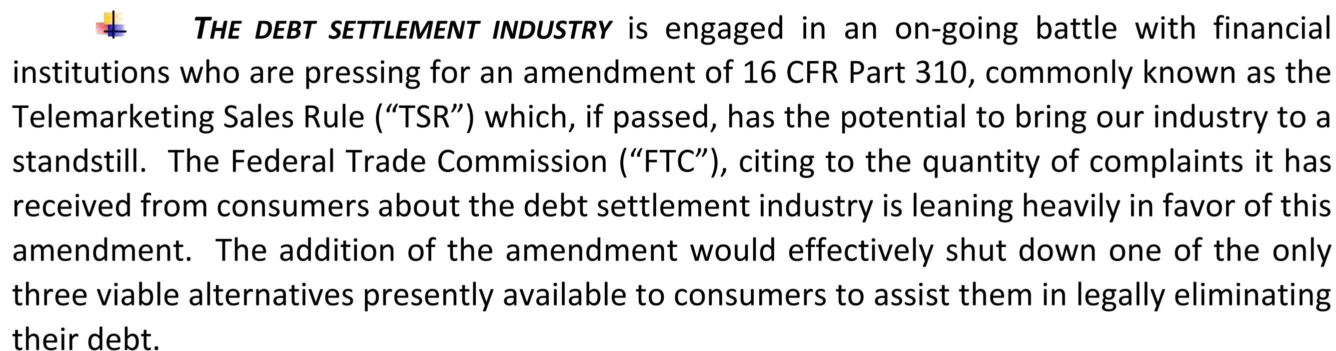
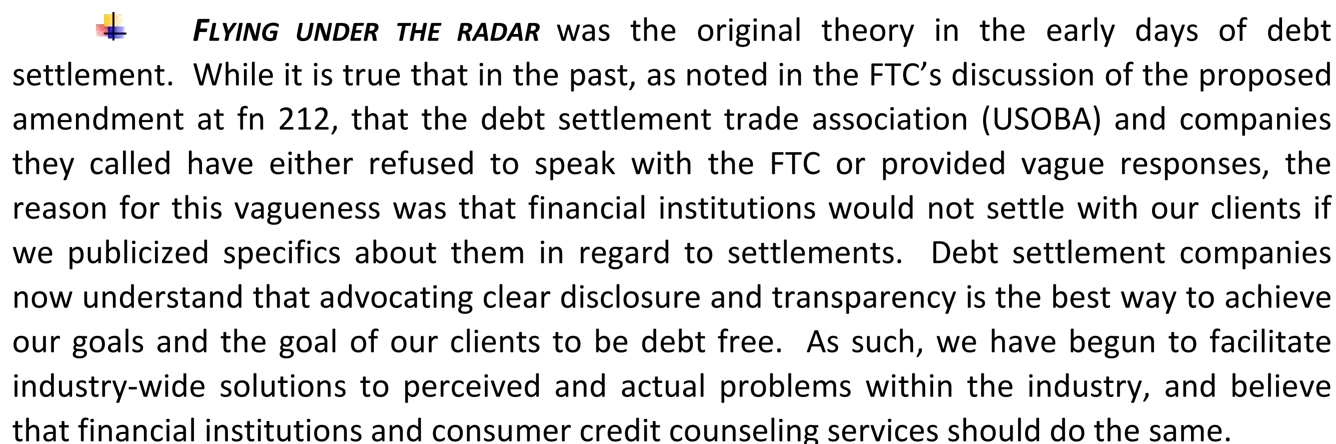
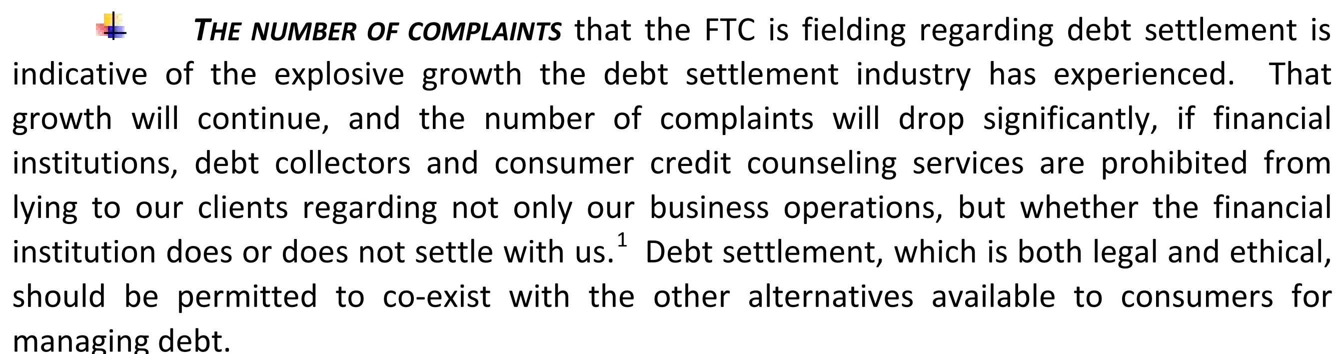
# INTRODUCTION



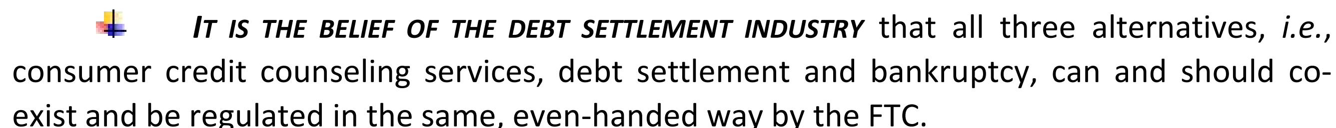
***The debt settlement industry*** is engaged in an on-going battle with financial institutions who are pressing for an amendment of 16 CFR Part 310, commonly known as the Telemarketing Sales Rule ("TSR") which, if passed, has the potential to bring our industry to a standstill. The Federal Trade Commission ("FTC"), citing to the quantity of complaints it has received from consumers about the debt settlement industry is leaning heavily in favor of this amendment. The addition of the amendment would effectively shut down one of the only three viable alternatives presently available to consumers to assist them in legally eliminating their debt.



***Flying under the radar*** was the original theory in the early days of debt settlement. While it is true that in the past, as noted in the FTC's discussion of the proposed amendment at fn 212, that the debt settlement trade association (USOBA) and companies they called have either refused to speak with the FTC or provided vague responses, the reason for this vagueness was that financial institutions would not settle with our clients if we publicized specifics about them in regard to settlements. Debt settlement companies now understand that advocating clear disclosure and transparency is the best way to achieve our goals and the goal of our clients to be debt free. As such, we have begun to facilitate industry-wide solutions to perceived and actual problems within the industry, and believe that financial institutions and consumer credit counseling services should do the same.



***The number of complaints*** that the FTC is fielding regarding debt settlement is indicative of the explosive growth the debt settlement industry has experienced. That growth will continue, and the number of complaints will drop significantly, if financial institutions, debt collectors and consumer credit counseling services are prohibited from lying to our clients regarding not only our business operations, but whether the financial institution does or does not settle with us.[1] Debt settlement, which is both legal and ethical, should be permitted to co-exist with the other alternatives available to consumers for managing debt.



***It is the belief of the debt settlement industry*** that all three alternatives, *i.e.*, consumer credit counseling services, debt settlement and bankruptcy, can and should co-exist and be regulated in the same, even-handed way by the FTC.

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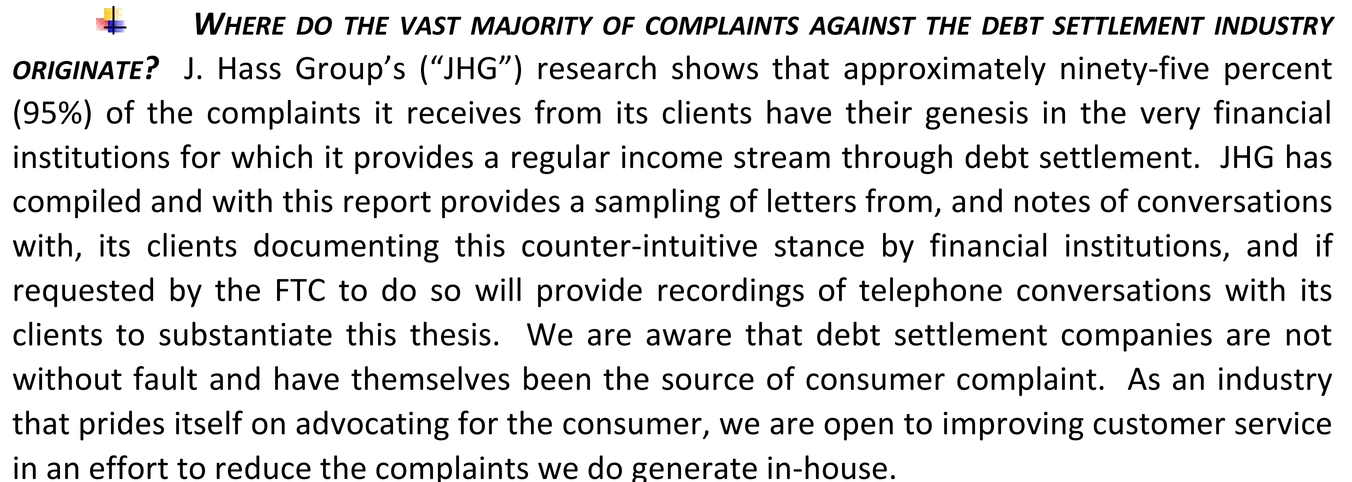
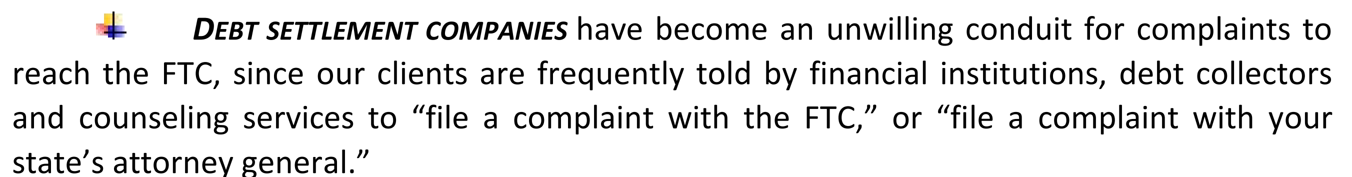
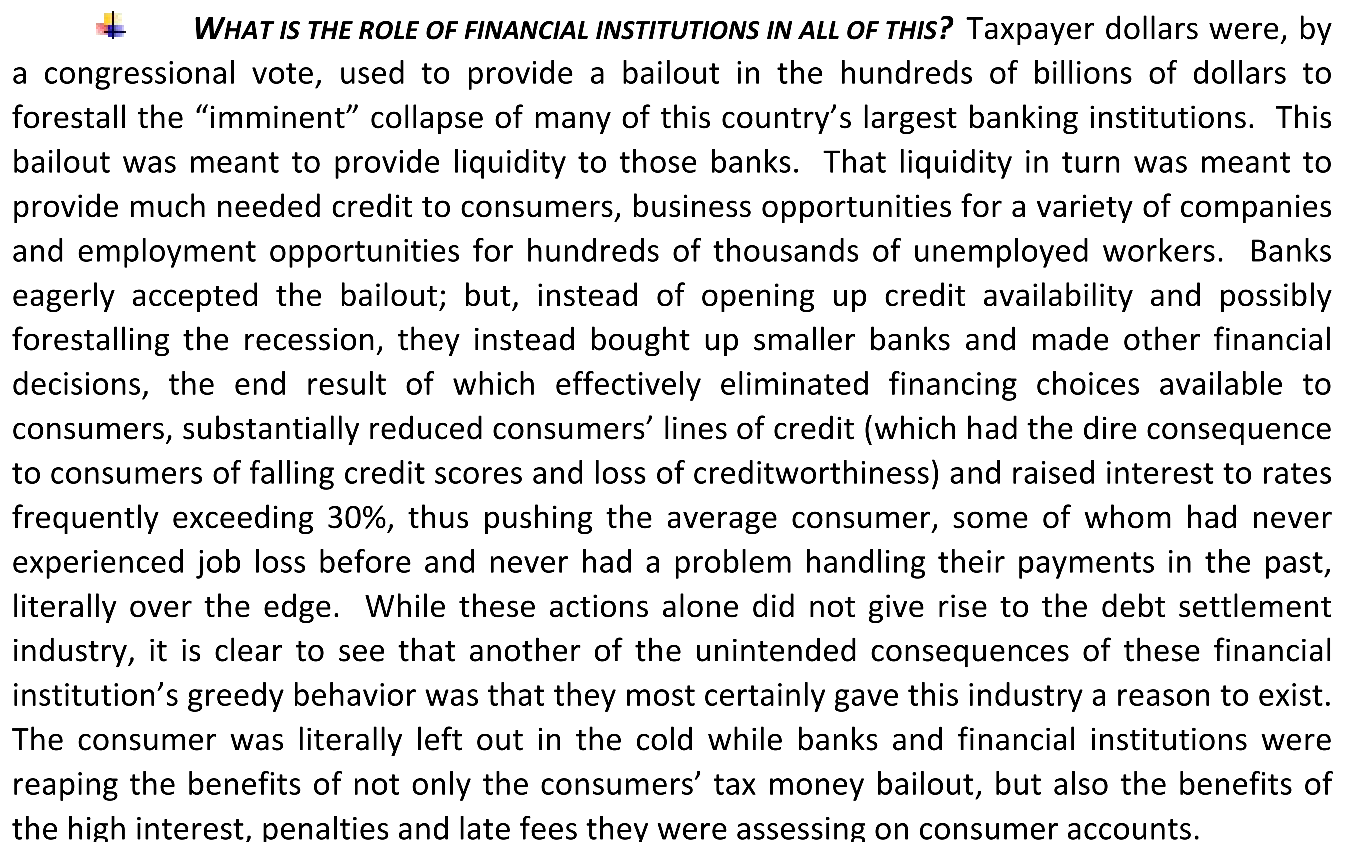
[1] *See* September 9, 2009 letter from FIA Card Services to one of our clients (this letter has actually been sent to countless clients, even as we were actively negotiating settlements with them in their capacity as collection agents on behalf of Bank of America); *see also*, "Consumer Fraud Advisory," disseminated over the internet by the Law Offices of Barry Sternberg.



***WHERE DO THE VAST MAJORITY OF COMPLAINTS AGAINST THE DEBT SETTLEMENT INDUSTRY ORIGINATE?*** J. Hass Group's ("JHG") research shows that approximately ninety-five percent (95%) of the complaints it receives from its clients have their genesis in the very financial institutions for which it provides a regular income stream through debt settlement. JHG has compiled and with this report provides a sampling of letters from, and notes of conversations with, its clients documenting this counter-intuitive stance by financial institutions, and if requested by the FTC to do so will provide recordings of telephone conversations with its clients to substantiate this thesis. We are aware that debt settlement companies are not without fault and have themselves been the source of consumer complaint. As an industry that prides itself on advocating for the consumer, we are open to improving customer service in an effort to reduce the complaints we do generate in-house.



***DEBT SETTLEMENT COMPANIES*** have become an unwilling conduit for complaints to reach the FTC, since our clients are frequently told by financial institutions, debt collectors and counseling services to "file a complaint with the FTC," or "file a complaint with your state's attorney general."



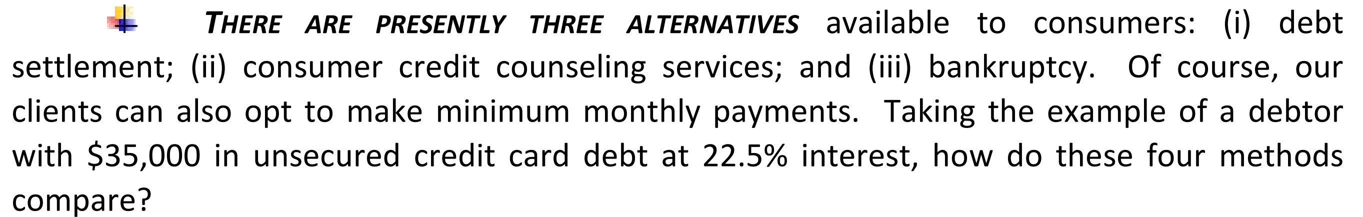
***WHAT IS THE ROLE OF FINANCIAL INSTITUTIONS IN ALL OF THIS?*** Taxpayer dollars were, by a congressional vote, used to provide a bailout in the hundreds of billions of dollars to forestall the "imminent" collapse of many of this country's largest banking institutions. This bailout was meant to provide liquidity to those banks. That liquidity in turn was meant to provide much needed credit to consumers, business opportunities for a variety of companies and employment opportunities for hundreds of thousands of unemployed workers. Banks eagerly accepted the bailout; but, instead of opening up credit availability and possibly forestalling the recession, they instead bought up smaller banks and made other financial decisions, the end result of which effectively eliminated financing choices available to consumers, substantially reduced consumers' lines of credit (which had the dire consequence to consumers of falling credit scores and loss of creditworthiness) and raised interest to rates frequently exceeding 30%, thus pushing the average consumer, some of whom had never experienced job loss before and never had a problem handling their payments in the past, literally over the edge. While these actions alone did not give rise to the debt settlement industry, it is clear to see that another of the unintended consequences of these financial institution's greedy behavior was that they most certainly gave this industry a reason to exist. The consumer was literally left out in the cold while banks and financial institutions were reaping the benefits of not only the consumers' tax money bailout, but also the benefits of the high interest, penalties and late fees they were assessing on consumer accounts.

## THE MISSION OF THE FEDERAL TRADE COMMISSION IS TO PREVENT UNFAIR COMPETITION AND TO PROTECT CONSUMERS FROM UNFAIR OR DECEPTIVE ACTS OR PRACTICES IN THE MARKETPLACE.

The stated mission of the FTC is a lofty one, and one that debt settlement companies are more than willing to further. Ignoring the consumer's needs by not giving voice to the debt settlement industry in order to enable educated decisions regarding consumer protections, contradicts the FTC's stated goal. Without allowing our input, the FTC has seemingly taken as the truth the negative picture that financial institutions have painted regarding debt settlement, and come away with the conclusion that all debt settlement companies are bad. It is not the stance of JHG that all debt settlement companies are good; we are all too aware that there are good and bad actors in this industry as there are in all industries. What we do advocate, and what we strongly urge the FTC to contemplate, is the creation of regulations that police debt settlement companies as well as financial institutions, debt collectors (including attorneys) and consumer credit counseling services equally. We respectfully request that the FTC acknowledge that consumers have the right to choose which alternative best works for their own situation, be it debt settlement, consumer credit counseling services or bankruptcy. There simply is no "one size fits all," because each consumer's needs and abilities are unique to that consumer.

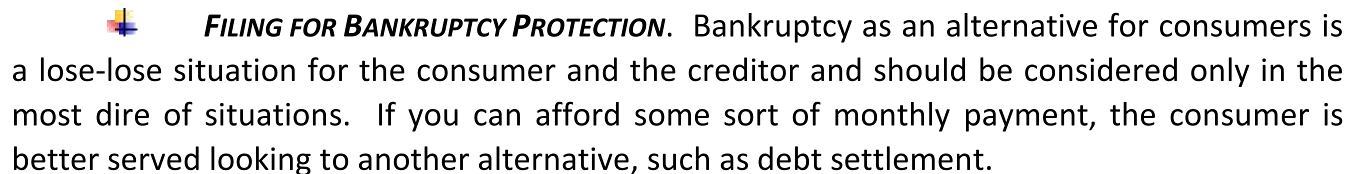
Today's economy has given rise to a new animal, that of gargantuan debt held by consumers who have long been held sway by banks and credit card companies eager to provide a conduit for the "buy now, pay later" generation spawned by the issuance of the first credit card by the Diners Club in 1950. Now, more than half a century and a mind boggling amount of laws and regulations benefiting financial institutions later, consumers have found themselves in the throes of debt so deep they may never be able to dig themselves out.

# ALTERNATIVES AVAILABLE TO DEBTORS

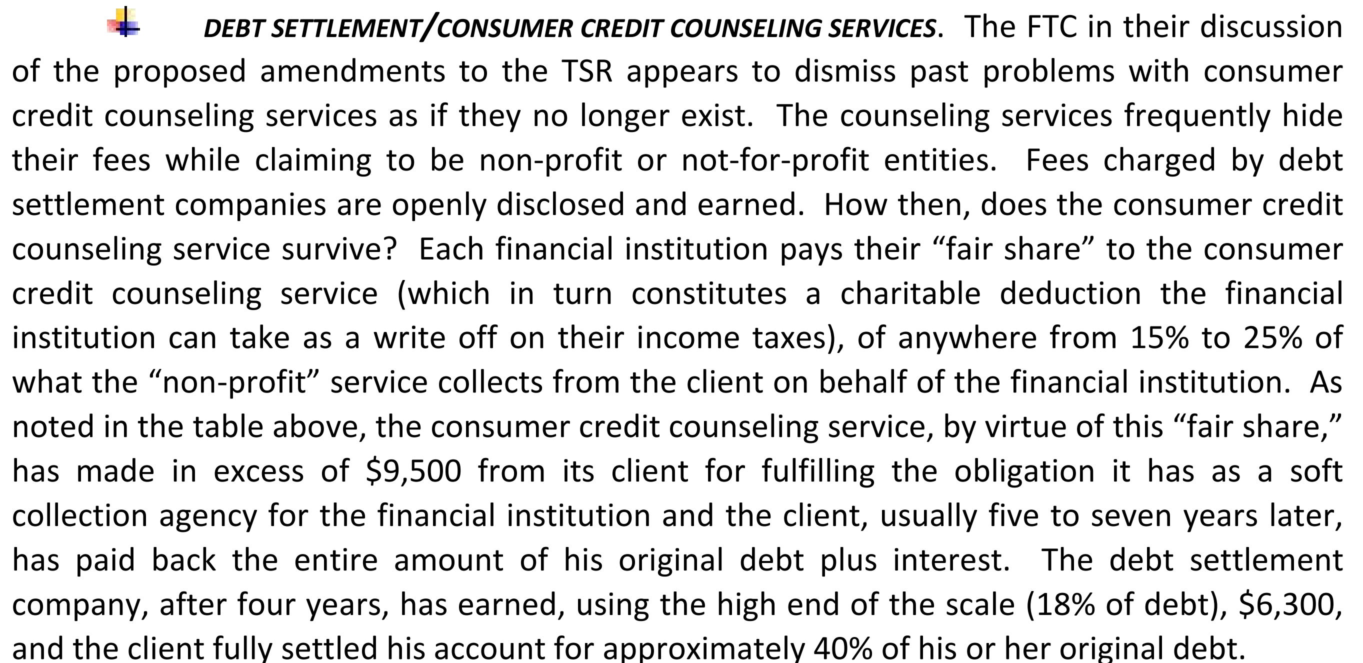


***There are presently three alternatives*** available to consumers: (i) debt settlement; (ii) consumer credit counseling services; and (iii) bankruptcy. Of course, our clients can also opt to make minimum monthly payments. Taking the example of a debtor with $35,000 in unsecured credit card debt at 22.5% interest, how do these four methods compare?

| Method | Monthly Fee/Payment | Term | Interest Rate | Total Pay Out | Benefit to Creditor |
|---|---|---|---|---|---|
| **Counseling** | 22.5% average kickback + $830.00 from consumer ($30 goes to directly to counseling service) | Up to 7 years | 22.5% compounded daily | $69,783.00 | All of principal (less "fair share") plus $34,783.00 in interest |
| **Settlement** | 15%-18% of total debt, spread over one-half of contract period/ $400 per month | 4 years | None | (Estimate) $19,250.00 | Steady stream of income |
| **Minimum Payments** | Starting at $985.25/month then slowly reducing over time | 40.25 years | 22.5% compounded daily | $99,714.31 | All of principal plus $64,714.31 in interest |
| **Bankruptcy** | None | None | None | None | None |



***Filing for Bankruptcy Protection***. Bankruptcy as an alternative for consumers is a lose-lose situation for the consumer and the creditor and should be considered only in the most dire of situations. If you can afford some sort of monthly payment, the consumer is better served looking to another alternative, such as debt settlement.

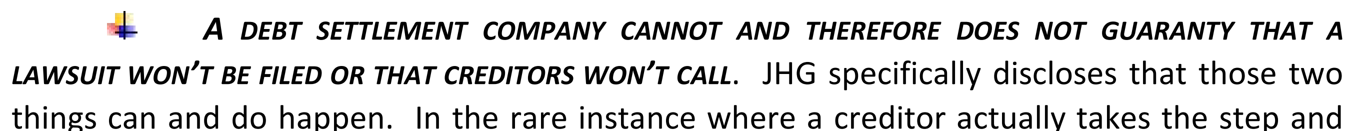


***Debt Settlement/Consumer Credit Counseling Services***. The FTC in their discussion of the proposed amendments to the TSR appears to dismiss past problems with consumer credit counseling services as if they no longer exist. The counseling services frequently hide their fees while claiming to be non-profit or not-for-profit entities. Fees charged by debt settlement companies are openly disclosed and earned. How then, does the consumer credit counseling service survive? Each financial institution pays their "fair share" to the consumer credit counseling service (which in turn constitutes a charitable deduction the financial institution can take as a write off on their income taxes), of anywhere from 15% to 25% of what the "non-profit" service collects from the client on behalf of the financial institution. As noted in the table above, the consumer credit counseling service, by virtue of this "fair share," has made in excess of $9,500 from its client for fulfilling the obligation it has as a soft collection agency for the financial institution and the client, usually five to seven years later, has paid back the entire amount of his original debt plus interest. The debt settlement company, after four years, has earned, using the high end of the scale (18% of debt), $6,300, and the client fully settled his account for approximately 40% of his or her original debt.

## AMENDMENT TO THE TSR

The amendment to the TSR was introduced by the FTC in July 2009, and defines a "debt settlement service" as a "commercial service provided to assist consumers in managing and repaying consumer debt, including the offering of advice or acting as an intermediary between a debtor and one or more of the debtor's creditors, where the primary purpose of the advice or action is to obtain a settlement for less than the full amount of debt owed." Of particular concern to the industry is the definition of debt settlement service, which excludes consumer credit counseling services and debt collectors, much to the detriment of the consumer. Another concern the industry has with the proposed amendments, is language which would ***prohibit the charging of fees to consumers prior to any debt settlement service being fully rendered and limiting fees that may be charged after a settlement with a creditor is reached***. Why only debt settlement services? Consumer credit counseling services charge fees prior to finalizing their services far in excess of those charged by debt settlement companies as noted above. But even beyond that, JHG is unable to come up with even one type of business that could afford to operate by accepting payment for services rendered only ***after*** the client has received and ***agrees to be satisfied*** with that service. To foist this bill on debt settlement companies alone is not only punitive, but unconscionable and does not serve to protect the consumer.

Although the proposed amendment to the TSR addresses a common complaint of consumers, *i.e.*, that the debt settlement company takes its money "up front" to perform debt negotiation services, in reality, a debt settlement company (and more specifically JHG) does not take all professional fees "up front." JHG discloses clearly for its clients the total dollar amount of its service, which is typically 15% of the client's total debt when they enter into the program. No interest is charged on that dollar amount and, if the client adds or removes a creditor from the program, JHG re-adjusts the total debt and charges 15% of that new number. Further, based upon JHG's experience in negotiating with a variety of first- and third-party creditors, it knows that it can generally settle a debt for approximately $.40 on the dollar. The amount JHG estimates as a payoff of a client's debt not only includes JHG's professional fees and the account servicing fees, but any additional interest that may be accruing, albeit in violation of GAAP as the financial institution has supposedly written off the debt, during the time JHG is negotiating and settling its client's various debts.[2]



***A DEBT SETTLEMENT COMPANY CANNOT AND THEREFORE DOES NOT GUARANTY THAT A LAWSUIT WON'T BE FILED OR THAT CREDITORS WON'T CALL***. JHG specifically discloses that those two things can and do happen. In the rare instance where a creditor actually takes the step and

[2] Pursuant to GAAP, there should be no interest or penalties accruing on the debt as creditors are required to write-off "bad debt" after 90 days, at which time interest and penalties should cease to accrue.

sues our client, JHG can still, in a majority of cases, negotiate better payoff terms before a judgment is actually entered, or even afterwards. JHG also offers a product to our clients that will automatically re-direct collection calls to our office thereby bypassing our client entirely. No other form of debt elimination makes that offer.

JHG's annual costs per client are approximately $1,780.00 (on-going training, rent, salaries, federal, state and local taxes, office supplies, telecommunications, information technology, software licensing fees, advertising costs, legal and accounting fees, to name a few). Aside from hard costs, what is it that JHG does to earn its fee?

- ***The largest expense we have by far results from the necessity of countering the lies told to our clients by debt collectors and financial institutions in their quest to force payments from our clients; we must calm the fear and panic that our clients inevitably feel they hear these lies. If these collectors and institutions were by law precluded from this practice, the cost of our service would be even more reasonable than it is now***.
- Gather consumer data, including contact, financial, creditor and hardship information. Review with the client all their options, their personal budget and most important, an explanation of how the debt settlement program works.
- Evaluate all information to determine whether the program is a viable alternative for a potential client. An underwriter or a manager may be called upon to make this evaluation and determination.
- Prior to the first payment being taken by ACH withdrawal, a telephone call is made to the client to provide an overview of the program, confirm client and creditor data and answer any questions the client may have; these calls are followed up on a regular basis, either through outbound calls to the client or by fielding incoming calls from the client, to address any and all concerns.
- Monthly review and update of creditor account statements and maintaining, filing and storing of all documents received from each creditor of the client in an appropriate manner.
- Monthly verification of client savings in order to stay up to date on amounts available for negotiated settlements.
- Accurate recording of all calls, emails or other methods of correspondence for each client and each client's creditors.
- Accurate, written documentation of each settlement reached with each creditor for each client.

- Assistance with ensuring any settlement is properly funded and that appropriate documentation is finalized and executed by all parties.
- JHG offers budgeting and financial tips to our clients, as part of an on-going educational process that is intended to be carried by our clients long after they eliminate their debt.

Multiply $1,780.00 by 13,000 (the average number of active clients with our company at any given time) and it is clear to see that hard costs easily exceed $2.3 million annually. If any company with that type of annual overhead did not collect at least a portion of their fee on a concurrent basis throughout the first half of the term of the contract with a client, that company could not remain in business. Do we make a profit? Of course we do. We are a for-profit company and state as much in our contract documents. However, our net annual profit is approximately 17%, which in the business world is most certainly not outrageous. The consumer credit counseling services, remember, are funded by banks and credit card companies, and ***receive from each creditor on average 22.5% of the total amount collected from each and every debtor for each and every debt, each and every month that they are enrolled in the counseling service***. All this while maintaining their tax-exempt status with the IRS as a "non-profit" corporation. That alone should give pause to the FTC, especially since the framers of the amendment to the TSR did not include debt collectors and consumer credit counseling services in the amendment as proposed.

# COMPLAINTS

The average debt settlement client brings an average of five separate creditor accounts and an average total debt of $30,000.00 to be negotiated through our debt settlement program. All too often, clients are told by creditors and by collection agencies that the creditor does not negotiate settlements and does not work with debt settlement companies. FIA Card Services, N.A., the collection branch of Bank of America, has told some of our clients, in writing, that Bank of America does not settle. Our records tell a different story: JHG has settled, from January 1, 2009 through September 30, 2009, 1,289 Bank of America accounts on behalf of our clients, totaling $13,534,869.27. The average settlement was 28.1% of the balance owed by a given client. Another major financial institution, Citibank, has settled 922 accounts with JHG in the same time period, at an average of 40% of the balance owed, and Wells Fargo has settled 238 accounts at an average of 37.7% of the balance owed.

***JHG, from July 2007 through the end of the third quarter of 2009 (a period of 26 months), has negotiated 13,828 settlements on behalf of thousands of our clients. The initial amount of those settlements was $75,668,995.82, and settled for $27,831,431.79, saving our clients $47,837,564.03, or an average of 63.2%, while at the same time providing financial institutions with an extremely healthy income stream.***

***Of the approximately 1,000 consumers who initially came on board with JHG's debt settlement program, 629 have successfully completed JHG's program and are now living without the spectre of overwhelming debt, and thousands more who entered our program have seen significant reduction in their debt through our successful debt negotiation services***.

Following are some of the more frequent complaints we see.

***You never sent the Power of Attorney ("POA") to my Creditor.***

**Client Number:** 14355
**Enrollment Date**: 02/2008

**Note Log:**[3]

03/06/2008 15:01 charnai: did poas for creditors

07/09/2008 13:59 melissa Rcvd doc dated 6-20-08. Trnsfrd to Mann Bracken. Ph#: 866-376-0410 Bal: $3773.96. POA sent.

07/09/2008 14:00 melissa Rcvd doc dated 7-1-08. Trnsfrd to URS. Ph#: 800-568-0399 File: 10180152 Bal: $2400.88. POA sent.

07/16/2008 10:59 nick acct 3221- lori 888-344-0900 x1123 bal $3785.40 s/offer 2310..advsd 300.00

**Summary:**

This client signed up in February 2008. POAs were sent to creditors on March 6, 2008[4] and again on July 9, 2008. The first settlement offer (at 39% of the balance) came in on July 16, 2008. Our client first complained that we did not send POAs on January 6, 2009; this complaint arose ***after*** the client spoke to one of her creditors.

[3] The Note Log is created by the company representative while engaged in conversation with the client; calls are also recorded to ensure accuracy of notes and for training purposes.

[4] POAs are not sent until the first payment is made and credited to the client's account.

***Creditor/Collector does not talk to any debt negotiation company.***

**Client Number:** 25921
**Enrollment Date:** 12/2008

**Note Log**:

01/02/2009 09:04 francisco: sent poas

03/16/2009 12:35 monicade Rcvd doc dated 2/24/09 on the Discover Acnt ending on 2172. Xfred to [Law firm] & Associates. ph# 800-370-2251 fax# 978-686-3538. Bal $8414.44. Faxed POA.

03/16/2009 17:15 annette: icc from [client][5]
I. sd that they rcvd phn cll from DISC saying they are going legal 978-686-2255/ 2253
S. let her know that it is [Law firm] and that we just rcvd crrspnd from them and it was notated to acct and a POA was sent out to them and that when they rcv any summons from them to forward that info to us and it will be notated and assigned to a neg
O. client understands

**Summary:**

This client signed up in December, 2008. POAs were sent to creditors on January 2, 2009 and on March 16, 2009. Our client first complained to our company on September 23, 2009, after [Law firm] told them they do not work with debt negotiation companies. [Law firm] in fact has, does and most likely will continue to negotiate with our company.

[5] "I", "S", "O" stand for "Issue," "Solution offered," and "Outcome."

***I will be sued if I work with a debt settlement company.***

**Client Number:** 31442
**Enrollment Date:** 5/2009

**Note Log:**

09/24/09 receives summons from [Law firm] POA sent

09/28/09 Spoke with client regarding summons

09/29/09 Claims to have made arrangement with [Law firm]

During a telephone conversation on September 29, 2009 with this client the following ensued.[6]

Client: Have you settled with BofA below 40%
Company: Yes we have, in fact we have some very good settlementsfrom BofA.

Client: BofA told me that they don't work with debt settlement companies.[7]

Client: Do you settle with Discover.
Company: Yes.

Client: I am having a hard time believing anyone.

Who do I believe?

They [the law firm] told me I was being served early because I enrolled in a Debt Settlement Program prior to charge-off

This is not worth losing my house over

Chase calling daily as they never got the POA. [Our company sent the POA to Chase on May 22, 2009.]

Afraid of losing my house

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[6] This recording is available for review.

[7] As stated above, our records show that our company has settled, from January 1, 2009 through September 30, 2009, 1,289 Bank of America accounts on behalf of our clients, totaling $13,534,869.27. The average settlement was 28.1% of the balance owed by a given client.

➢ ***4. Collectors are posing as attorneys***

[Law firm] not only hires attorneys, but debt collectors as well. This time, the debt collector posed as an attorney, discussed litigation, tried to collect; when that tactic didn't work, the collector informed our client they are going to sue her because she enrolled in a Debt Settlement program. After all of this met with failure, the collector finally admitted that she was not an attorney, which resulted in our client stating she was filing a complaint against [law firm].

**Client Number:** 15499

This is an easy one to understand. After talking with [law firm] client was so confused he thought they were ***his*** attorney. [Law firm] instructed our client to file a complaint with FTC and that [the law firm] will represent him against us!

**Note Log:**

09/29/2009 11:32 tamih: Rcvd VM from [client]. He wants all of his fees back. He talked to a lawyer and they are reporting us to the FTC. He said that we never gave [law firm] any money. That is true we gave [the client] back all his resv on 08/24/2009 $4,624.00 MANUFACTURERS AND TR Checking - ACH. Then we sent him back part of his fees on 09/15/2009 $1,173.60 MANUFACTURERS & TRAD Checking - ACH. I am going to call him back about his message.

09/29/2009 11:53 tamih: OBC to [client]. He did not understand what was going on. He thought that we hired [law firm] to represent him in his state. I told him [law firm] is not representing him that we were. [Law firm] represents Discover. [Law firm] is the one that told him to call us about the rest of his fee.

09/29/2009 11:55 tamih: [Law firm] said they would represent him. They told him to file a complaint with the FTC to get the rest of his fees back. They asked him how much money he had in his saving acct. He told him about $5000.00. They said they would charge him about $12000.00 to help him. They can't represent him and Discover.

JHG firmly believes that the majority of complaints arise out of creditors and/or their hired guns speaking with our clients. The four most common complaints are: they never got a POA, they don't settle, they have never heard of us, and that they will sue because the client enrolled with a debt settlement company. This leaves the client not knowing who to believe, which leads to cancellations, and leads to an unnecessarily high cost of doing business when we are required to spend time and manpower counteracting the panic and fear these claims create. It takes literally hours upon hours of customer service to get a client through our program as a result of what creditors tell them. This, of course, is why we counsel our clients not to speak with their creditors or collectors once they enroll in our program.

# WHAT DO WE OFFER OUR CLIENTS?

We educate our clients so they learn to take responsibility for their actions; we urge them to read and understand their contractual obligations, not only with us, but in general, and we insist that they make their payments consistently and on time throughout the term of their contract period. It is in these ways that our clients not only learn how to budget their money, but they learn the importance of making payments in a timely fashion thereby reaping the benefits of being out of debt and on the road to a much more secure financial future.

We also offer our clients a service that does not affect their creditworthiness and credit score in the adverse way that bankruptcy or consumer credit counseling service can and often does. NERA Economic Consulting, a division of Marsh & McLennan Companies has done research[8] on the creditworthiness of a consumer after he or she completes the debt negotiation program, and finds that relative to other alternatives available, the debt negotiation program may lead to improved creditworthiness and improved credit scores, which are two different things. As defined by NERA, an individual's credit score usually refers to the FICO score (the determination of which is a well-guarded trade secret), and creditworthiness refers to an individual's ability to access sources of credit and show an ability to repay new loans. When a consumer has completed the debt negotiation program, the result is a much improved debt-to-income ratio, which in turn reflects positively on that consumer's creditworthiness. It must be remembered by the FTC that the consumers targeted by debt settlement companies are not people with an excellent credit rating who are very capable of and do pay their debts in a timely manner. The materials used by marketing companies for debt settlement companies state that their program is for those consumers who are unable to make their minimum monthly payments and are facing a substantial likelihood of filing for bankruptcy protection. A review of the attached NERA paper indicates that their research concludes that some clients of in fact ended up with very good credit scores. Page 4 of the NERA study, citing "Understanding Your Fico Score," Fair Isaac Corporation, 2005, pg. 10, says, in part:

> For consumers who have had trouble making payments before starting a negotiation program, which is to say the sort of consumers targeted by debt negotiation companies, reducing outstanding debt will make room for improved payment behavior in the future. This improved payment behavior will, according to Fair Isaac, have a positive effect independent of the effect on the overall credit history.

[8] A copy of the NERA Report is attached.

The NERA Report compares debt settlement with corporate Chapter 11 bankruptcy. That chapter of the bankruptcy code, which is for corporations only, and not individuals, provides relief from debt for a company in the short run, which in turn will provide maximum debt repayment in the long run.

It must be remembered that the consumer who pays his debts in full every month to a credit card provider is not the ideal candidate in the eye of the credit card company, as there is no money to be made on that consumer. Consumers who make minimum payments are especially attractive as it has been estimated that 75% of the revenues of credit card issuers come from interest payments.[9] But in today's economic climate, credit card issuers have jumped the monthly minimums due from 1% or 2% of the outstanding balance to 5% of the outstanding balance, while reducing a consumer's available credit and raising the interest rate charged to the consumer. While this may be a perfect storm of opportunity for the banks and financial institutions, it is extremely detrimental to the average consumer. As concluded by the NERA study:

> Credit negotiation will have different effects on creditworthiness and credit availability across individuals and across time. The initial halting of payments on existing credit card debts will limit credit availability in the short term. However, the reduction of the individual's debt load gained by the successful completion of a credit negotiation program, will lead to an increased ability to handle new debt. It provides breathing space for a consumer pressed by debts. That reduced debt load may lead to an improved credit score for such a consumer, depending on their behavior both before and after the debt negotiation program. It will also directly improve a consumer's debt to income ratio, an important factor in mortgage and auto lending. Importantly, any black marks on an individual's credit record arising from debt negotiation will still be better than those created by a personal bankruptcy that might be avoided by debt negotiation.

[9] Evans DS and RL Schmalensee, *The Economics of the Payment Card Industry* (Cambridge, MA: National Economic Research Associates, 1993).

# CONCLUSION

Regulators and elected officials, without knowing the facts regarding how debt settlement works or the true benefit we provide to consumers, appear to have made up their minds that debt settlement is somehow dishonest or immoral. It is our belief that this mindset comes from the continuous bombardment by financial institutions of misinformation. Consumers also fall victim to this constant stream of misinformation from financial institutions, consumer credit counseling services and collection agencies. The lobbying efforts against debt settlement have been so intense that regulators and elected officials no longer know what to believe. All one has to do is look at the statements made by the FTC, state attorneys general and other elected officials. The verbiage employed by these various public officials only serves to drive home that the financial institutions and collection agencies have done their jobs well, successfully closing our elected officials' minds to any opposing points of view or facts that may be put before them.

JHG believes that all three forms of debt elimination that currently exist in the market, those being debt settlement, consumer credit counseling services and bankruptcy, all have a place and can co-exist peacefully. It is clearly beneficial for consumers in various socio-economic situations to have a choice in how they deal with their financial issues. The banks/creditors already own and underwrite counseling services and have now launched a concerted attack on debt settlement with the intent of putting us out of business. It is difficult to understand why they would want us out of business since it is clear from the research that we provides them with a better "bottom line," in that we create a revenue stream that they would not otherwise have. Perhaps they would like to put us out of business and then use our proven business model in their collection process. This would, of course, create a monopoly for creditors on all forms of debt elimination and leave the consumer out in the cold. This result flies in the face of the stated purpose of the Federal Trade Commission, which is to eliminate deceptive business practices and protect the rights of the consumer!

# Economic Factors and the Debt Management Industry

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# EXECUTIVE SUMMARY

The current economic climate makes the need for debt management programs even more acute. More consumers are finding themselves in financial hardship due to high unemployment, low home equity rates, lack of access to bankruptcy protection, and the "credit crunch" so well documented in the press and by legislators. This economic climate implies that many consumers are one emergency away from financial hardship. There is no question that the multitude of people currently in financial distress need programs that reduce the principal of their debt to stave off bankruptcy (Manning 2009, Plunkett 2009).

Debt management programs (DMPs) come in several forms, but their basic structure is similar: they require some sort of consumer education if they are accredited by national trade associations (Keating 2008, USOBA 2008), consumer participation is voluntary (Hunt 2005, Plunkett 2009) and a plan is set up to make the consumer debt-free in two to five years. The key differences in the organizations are the mechanisms they use to finance the organization and to help consumers pay off their debt (Hunt 2005, Plunkett 2009). In this paper, I refer to organizations that help consumers pay off their debt by reducing interest rates as consumer credit counseling services (CCCSs) and organizations that help consumers pay off their debt by reducing principal as Debt Settlement Programs (DSPs). The efficacy of these different approaches has been discussed by a variety of authors, but these discussions have lacked a clear and detailed consumer welfare analysis, which is provided in this research.

One of the most important findings of this research is that the different approaches (CCCS or DSP) help consumers by increasing their economic welfare as compared to paying off the debt under the original conditions. However, the consumer welfare analysis suggests that DSPs create the greatest consumer welfare of any approach. In fact, consumer welfare is higher under DSPs than under the 60-60 rule (repay 60 percent of the debt principal in 60 months) suggested in the literature (see e.g., Keating 2008, Manning 2009). If consumers are allowed to repay their debt over three years, the affordability of the DSPs (as measured by monthly payments) is similar to the affordability of a program based upon the 60-60 rule. Additionally, creditors are helped by both CCCSs and DSPs as their losses are lower when consumers use DMPs as opposed to other alternatives.

This research empirically examines the efficacy of one DSP company in this industry. Key findings, which are consistent with the observation that programs which reduce the principal of the debt may be the only means to keep a growing number of consumers out of bankruptcy, include:

1. Accurate measures of consumer completion and cancellation cannot be calculated from the data, as almost 30% of the cancellations are due to the consumers either directly paying off the debt or being forced into bankruptcy. Further, the cancellation data does not contain information regarding offers received or debt repaid, so it does not accurately reflect value generated by the company. That said, the raw cancellation rate (60% over two years) is much less than speculated (85% within one year) and is similar to or better than other subscription-based service industries (e.g., mobile telephone and cable television companies) that have Better Business Bureau certified members.
2. Conditional on the consumer receiving an offer or settlement, the firm had mean, median and mode settlement offers at or below 50% of the original debt. This number beats the 60-60 rule and suggests that the firm is generating significant consumer benefits.

3. The debt settlement company generates tremendous value to its clients, as more than 57% of the clients have offers to settle at least 70% of their original debt, and the most common situation (almost 30% of the clients) having settlement offers for at least 90% of their original debt.
4. The debt settlement company has an increasingly higher value to customers with higher account balances and higher total debt, but lower number of accounts.
5. Once "fair share" payments are taken into account, CCCS fees and payments for a consumer account can exceed 29% of the consumer debt, levels which Plunkett (2009) calls "exorbitant." This finding suggests that regulation is required to ensure transparent reporting of all fees and payments is required for all companies offering Debt Management Programs.
6. Reasonable upfront fees by DSPs (before settlement) should be allowed because DSPs generate value for consumers and incur expenses generating this value. This fee structure is similar in nature to the one used by CCCSs, attorneys and other service-providing firms.

These findings suggest that a "common sense" approach should be used with the DMP industry. A common sense approach implies that regulatory and other consumer advocacy groups focus on ensuring that there is sufficient regulation to be able to identify and, if necessary, prosecute bad actors without harming economic competition which increases consumer welfare. The industry analysis also suggests several regulatory recommendations which could further benefit consumers:

1. Focus on making alternatives transparent so consumers can make better decisions: disclose total fees including "fair share" and all other consumer fees, success metrics of offers received, settlements accepted and percent of debt settled. This disclosure has the additional benefit of allowing interested third parties, e.g., consumer advocacy groups and government agencies, to calculate the economic impact of this industry on consumers and other industries.

2) Provide guidance for handling of client monies in "fiduciary" accounts, especially in terms of timing between audits, what happens if a consumer cancels service, appropriate interest rates, and whether or not (and under what circumstances) companies can make payments on behalf of consumers. The regulators should allow DSPs to establish trust accounts with their clients, which would include:
   a. Requiring consumers to save money every month as one condition of making "satisfactory progress" in the program. DSPs should have the ability to monitor, but not control (or make disbursements from) these funds.
   b. Proving regulatory protection for consumers from litigation and creditor calls while consumers are making "satisfactory progress." Other protections to ensure that consumers are protected from cancellation fees paid to DSPs and unethical business practices, e.g., ensure that the financial institutions holding the funds are independent of the DSPs and no fees are disbursed from the accounts without full disclosure and regulatory oversight and approval.
   c. Allowing disbursements from these accounts only with consumer and DSP approval and for payment to creditors, approved fees, and to the consumer if they cancel the program or for new financial hardships.

3) Require financial education of consumer, and require specific metrics in terms of meeting short-term and long-term education and outcomes (see, e.g., Clancy and Carroll 2007, Keating 2008, Staten and Barron 2006).

# INTRODUCTION

While the current economic climate (discussed below) provides strong support for programs which help consumers get out of debt, the strongest arguments for programs which take the approach of reducing the principal comes from organizations and individuals who are either antagonistic or agnostic to this approach. For instance, the 2005 Bankruptcy Abuse Prevention and Consumer Protection Act (or BAPCPA) suggests a "60-60" standard for debt repayment outside of bankruptcy, where the 60-60 refers to the consumer entering into an agreement with their creditors 60 days prior to bankruptcy to repay 60 percent of their debt within a "reasonable" time frame. Additionally, both Plunkett (2009) and Keating (2008), who use pretty strong rhetoric in denouncing companies using this approach, support a 60-60 rule that allows consumers to repay 60% of their debt within 60 months and acknowledge that a growing number of consumers may be forced into bankruptcy without access to ethical and proconsumer companies offering this alternative. For the remainder of this document, the term "60-60 rule" refers to repaying 60 percent of the debt within 60 months, not the BAPCPA plans.

Within the debt management industry, firms have taken two different approaches in their debt management programs (DMPs). The first approach, called Consumer Credit Counseling Services (or CCCSs), helps consumers by reducing the interest payments and, potentially, fees on the debt, but still has consumers pay 100% of the principal. The second approach, called Debt Settlement Programs (or DSPs), helps consumers by reducing the principal on the debt (Hunt 2005, Plunkett 2009). These approaches also differ in how the firms are funded and their taxable status. CCCSs are generally nonprofit firms and are funded by both account maintenance fees from consumers as well as "donations" from creditors which may take the form of "fair share" payments and/or direct grants (Boas et al. 2003, Plunkett 2009). DSPs, on the other hand, are generally for-profit firms, and are funded through fees charged directly to consumers without any payments from the creditors (Hunt 2005).

Before proceeding further, I acknowledge that both types of organizations have had firms which have taken advantage of vulnerable consumers (US Senate Hearings 2005, Clancy and Carroll 2007, Plunkett 2009), so some of the heated rhetoric directed at different approaches by organizations with vested interests is not only self-serving, but is also counterproductive. The focus of legislative efforts should be to protect consumer welfare by ensuring that the goals of the industry (consumer education and debt relief) are met, to ensure that organizations act in ethical and transparent ways and to impose appropriate sanctions on any company that willfully take advantage of consumers, i.e., "bad actors."

One of the reasons that I argue that the heated rhetoric and trying to use regulation to eliminate other approaches are counterproductive is based on the notion that competition produces efficiencies, which, in turn, increase consumer welfare and economic growth. A fundamental principal of the Federal Trade Commission is that competition benefits consumers through lower prices and increased variety. This philosophy is summarized as:

> *"Competition in America is about price, selection and service. It benefits consumers by keeping prices low and the quality and choice of goods and services high (FTC 2009a)."*

Therefore, rather than take the position of being an advocate for a specific approach to helping consumers to get out of their situation, this research is focused on understanding the different approaches and calculating the consumer benefits associated with each approach. The benefits are measured in terms of both total consumer welfare

# INTRODUCTION

(i.e., how much will consumers pay in total for different approaches) consumer affordability (how much must the consumer pay each month), and how much are firms collecting as a percentage of the original debt from the consumers and creditors. It is important to include payments from creditors to the firms, as they represent indirect fees charged to consumers because the creditors should be indifferent between giving consumers a discount of the same amount that they pay the firms in "fair share" payments or any other way the firm is compensated.

Probably the most important finding of this research is that both CCCSs and DSPs increase consumer welfare over the alternative of the consumer paying off their debt using a fixed payment of 2% of their original debt every month (the recommended minimum payment). However, DSPs increase consumer welfare much more than CCCSs and have similar affordability to CCCSs when the payments can be made over three years (instead of five years for CCCSs). Given the findings in the extant literature that creditors are also better off when consumers use DMPs, it appears that DMPs are a "win-win" for both consumers and creditors, so regulators should be encouraged to use a common sense approach to this industry: protect the vulnerable consumers while supporting competition among the different approaches to getting rid of consumer debt. This competition is consistent with the Federal Trade Commission's approach to other industries and would result in increased consumer welfare over the long term.

Some of the key recommendations for regulatory agencies include: 1) protecting consumers from litigation and calls/threats from creditors while they are making "satisfactory progress" in accredited DMPs. Satisfactory progress needs to have measurements related to educational goals as well as financial goals (i.e., being current on payments for CCCSs and saving enough for DSPs); 2) providing DSPs with the ability to set up trust accounts for their clients that have very specific limitations on disbursements (i.e., approved payments to creditors, approved fees to DSPs, payments to consumers for cancellation or new hardships, etc.); 3) require full disclosure of all fees consumers directly or indirectly (e.g., "fair share" payments, grants from creditors, etc.) pay and 4) provide guidance of how companies can accurately measure program effectiveness, e.g., does receiving offers for all enrolled debt constitute program completion?

The remainder of this document is organized as follows. In the next section, the economic factors which are increasing the necessity of this industry are briefly reviewed. Next, the different alternatives are provided with an eye towards understanding the economics and limitations of the alternatives. In section three, the performance of a specific DSP is analyzed. This firm provided a significant dataset, the details of 4,500 randomly selected clients. In analyzing the clients, we use a stratified sampling approach, also called a "strata approach." The clients are combined into different groups, based upon their debt levels. These different stratums are then analyzed to see if consumer behavior or firm performance differs between the groups. As far as we know, this type of analysis of the efficacy of Debt Settlement Programs has not been published.

In the next section, the economics (both for consumers and the firms) of the debt management programs is analyzed in more detail. Specifically, consumer welfare is estimated and compared under a variety of assumptions. This paper concludes with public policy and industry recommendations.

# CURRENT ECONOMIC CLIMATE

The importance of the consumer debt management industry has become increasingly important as the U.S. economic recession continues. Table 1 shows the seasonally adjusted unemployment rate in the United States, which has reached 9.4 percent as of May, 2009.

Even worse, the long-term unemployment rate (those unemployed more than 27 weeks), rose in May by 268,000 to 3.9 million U.S. Households, roughly triple the number at the start of the recession (U.S. Bureau of Labor Statistics 2009). Note that employment is generally a lagging indicator (e.g., it improves after the economy improves), an uptick in the U.S. economy will not provide immediate relief for these households.

The high unemployment rate coupled with the fact that the average credit card balance at the end of 2008 was more than $10,000 for approximately 91 million households (158 million individuals or 78 percent of all households) who have credit cards (Woolsey and Schulz 2009). A silver lining is that in April of 2009, seasonally adjusted total consumer debt was decreasing at a 7.5 percent annual rate (Federal Reserve 2009). However, household leverage (total debt to disposable income), while decreasing, still remains at 130% from a high of 133% in 2007. This number can be contrasted to the 55% leverage in the 1960s and 65% leverage in 1980s (Zuckerman and Todd 2009).

An implication of these statistics is that many consumers are barely able to pay their debts and are one emergency away from financial hardship – a recent study found that medical bills were a contributing factor in more than 60% of all bankruptcy filings (Himmelstein et al. 2007). From this hypothesis, one would then expect consumer credit card and personal loan default rates to be increasing. Figure 1 confirms this belief, as consumer default rates on credit cards stands at 7.49 percent in the first quarter of 2009, and consumer defaults on personal loans stand at 2.93 percent in the same period. If anything, these numbers understate the problems consumers are having. In a report prepared for the National Foundation for Credit Counseling, Harris Interactive (2009) found:

**Table 1 —U.S. Unemployment Rate**

| Year | Month | Percent |
|---|---|---|
| 2008 | May | 5.5 |
| | Jun | 5.6 |
| | Jul | 5.8 |
| | Aug | 6.2 |
| | Sep | 6.2 |
| | Oct | 6.6 |
| | Nov | 6.8 |
| | Dec | 7.2 |
| 2009 | Jan | 7.6 |
| | Feb | 8.1 |
| | Mar | 8.5 |
| | Apr | 8.9 |
| | May | 9.4 |

Source: U.S. Breau of Labor Statistics (http://www.bis.gov/opub/ted/)

- 26 percent of households admitted to not paying their bills on time. Minorities may be more severely impacted, with this number rising to 51 percent for African American households.
- In the last 12 months, 15 percent of individuals were late paying a credit card and eight percent admitted to missing at least one payment, and six percent have their debts in collection.
- 32 percent admit that they have no savings, and only 23 percent state that they were saving more than a year ago.
- 57 percent of households do not have a budget, and 41 percent give themselves a grade of C, D, or F in their financial knowledge.

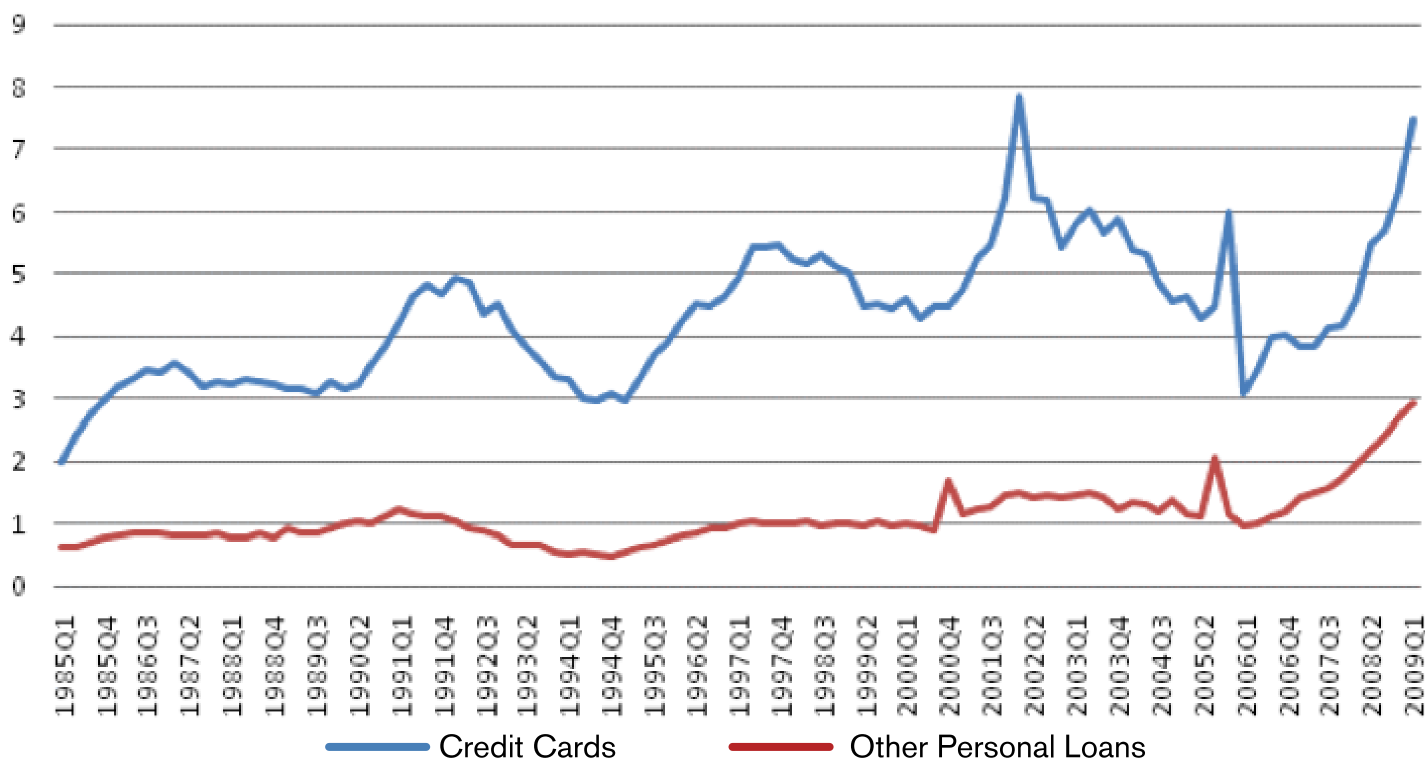
One may conclude that given the financial turmoil

in this market, credit card companies may be hurt as well. However, a recent study found that since the bankruptcy law was reformed in October 2005 (2005 Bankruptcy Abuse Prevention and Consumer Protection Act or BAPCPA), the credit card industry has recorded record profits, although more factors (e.g., interest rate spreads, increased fees, etc.) enter into this profitability than simply the increased difficulty of entering into bankruptcy (Simkovic 2009).

A recent study estimated that as many as 800,000 households have been precluded from entering bankruptcy due to BAPCPA (Lawless et al. 2008). Therefore, the need for a service which helps consumers manage and pay down their debts and to work with the credit card companies is more acute than ever. In fact, recent legislation requires credit card companies to recommend credit counseling education and debt management programs to consumers in financial trouble (Reddy 2009). So what are consumers' alternatives when they find themselves in financial hardship? Their alternatives are grouped into four broad categories (Hunt 2005) that vary in terms of a continuum of how much of the debt can the consumers afford to repay (all, partial or nothing):

1. Bankruptcy – either chapter 7 or chapter 13.
2. Debt Management Programs – This includes any service which tries to help the consumers pay off their debts (outside of bankruptcy) either through reduction in interest rates, debt reduction or other means.
3. Other financing – This includes raising money through sales or refinancing of current assets (e.g., home equity loan).
4. Repayments on original terms.

**Figure 1 — Bank Charge Off Percentages**




Source: U.S. Federal Reserve Bank

# OVERVIEW OF CONSUMER ALTERNATIVES

*This section provides an overview of the different alternatives that are available to consumers who are in financial hardship. Before discussing the alternatives, a brief discussion of the process or stages involved is provided (based on Mojica 2009).*

## 1. Financial Hardship

First, consumers have some financial hardship which limits a family's ability to continue paying their debts. For instance, Himmelstein et al (2007) found that medical bills were a contributing factor in more than 60% of all bankruptcy filings and that medical portion of the debt was more than $5,000 or 10% of family income. A creditors willingness to work with a consumer, e.g., give grace periods, reduce interest rates and/or debts, is directly linked to the consumer's ability to demonstrate that a true hardship was the cause of the household's financial crisis (Dash 2009)

## 2. 30 days

Once the consumer is at least 30 days late in payment, and for every 30 days thereafter, a notice is sent to credit bureaus indicating delinquency. At this point the consumer usually starts receiving calls from the creditors requesting payment. Eventually, credit cards and other revolving credit are cancelled for the consumer. Once the account is delinquent, credit card fees may be dramatically increased, although new federal legislation has put curbs on credit card companies in terms of fees and interest rate changes (Reddy 2009). Reddy did cite a consumer whose interest rate jumped from 12% to 24% due to late payments even though the credit card company did agree to work with the consumer.

In the current economic crisis, credit cards are willing to extend the grace periods for consumers who have true hardships, even reducing the total debt amount. However, these deals come at a price—a consumer's credit score may drop 70 to 130 points as a result (Dash 2009).

## 3. Six months

The creditor writes off the debt. At this point, the account may be sold, sent to a collections agency or a law firm. Generally, the amount of debt collected by these agencies varies, but examination of 10 K reports from various creditors indicates that credit card companies are receiving about 10% of the outstanding debt when it is sold.

More recently, credit cards have become more willing to negotiate terms with consumers, but they generally require that consumers be at least 90 days delinquent and are accepting "dimes if not pennies on the dollar" (Dash 2009). Given the relatively low recovery rate, it suggests that other alternatives (e.g., lawsuits, selling debts to collection agencies) provide even lower returns for the creditors.

## 4. Lawsuit as option

Creditors may sue consumers to collect bills. From a consumer standpoint, this option adds legal fees to the debt they already cannot afford. Assuming that the creditor gets a judgment, it may be enforced by garnishing wages, sales of assets, etc.

From a consumer standpoint, there is a mine field waiting for them once they get into financial trouble. Generally, the creditors will not work with a consumer until they are at least 90 days delinquent, and they may increase interest rates or fees simply because the consumer contacts the creditor for help (Dash 2009). Further, creditors are more likely to help consumers who do not have a history of financial troubles, so they are less likely to help those most in need (Dash 2009). Under a practice known a "global default", creditors can move an account that is current into default because the consumer is delinquent to a different creditor, (see, e.g., testimony U.S. Committee on Financial Services 2007). Once the credit card is in default, legislation limiting harassing calls really does not apply to the original creditors, only third party collectors. One would expect very high dropout or cancellation rates for the first six months a consumer is enrolled in a

Sources: Bank of America 2008 10K;page 127-Table 15,page 128-Table 16,page 172-Table 37; American Express 10K;page 50,page 56; Chase 2008 10K;page 155,page 81,page 128; CapitalOne 2008 10K;page 73-Table C,page 76-Table F.

program, until the regulatory protections take effect. Therefore, some sort of protection for consumers who want to settle their debt and have enrolled in certified debt management programs is required. Ironically, studies have found that credit card losses are 32 percent lower for the clients who enter DMPs before fair share payments are included (Hunt 2005), so it is against the creditors own best interests to force the consumer into litigation. England has solved this problem for their consumers in financial difficulty using the insolvency act of 1986. In this act, if enough creditors (generally 75%) agree to the debt reduction plan, the other creditors are legally bound by the repayment plan even if they did not agree to the plan.

## Bankruptcy

Both Chapter 7 and Chapter 13 bankruptcy are legal means of settling debts. Chapter 7 is a liquidation of assets, and the reform act of 2005 (2005 Bankruptcy Abuse Prevention and Consumer Protection Act or BAPCPA) placed many hurdles for consumers to use Chapter 7 (and instead force them to use Chapter 13). These hurdles includes means testing, higher fees and increased costs and risks for those assisting consumers filing Chapter 7 (Simkovic 2009). Once a consumer uses chapter 7, they cannot file again for eight years and are limited in filing for other legal remedies for several years. Additionally, the filing stays on their credit report for ten years (Hunt 2005). One unfortunate side effect of filing bankruptcy is that many employers check potential employee credit history, so this may have an effect on future income and job prospects.

Chapter 13 filings on the other hand are considered "wage earner plans" where the debt amount is reduced based on the consumer's ability to pay, and a plan is set up so that consumers pay their debts in three to five years (Hunt 2005). Hunt (2005) suggests that attorney and trustee fees amount to approximately 14% of the debt, and creditors' average about 35% recovery of the debt. However, he also suggests that only 33% of consumers finish the program, less than the average for voluntary debt management programs. In a white paper, the United States Organization for Bankruptcy Alternatives suggests that the completion rate is much lower, only 20% to 25% (USOBA 2008). As with Chapter 7, Chapter 13 filings go on a consumer's credit report (although for a shorter period of time), and their ability to file in later years is limited.

Bankruptcy as an alternative for most consumers has become much more limited since BAPCPA was passed in 2005 (Lawless et al. 2008). They estimate that as many as 800,000 US households have been prevented from filing bankruptcy in the last few years.

However, this does not mean that total bankruptcy filings are down, only that consumers are being moved from Chapter 7 (liquidation) to Chapter 13 (partial payment) to move this option away from paying nothing towards paying something. When these settlements are sold on the open market, they generally receive only 18-21 cents on the dollar (Manning 2009). Given the above estimates that the judgments only return 35 cents on the dollar, the net effect to the creditors is that they only receive pennies on the dollar through this route. One would expect that creditors would attempt to stay away from this alternative.

However, once there is more than one creditor, they face a classic "prisoner's dilemma" (Poundstone 1992). The basic idea is that even though all of the creditors are better off by avoiding bankruptcy and legal judgments, each individual creditor is better off by cheating (e.g., initiating legal judgments to be the first one in line). This problem has also been called the creditor's dilemma (Bainbridge 1986). Therefore, some regulatory guidance is required beyond BAPCPA, which suggests the 60-60

Source: Fair Debt Collections Practices Act (FDCPA) at http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre27.pdf.
see http://www.insolvency.gov.uk/insolvencyprofessionandlegislation/legislation/uk/insolvencyact.pdf , for a description of the insolvency act of 1986 which established this system.

(pay off 60% of debt in 60 months) as a standard, and would limit creditors to 80% of the debt principal if they do not reach an agreement (Manning 2009). Assuming that they collect on the judgment, this 80% rule provides the wrong incentive to the creditors, as they are better off using litigation. Therefore this 80% standard should be lowered to 60% to match the 60-60 rule.

Consumers must also go through counseling services (regardless of whether or not they enroll in debt management programs) prior to filing for bankruptcy. The National Foundation for Credit Counseling estimated that their members provided 1.26 million education sessions for bankruptcy in 2007 (Keating 2008). Some recent research has suggested that the educational component may be important for consumers (Staten and Barron 2006). Staten and Barron find that consumers who enter counseling are significantly less likely to file for bankruptcy in later years, and have significantly lower risk scores than consumers who choose to not enter counseling.

A nagging concern is whether the reason for the good outcomes is self-selection (e.g., motivation of consumers) or efficacy of the program (Clancy and Carroll 2007; Hunt 2005). That said, academic arguments over the source of the outcomes of these programs miss the key point. Regardless of the underlying cause, if consumers are more successful once they enter the programs, shouldn't those programs be encouraged and protections for consumers who are making satisfactory progress enacted, so that their chance of finishing the programs and gaining their benefits are enhanced? This is a classical agency problem where the credit card companies (and public policy) should not care about why clients are more successful, only that they are more successful once they enter into the educational programs. While it may be difficult to determine measures of the program outcomes, an approach similar to that used in Stanten and Barron (2006) where consumers are surveyed years after exiting the programs to determine financial health through risk scores, credit scores, bankruptcy rates and other measures would seem to be a good start and should be required for all organizations offering counseling services.

## Refinance

Refinancing the debt using assets is a viable alternative for only a few consumers, as it requires consumers to receive appropriate interest rates and to have sufficient equity in their home or other assets to pay down the debt. The second criteria can be a very high hurdle given that the median household filing bankruptcy has a negative $25,000 net worth (Lawless et al. 2008) and that household home equity is at historic lows – below 50% - and economists expect this trend to continue (AP 2008, Keating 2008).

The other problem is that some consumers may have already used this option to pay off debts or to get needed cash for ongoing expenses, even education (Chu and Achohido 2008). Given the current crisis in getting loans, declining home values and variable interest rate mortgages that are getting ready to reset, this option is becoming less viable for most consumers (Manning 2009).

The problem is that the credit cards use risk assessment to set interest rates, implying that consumer interest rates increase once delinquencies are noted on their credit reports (Chu and Achohido 2008, Plunkett 2009). A clear consequence is that consumers may not receive good interest rates, even on a home equity loan due to the credit problems. In addition, by refinancing, a consumer can lose their assets (e.g., their homes and cars) if they default on the loan as they have converted unsecured debt into secured debt.

## Debt Management Programs

Debt management programs (DMPs) come in several forms, but their basic structure is similar: they require some sort of consumer education if they are accredited by national trade associations (Keating 2008, USOBA 2008), consumer participation is voluntary (Hunt 2005, Plunkett 2009) and a plan is set up to make the consumer debt-free in two to five years. The key differences in the organizations are the mechanisms they use to finance the organization (consumer fees vs. "fair share" payments from credit card companies) and to pay off consumer debt (reduce interest rates and fees vs. reduce debt principal) (Hunt 2005, Plunkett 2009). In this paper, I refer to organizations that reduce interest rates as consumer credit counseling services (CCCSs) and organizations which reduce principal as Debt Settlement Programs (DSPs). It should be noted that neither of these organizations can force the creditors to accept their terms. It is the case that some creditors do not work with DMPs (of either type) or only make very small concessions (Hunt 2005). Given the national organization's call for debt principal reduction as part of DMPs, it appears that, over time, the distinction between these two types of organizations may blur (Keating 2008), making a stronger case for the strong value of DSPs to consumers.

The importance of full disclosure of the funding sources cannot be overstated. Because the CCCSs receive some of their funding from the creditors (Keating (2008) estimates that about 50% of the funding for CCCSs come from creditors), there is a conflict of interest for these organizations, especially when the funding is tied to the amount of debt under management (Boas et al. 2003, Hunt 2005, Manning 2004). Second, because the CCCSs receive some of their fees indirectly, there may be an impression that they are less expensive than DSPs. However, the economic welfare of the creditors is unchanged if they give these fees to consumers as a reduction in the debt principal instead of to the CCCSs in the form of grants or "fair share" payments. Therefore, consumers are paying increased and undisclosed fees in their monthly payments. Further, the FTC recommends consumers ask about the funding sources as part of their consumer protection program (FTC 2009c). I believe that stronger action should be taken, requiring disclosure of the fees, as information is the basis of education, and education is the first line of defense against fraud and deception, it can help you make well-informed decisions before you spend your money (FTC 2009b).

## Consumer Credit Counseling Services (CCCSs)

CCCSs generally try to get rid of a consumer's debt over five years and generally receive the majority of their funding from credit card companies (Boas et al. 2003, Hunt 2005), although the terms of the agreements have been evolving over time. Hunt states that the average account set up fee is $25 and monthly maintenance fee is $15. Over five years, this translates into $910 paid directly to the CCCS. Additionally, he notes the firms receive "fair share" payments (or even grants) from the credit card companies which average six percent of the amount that the credit card receives – which is more than six percent of the debt. For instance, assuming equal payments over five years and a ten percent interest rate, a consumer with $10,000 in debt will pay $12,748.23 to the credit card company, which implies that the consolidator would receive another $764.89 in fees (for a total of 16.7% of the debt). The levels of the fees in this example appear to be similar to those in Chapter 13 bankruptcy noted above.

It should be noted that CCCSs collect the money from the consumers and distribute the money to the creditors (Boas et al. 2003), which implies a fiduciary duty is accepted by these organizations. However, they implicitly assume that consumers will pay back 100% of the debt, only at a reduced interest rate and potential reduction of some or all of the fees.

Therefore, not only do they not conform to the 60-60 rule noted above, but this alternative may not be viable for some consumers who could pay back the debt under the 60-60 rule, forcing them into litigation and/or bankruptcy (Manning 2009).

From a consumer welfare standpoint, the key drivers of consumer welfare are the terms of the agreement: how much are the interest rates reduced, and how many payments are required? Plunkett (2009) suggests that these terms vary widely by creditor and by CCCS, so one area of needed disclosure are median terms negotiated by the CCCS for each creditor, as well as median consumer fees and "fair share" payments and/or grants from creditors. Clearly, the CCCS would need to disclose to their customers if a creditor did not accept the terms presented and would need to adjust the required payments.

In terms of calculating efficacy of the programs, both measures and approaches for the educational component are discussed above, so I focus on the debt reduction portion of the business. One set of measurements relate to the terms negotiated with the creditors. For instance, in the settlement offers and final settlements, how much is the original debt amount reduced? And how much of the original debt receives settlement offers? A second set of measurements are the successful completion rates of the program, although without some regulatory protection of consumers enrolled in these programs, these are not accurate measurements of firm performance because consumers can always be forced out of the programs through litigation by one or more creditors.

## Debt Settlement Programs (DSPs)

For DSPs, the general idea is to have the consumers save money and pay the creditors in one or a few payments (depending upon the size of the debt) with the goal of paying off the debt in two to four years. Instead of focusing on interest rates, DSPs negotiate to reduce the principal of the debt, which implies one set of metrics is their ability to meet or beat the 60-60 rule noted above. Details of the size of the principal reduction are missing in the literature (although they are examined in the next section for one company), but companies claim to be able to reduce up to 50% of the principal. Instead of taking money from the credit card companies, these organizations generally receive their fees from consumers. Plunkett (2009) writes that these fees average somewhere between 14 and 20 percent, and Manning (2004) claims that these fees can include a set up fee ranging from 2-4%, and service fees range from 15-25%.

Without defending the veracity of the assumptions, if we take the same consumer above, who has $10,000 in debt, receives a 20% reduction in the debt principal and pays a lump sum at the end of two years? The consumer would end up paying $8,000 to the Credit Card Company or $4748 less than they would have under the CCCS example above. Whether or not the consumer is better off would then depend upon the fees charged – the consumer would be indifferent (i.e., pay the same amount) if the fees were $4748+$910 or $5658 (56.6% of the original debt).

As with the CCCSs, consumer welfare is strongly influenced by the key assumptions of the model, i.e., number of years before lump-sum payment, interest rate and the principal reduction amount. This example also shows where some confusion may enter into marketing and other communications: the consumer received a 20% reduction from the initial debt, but did they still have to pay interest on the debt while saving for the payment (note the results are the same as making payments for two years). So, a consistent method of communicating the principal reductions is required, where the amount of the final payment in relation to the

initial debt is reported. Similar to CCCSs, transparency implies that median settlements for different creditors and credit status (e.g., in litigation) would have different principal reductions and would need to be disclosed.

This model has some unique difficulties as well as common problems with the CCCSs. A key difference would be that consumers (or clients) are not required to accept settlement offers from the creditors. Therefore, any metric which attempts to only look at settlements would tend to underestimate (i.e., bias) the effectiveness of DSPs, meaning that a second set of metrics related to offers received from creditors would also be required.

A second problem for DSPs is whether or not they should put client money into fiduciary accounts. In the data provided by the DSP analyzed in the next section, 6.8% of the cancellations gave the inability to save as the reason that they cancelled the service. On one hand, one could argue that the consumer must learn how to handle their savings to really get out of the cycle of debt, so no fiduciary accounts should be necessary. However, one could use the analogy of learning to crawl before learning to walk to analyze this situation. The end goal of the program is to have consumers self-sufficient, but they may need to learn how to save, and how to not dip into these savings for luxury items while paying off their debt. Therefore, it seems, at least at the beginning, the companies should at least monitor the savings of their clients to ensure that they are making progress.

In a similar vein, one could argue that the companies should establish fiduciary accounts for their clients to ensure that they can actually pay off the offers once they are received. Otherwise, what should the company do with their clients who are not saving? However, the extant literature is ripe with examples of abuses for these accounts (see, e.g., Plunkett 2009). Therefore, guidance from regulatory, consumer advocacy and industry groups would be helpful in this area.

My recommendation in this area is to strike a balance from the different approaches. First, allow DSPs to set up "trust" accounts where monies can only be released to pay creditors (with a signed letter from the creditor and consumer), to pay agreed upon reasonable program fees (agreed upon on the creation of the account) or refunded to the client upon termination of the program or upon demonstration of a new financial hardship (e.g., medical bills). Second, the DSPs should be allowed to monitor these accounts to ensure that their client is saving, and consumer saving being one condition of making "satisfactory progress" in program. If the protections noted above were in place for consumers making "satisfactory progress," the effect of not saving would remove their protections from creditors and litigation, creating a very strong incentive to save. It would be an interesting area for future research to investigate the savings rates for consumers who are enrolled in programs which have trust funds as an aspect of their programs.

Finally, both CCCSs and DSPs suffer from the same problem where the original creditors (but not third parties) can continue calling them after they have signed up for a program and have asked (or the DMP has asked) for the creditors to stop calling (source: Fair Debt Collections Practices Act or FDCPA). Even worse, even though the consumer is trying to avoid bankruptcy and litigation, it can be forced upon the consumer by only one out of many creditors. This phenomenon has been called the "creditor's dilemma" (Bainbridge 1986). In conversations with the DSP analyzed below fully 20.5% of the consumers who cancelled the service gave bankruptcy as the reason for cancelling the program, and another 19.3% who cancelled the service gave a reason that was categorized as an "outside influence."

The problem is that consumers may be acting in good faith and trying to climb out of debt, the DMP may be acting in good faith to help the consumer

and most of the creditors can be acting in good faith working with the DMP and the consumer, but one creditor can force failure of the entire process. To be honest, I can't see a way out of this problem without regulatory action, as similar problems (called "prisoner's dilemmas") have been extensively studied and the solutions generally require modifying incentives of the actors (Poundstone 1992). The clear implication is that consumers need regulatory protection from litigation and harassing calls while they are making satisfactory progress in these programs.

## Timing of Fees

Throughout the above discussion, the issue of when DMPs should receive fees has not been addressed, so this issue is addressed in this section. This issue is one of the most contentious for DSPs where Plunkett (2009) and others have suggested that other than small account set up fees, DSPs should not receive any fees until the debt is settled. A general response to this recommendation is that this requirement is analogous to forbidding insurance companies from collecting premiums until a claim is filed, or forbidding attorneys from collecting fees until the matter is settled or forbidding doctors or hospitals from collecting fees until the patient is healthy.

The recommendation also ignores when value is created for the customers and when expenses are incurred by the DSPs in creating the value. DSPs create value for their clients in multiple ways. First, they offer financial education, budgeting, etc. as part of the program. Given that CCCSs charge consumers for this education (and receive federal funding to support the education) (Keating 2008), there can be no argument that this provides value to the customers. Also, DSPs create value for the customers (and incur expense) when offers are received from creditors to reduce their debt (see empirical section below for quantification of this value) whether or not the consumers actually accept the offers. As shown in the next section, offers are received on some accounts within two months of enrollment in the program.

This recommendation is also inconsistent with the way that CCCSs receive their fees. An analogous situation would require that CCCSs receive no fees (including grants and "fair share" payments from creditors and monthly account maintenance fees) until the debt is paid off (generally in five years), which would make the business economically unviable without massive government funding. Given the current federal and state deficits, this funding is unlikely.

Finally, the fact that consumers have to make payments, in and of itself, is educational. It forces consumers to get in the habit of saving and making payments. If the DSP has a "trust" account or is otherwise monitoring the savings of the client, similar expenses to those of CCCSs are incurred. Therefore, DSPs should be allowed to charge consumers fees prior to the final settlement because value is generated for the clients and expenses are incurred by the DSP to generate that value. That said, to help protect consumers, any fees before settlement should reflect actual value generated and expenses incurred. As noted above, full disclosure of fees is required for consumers to make good choices.

## Repayment on original terms

The problem with this alternative is that consumers are already delinquent and cannot afford the payments. The delinquency may be temporary, but even under the new credit card rules, consumers would still have six months of increased interest rate payments due to the late payment (Reddy 2009).

*In this section, we analyze data from a DSP firm. The purpose of this section is to analyze specific performance metrics for the firm to establish as a basis for estimating consumer welfare in the next section. Given that the firm has not tracked education and financial health after a consumer leaves the program, these metrics are not analyzed.*
*The remainder of this section is organized as follows: the next part provides a brief description of the data. Next, specific performance metrics are analyzed taking care to control for when a consumer enters the program.*

## Description of Data

The firm† provided three cohorts of random, stratified samples of their data. The data was stratified into the lowest quartile, middle 50% and top quartile in terms of total indebtedness of the client with a random sample of 500 clients drawn from each stratum. Three cohorts were also drawn from the data: clients entering 24 months, 18 months and 12 months prior to the date of the data being accessed. Therefore, the database contains 4500 clients – a very significant sample of consumers in this industry. The client confidentiality is maintained through no identifying information (e.g., demographics, names, credit card account numbers, etc.). One limitation of this data is that once a consumer cancels their account, no information is retained regarding offers, settlements, etc. That said, the sampling methods imply that the results can be applied to the entire database of clients for this firm. While the results may not be applicable to the industry as a whole without some strong assumptions, they are likely applicable to similar firms in industry and allow several conjectures to be examined in detail.

All creditor accounts, offers to settle (whether or not the client accepted the offer), offer amounts, date of the offer, whether or not the offer was accepted and if/when the client canceled the account are included in the data. In addition, the original creditor was provided so the question of whether or not there are differences in settlement offers due to the volume of accounts could also be tested. **Table 2** provides simple descriptive statistics for the data.

Several points are obvious in the table. First, the median weeks are similar for the three stratums. Therefore, from a time in program standpoint, it appears the strata are identical. Secondly, as expected, the number of accounts increases as the total debt increases. Finally, the cancellation percentages are roughly similar across the different stratums. However, the top stratum appears to cancel at a much higher rate. We can calculate the weighted average cancellation rate to be approximately 60%, this rate is comparable to cell phone companies that average 2-3% monthly churn, or cancellation, rates (Mozer et al. 2000). Clearly, this rate is high, but it does compare very favorably with the 84% yearly churn rate (Plunkett 2009). However, further analysis of the reasons for cancellation point to the difficulty in calculating accurate cancellation and/or completion rates.

**Table 2 — Descriptive Statistics for Strata**

| | Stratum 1 (Lowest 25%) | | | Stratum 2 (Middle 50%) | | | Stratum 3 (Top 25%) | | |
|---|---|---|---|---|---|---|---|---|---|
| | Mean | Median | Std Dev | Mean | Median | Std Dev | Mean | Median | Std Dev |
| Total Debt | 7927 | 8000 | 1223 | 16966 | 16138 | 6788 | 47404 | 40201 | 21884 |
| Num Accts | 3.7 | 3.0 | 1.7 | 4.6 | 4.0 | 3.3 | 6.3 | 6.0 | 3.3 |
| Weeks in Program | 49.9 | 49.0 | 33.4 | 49.4 | 50.0 | 46.1 | 46.9 | 46.0 | 32.4 |
| Pct Cancelled | 59.1 | | | 58.1 | | | 64.5 | | |

† Credit Solutions

The reasons for cancellation for the customers in the database are summarized in the five reasons provided in Table 3. There are several striking results from this table. First, if the outcome of paying off debts is considered a success, then the cancellation rate is overstated because 14% of the consumers included as cancellations actually paid off their debt.

Second, a significant portion of the consumers (13.5%) are being forced out of the program due to litigation. Therefore, protection of consumers from litigation is required for those consumers making satisfactory progress in the program. Third, a significant amount of the cancellations (6.8%) are due to consumers not being able to save. Because the DSP does not monitor/require savings, a significant portion of the cancellations could have been prevented by significant incentives for the consumers to save.

Therefore, the aggregate cancellation rate is a poor measure of the quality of the service provided. To help put the cancellation rate into context, Table 4 provides yearly and monthly churn rates across a variety of industries, companies and time periods (selected sample from Kohs 2006) and shows that the churn rate is lower than or comparable to some companies and subscription-based industries which also have Better Business Bureau (BBB) certified members.

**Table 3 — Reasons for Cancellations**

| Reason | Percentage |
|---|---|
| Bankruptcy (Chapter 7 or 13) | 13.5% |
| Can't Save | 6.8% |
| Buyer's Remorse [a] | 9.2% |
| Settle/try to settle on own | 14.0% |
| Other | 56.5% |

Note: [a]Buyers remorse is limited to those customers who cancel within 30 days of the initial payment to the DSP, which can be 30-60 days from the initial enrollment date.

**Table 4 — Churn rates in other industries**

| Annual Churn | Monthly Churn | Company | Industry | Data Year |
|---|---|---|---|---|
| 7.20% | 0.62% | Sirius | Satellite Radio | 2006 |
| 10.00% | 0.88% | | Web Hosting | 2003 |
| 10.00% | 0.88% | Western Wireless | Wireless | 2001 |
| 11.00% | 0.97% | Alamosa PCS | Wireless | 2001 |
| 15.00% | 1.35% | Nascar.com (premium subscribers) | Sports Media | 2004 |
| 16.00% | 1.45% | Nextel | Wireless | 2005 |
| 17.00% | 1.55% | Colorado teachers in 'excellent' schools | Education | 2004 |
| 17.00% | 1.55% | Schnader Harrison (lawyers) | Legal | 2003 |
| 17.00% | 1.55% | | DBS TV | 2002 |
| 18.00% | 1.65% | DirecTV | DBS TV | 2003 |
| 19.00% | 1.76% | Alltel | Wireless | 2005 |
| 22.00% | 2.07% | Analog cable subscribers | Cable TV | 2002 |
| 23.00% | 2.18% | Cingular | Wireless | 2005 |
| 23.00% | 2.18% | Colorado teachers in 'unsatisfactory' schools | Education | 2004 |
| 26.00% | 2.51% | Sprint | Wireless | 2005 |
| 26.00% | 2.51% | Subscribers | Cable TV | 2002 |
| 31.00% | 3.09% | | Pagers | 1998 |
| 34.80% | 3.56% | T-Mobile | Wireless | 2005 |
| 35.00% | 3.59% | Maricopa County (anglers) | Recreation | 2002 |
| 45.00% | 4.98% | | E-mail addresses | 2004 |
| 46.00% | 5.13% | | Prepaid Calling Cards | 2004 |
| 46.00% | 5.13% | Digital cable subscribers | Cable TV | 2002 |
| 51.00% | 5.94% | Globe | Prepaid Wireless | 2004 |
| 52.00% | 6.12% | Florence (AL) Times Daily (readers) | Newspapers | 2005 |
| 58.00% | 7.23% | Snowball.com | E-mail newsletter | 2000 |
| 78.00% | 12.62% | Touch Mobile | Prepaid Wireless | 2004 |
| 93.00% | 22.16% | VOOM | HD TV | 2004 |
| 93.00% | 22.16% | Runoff at time of sale | Home Mortgage | 2002 |

# ANALYSIS OF DATA

*In this section, different performance metrics are examined for the firm at the client-level.*

The first set of metrics in Table 5 provides performance metrics that can be used to calculate consumer welfare. The first column represents the conditioning of the metric: Settle - did the client settle at least one account, Offer - did the client receive at least one offer on the account, Cancel - did the client cancel all of their accounts. Note that the company did not retain offer and settlement information once the accounts were cancelled.

The second column represents the metric and the remaining columns report the mean, median and standard deviations for the metrics. Medians are included as a second measure of central tendency. The percent debt metric measures what percentage of the original debt the consumer paid when the account was settled. There are not significant differences between the strata, although the results indicate that the median is less than 48%, or that the households received an average discount more than 50%. The percent of total metric indicates the percentage of the original debt that has a settlement (conditional on the client settling at least one account). Once again there are no significant differences between the strata, but the median across the three stratums is around 50%. The percent of accounts settled is not different between the strata, and hovers around 50%. This indicates that the size of the debt is not a driving factor in getting the account settled. Interestingly, the only significant effect conditional on settling one account is the number of days until the first settlement, where the smaller accounts take longer than the other two. However, the medians for all three strata hover around six months. Note that, conditional on settlement, this organization beats the 60-60 rule noted above.

But when the offers are examined, they suggest a slightly different story. First, there are no significant differences in the average amount offered (% Debt) for the three strata. However, the median offer is around 56%, much higher than the 48% settlement, although both numbers beat the 60% of debt rule noted in the introduction. Hence, it can be concluded that the negotiations work for the clients. In terms of the percent of the original enrolled total debt (% total debt) that receives an offer, the highest quartile (median 72%) is significantly different than the lowest quartile (median 51.5%), but neither quartile is significantly different from the middle 50% (median

**Table 5 — Consumer welfare metrics**

| | | Stratum 1 (Lowest 25%) | | | Stratum 2 (Middle 50%) | | | Stratum 3 (Top 25%) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Condition | Metric | Mean | Median | Std Dev | Mean | Median | Std Dev | Mean | Median | Std Dev |
| Settle | % Debt | 51.0 | 48.8 | 0.19 | 48.5 | 46.7 | 0.27 | 49.2 | 47.5 | 0.19 |
| | % Total Debt | 54.7 | 50.7 | 0.30 | 54.1 | 50.6 | 0.45 | 53.1 | 49.4 | 0.32 |
| | % Accounts | 52.0 | 50.0 | 0.27 | 51.5 | 50.0 | 0.39 | 53.0 | 50.0 | 0.29 |
| | Days first settlement | $211^{a}$ | 189 | 116 | $196^{a,b}$ | 177 | 154 | $183^{b}$ | 163 | 99 |
| Offer | % Debt | 62.2 | 64.2 | 0.29 | 56.6 | 52.2 | 0.39 | 56.8 | 55.7 | 0.17 |
| | % Total Debt | $56.5^{b}$ | 51.5 | 0.18 | $63.7^{a,b}$ | 67.8 | 0.43 | $67.7^{a}$ | 72.1 | 0.29 |
| | % Accounts | $57.3^{b}$ | 50.0 | 0.28 | $59.6^{b}$ | 50.0 | 0.40 | $64.7^{a}$ | 66.7 | 0.28 |
| | Days first offer | $210^{a}$ | 188 | 126 | $186^{b}$ | 172 | 148 | $168^{c}$ | 148 | 95 |
| Cancel | Days Cancel | 196 | 168 | 145 | 197 | 163 | 207 | 202 | 171 | 155 |

**Notes:** Superscript a>b>c with probability less than or equal to 5% than they are the same. Values with same letter are not significantly different.

67.8%). This result (as well as the differences between means and medians) suggests high variance in the percent of debt settled, and that the significance on this metric may be spurious. If it is not spurious, it then appears that the creditors are more willing to make offers on higher debts, which is consistent with the analysis of Dash (2009). The results for the percent of accounts and days until the first offer support this hypothesis, where the highest quartile receives their first offer sooner than the lowest quartile and median strata, and the highest quartile has a larger percentage of accounts receiving offers than the other two strata.

Figure 2 provides a histogram of the percent of total debt that has either been settled or offered combining all three strata. There are a couple of striking elements to this figure. First, the most frequent value (also called the "modal value") for both settlements and offers is between 90 and 100%, indicating that the firm is generating value for their customers. Second, the distribution for both appears to be uniformly distributed (ignoring the mode). This seems to imply that consumers are progressing through the program; otherwise I would expect to find another mode where the clients get "stuck" in their progress. That said, the firm should strive to have 100% of the debt with offers. This figure also points to the difficulty in calculating a completion rate. Given that consumers are receiving offers on their debt but not accepting all of the offers, how should the accounts be counted?

Figure 3 provides a histogram of the percent of the enrolled debt (i.e., original debt amount) that was either paid during settlement or had a settlement offer, conditional on settlement or receiving an offer. The settlement data appears to be normally distributed with the mean, mode and median slightly less than 50%, much better than that 60-60 rule noted above. A striking feature is that the average offers are almost normally distributed, but have a positive skew. This positive skew implies that the creditors tend to make more offers above the mode than below the mode. Given the distribution of the settlements is more balanced; it implies that the firm does a good job in negotiating better terms for their clients. Specifically, we see that the absolute frequency (not just percentage) is much higher for settlements below the mode than for offers. Similarly, the frequency for offers above the mode (and median) is much higher for offers than for settlements. The mean, median and mode (all measures of central tendency) appear to be the same, suggesting that the

**Figure 2 — Histogram of Percent of Debt Settled and Offered**

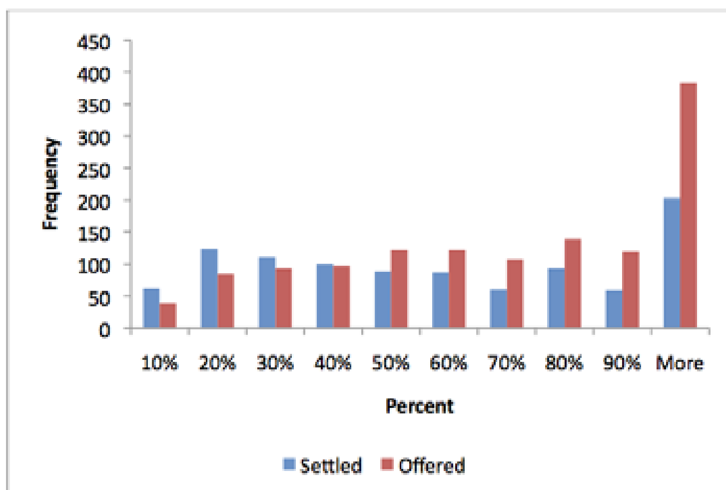
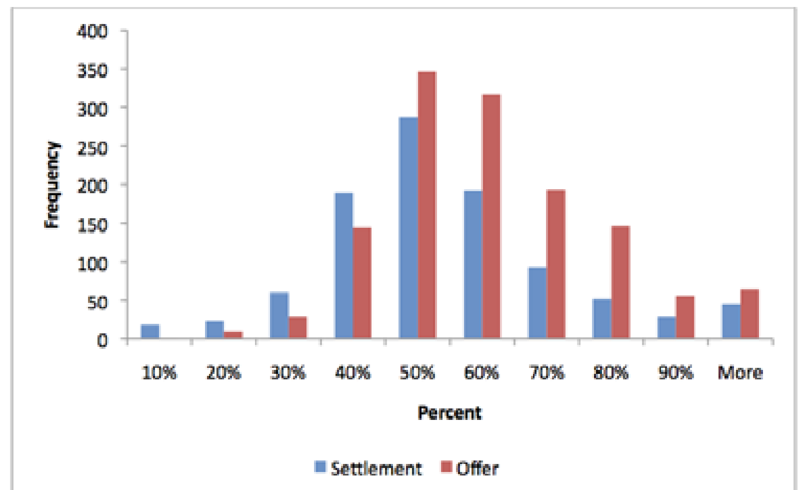



**Figure 3 — Histogram of Percent of Debt Paid for in Settlements and Offers**



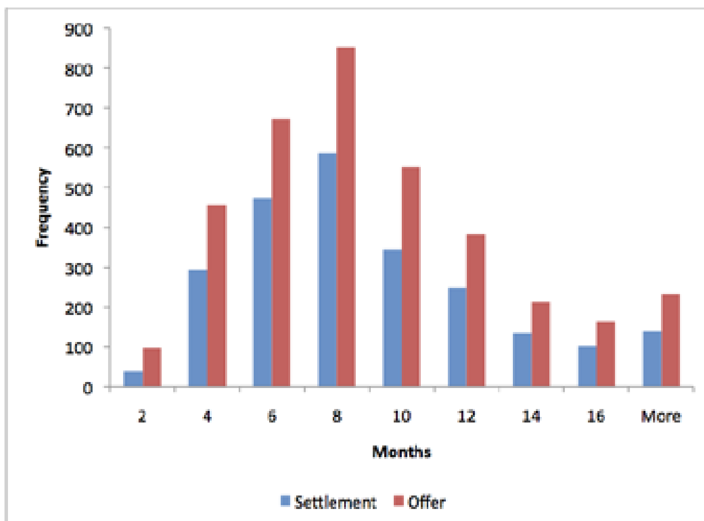
firm generates value to their clients by beating the 60-60 rule. However, to manage client expectations about possible benefits from the program, the firm should be transparent about the median and 75% quartile (i.e., 25% percent quartile in terms of discount) when calculating savings for the consumer. Given the convergence of mean, median and modes, a standard deviation should also be reported.

Next, we look at the cancellation data. There are no significant differences between the three strata. However, the median time to cancel hovers between five and six months. Even though there is no data on the offers and settlements for these clients, I find it highly unlikely that this group received no offers in this time, as the median time approximates the median time for offers and settlements. It is much more likely that other, unobserved factors were more influential in this decision. Figure 4 combines the data from the three strata, and provides a histogram of the time it takes an account to be settled or the time it takes for an account to receive the first offer. For both settlements and offers, a negative skew is observed for the distribution.

Interestingly, this implies that the creditors are generally very interested in settling the account, with the modal offer time being between 6 and 8 months. The firm can clearly improve in their performance by reducing the right tail of the offer distribution, i.e., ensuring that all accounts receive offers in a timely manner. This graph also depicts how the firm generates value for their customers in the negotiations. By receiving many offers quickly, they can make the creditors compete against each other for the lump sum payment from the consumer. This competition is in the form of reducing the principal of the debt.

A problem with this distribution is that, without some sort of regulatory protection, the spurned creditors (i.e., those who do not offer good enough discounts on the debt, so they are not selected for the lump sum payment) can initiate litigation that would drive the consumer into bankruptcy, creating unnecessary cancellations for the firm. A second challenge for this firm is that the savings plan ought to require their clients to save enough in the first 6-8 months to pay off one of their creditors, potentially the creditor with the smallest balance. This finding supports the call for protection of consumers making "satisfactory progress" in paying their debts through Debt Management Programs.

**Figure 4 — Histogram of Time for Settlement or Offer to be Received**



## In summary, this analysis has several key findings:

1. Creditors seem to make lower offers sooner to consumers with higher balances,

2. The median cancellation time is between 5 and 6 months, implying (due to a lack of data) that the clients likely received offers, as the median is not very different than the median offer time. However, it is very difficult to calculate accurate cancellation rates (often used as a measure of "failure" of the programs) due to the fact that almost 30% of the clients cancel due to paying off their debts or going into bankruptcy.

3. Both the median offer (approximately 56% of debt) and median settlement (48%) are better than the proposed 60% rule, so the firm is offering value vis-à-vis the proposed 60-60 rule. Further, the difference between the settlement and offer percentages implies differences between households (potentially due to hardship) and that some households receive tremendous value from the negotiations and relationships of the firm.

4. Conditional on a client settling at least one account, the client seems to settle more than 50% of their debt and 50% of their accounts. This statistic is impressive as the program lasts 36-48 months, whereas the data only captures the first 12-24 months for the client. One would expect that at the end of the program, the settlement rate would increase.

5. Conditional on receiving at least one offer, clients seem to receive offers for more than 67% of their accounts and debts.

6. The figures seem to indicate that clients are progressing and paying off their debt, as the mode for the number of offers and settlements is between 90 and 100% of the enrolled debt. However, the firm does have room for improvement, as the optimal graph would have 100% of the debt with offers.

# CALCULATION OF CONSUMER WELFARE

*In this section, the empirical results are used to calculate consumer welfare under a variety of assumptions and conditions.*

Table 6 provides the initial base-line estimates for consumer welfare. We use assumptions of 18% annual interest rate and minimum fixed monthly payments of 2% and 3% for debts of $4,000 and $10,000 (for similar assumptions, see, e.g., Warnick 2005). The fixed monthly payment of 2% is similar to current minimum monthly payments as noted in Warnick (2005). Affordability is measured using monthly payments, and consumer welfare is measured by the length of time required to pay off the debt and total amount paid by the consumer. By doubling their payment, consumers are able to cut the time to repay the loan in half and increase their total welfare by paying less to the credit card company.

**Table 6 — Baseline Consumer Affordability and Welfare Calculations**

| Payment | 2% | 3% | 2% | 3% |
|---|---|---|---|---|
| Debt Level | $4,000 | $4,000 | $10,000 | $10,000 |
| Annual Interest Rate | 18% | 18% | 18% | 18% |
| Fixed Monthly Payment | $80 | $120 | $200 | $300 |
| Years to Pay | 7.8 | 3.9 | 7.8 | 3.9 |
| Total Payments | $7,488 | $5,616 | $18,720 | $14,040 |
| Percent of Original Debt | 187% | 140% | 187% | 140% |

The first scenario examined is when the same consumer receives help from a CCCS, and the firm is able to cut the interest rate to 10% from 18%, and has 5 years to repay (this may be an optimistic assumption, as Plunkett (2009) says that creditors are becoming less willing to reduce interest rates). The results of the consumer welfare calculations are provided in Table 7. In order to calculate total payments (to credit card and the firm), we assume the industry average of $15 per month and a fair share payment of 5% of the payments to the credit card company (Hunt 2005).

**Table 7 — Consumer Affordability and Welfare Calculations for hypothetical CCCS**

| Debt Level | $4,000 | $10,000 |
|---|---|---|
| Annual Interest Rate | 10% | 10% |
| Years to Pay | 5 | 5 |
| Fixed Monthly Payment | $85 | $212 |
| Monthly Account Fee | $15 | $15 |
| Total Monthly Payments | $100 | $227 |
| % Baseline Payments | 125% | 114% |
| Total Payments | $5,999 | $13,648 |
| Percent of Original Debt | 150% | 136% |
| Percent of Baseline | 80% | 73% |
| Firm Fees | $ 900 | $ 900 |
| % Fair Share | 5% | 5% |
| Fair Share Fees | $255 | $637 |
| Total Revenue to firm | $1,155 | $1,537 |
| % Original Debt | 29% | 15% |

In terms of affordability, both cases are less affordable, i.e., have higher monthly payments than the base case of paying off the debt using with fixed monthly payments of 2% of the original debt. However, consumers are better off with this solution as they end up paying much less overall (range from 73% to 80% of the base case payments), even when the monthly account fees are included. We can conclude that this alternative does help consumer welfare, but it is a generally less affordable solution.
If we examine total fees paid, they range from 15% to 29% of the total debt. Given Plunkett's (2009) description of 30% fees as exorbitant, his standard suggests that the CCCS charges exorbitant fees to lower debt consumers. Additionally, if it is assumed that lower income consumers have lower debt then CCCS charges higher fees as a percentage of the debt to lower income consumers than to higher-income individuals. In fairness, they can argue that cost of education is the same, regardless of the debt level, but it does not change the fact that they have a regressive fee structure.

*The 60-60 rule is analyzed in the next scenario.*

In this case, we assume 40% reduction in the debt principal, the interest rate remains at 18% and the firm has varying fees of 15% and 20% of the original debt balance. Table 8 provides the results of this analysis. This scenario is more affordable than both the base case and the hypothetical CCCS firm. Further, consumer welfare is highest where the consumer is paying 57-60% of the original base case scenario, even though the consumer ends up paying more than the original debt. The fees are now neutral in terms of percentages versus debt and/or income levels, and are progressive in terms of the total fees with respect to debt/income.

**Table 8 — Consumer Affordability and Welfare Calculations for hypothetical 60-60 rule**

| Debt Level | $4,000 | $4,000 | $10,000 | $10,000 |
|---|---|---|---|---|
| Annual Interest Rate | 18% | 18% | 18% | 18% |
| Reduction | 40% | 40% | 40% | 40% |
| Years to Pay | 5 | 5 | 5 | 5 |
| Fees as % of Debt | 15% | 20% | 15% | 20% |
| Monthly Credit Payment | $61 | $61 | $152 | $152 |
| Monthly Fee | $ 10 | $ 13 | $ 25 | $ 33 |
| Total Monthly Payment | $ 71 | $ 74 | $ 177 | $ 186 |
| Total Payments | $4,257 | $4,457 | $10,642 | $11,142 |
| Percent of Original Debt | 106% | 111% | 106% | 111% |
| Versus baseline | 57% | 60% | 57% | 60% |
| Fee Payments | $600 | $800 | $1,500 | $2,000 |

The next scenario is a simplified version of the DSP analyzed in the empirical section above. It is assumed that the fees on the account are 15% of the total debt, debt is reduced to 40, 50 or 60% of the original debt amount and the household makes a balloon payment at the end of one year (much shorter than normal estimates of three years). Table 9 provides the results of this analysis. First, this option creates the highest amount of consumer welfare among all of the different options: it is the only option where the consumer pays less than the original debt amount. It is also the least affordable of the options, with monthly payments three times the base case scenario. Therefore, we can conclude that the firm should carefully screen consumers for their ability to save and make this payment within one year. However, this finding is highly dependent upon the assumption that the consumer will repay the debt in one year, much less than the above scenarios.

**Table 9 — Consumer Affordability and Welfare Calculations for hypothetical DSP**

| Debt Level | $4,000 | $4,000 | $4,000 | $10,000 | $10,000 | $10,000 |
|---|---|---|---|---|---|---|
| Reduction | 40% | 50% | 60% | 40% | 50% | 60% |
| Years to Pay | 1 | 1 | 1 | 1 | 1 | 1 |
| Fees as % of Debt | 15% | 15% | 15% | 15% | 15% | 15% |
| Monthly Credit Payment | $200 | $167 | $133 | $500 | $417 | $333 |
| Monthly Fee | $ 50 | $50 | $50 | $125 | $125 | $125 |
| Total Monthly Payment | $250 | $217 | $183 | $625 | $542 | $458 |
| % Baseline Payments | 313% | 271% | 229% | 313% | 271% | 229% |
| Total Payments | $3,000 | $2,600 | $2,200 | $7,500 | $6,500 | $5,500 |
| Percent of Original Debt | 75% | 65% | 55% | 75% | 65% | 55% |
| Versus baseline | 40% | 35% | 29% | 40% | 35% | 29% |

Therefore, we analyze a scenario with a more reasonable time frame of three years, consistent with Manning's (2009) assumptions, but still shorter than the CCCS or the 60-60 rule. Table 10 provides the results of this final scenario where the only change from the previous scenario is that the time to repay the debt is increased from one to three years. Not surprisingly, consumer welfare has not changed from the previous scenario.

However, the affordability has increased to the point where it is comparable or better than the base- case and 60-60 rule scenarios, even though the consumers pay their debt in three years instead of five years. This result once again suggests that it would increase consumer welfare if they have protection from creditors and litigation while they are making satisfactory progress in a DSP. It also suggests that DSPs need a mechanism in their program to monitor client savings to demonstrate to the creditors that clients are making progress towards being able to afford settlements.

# CONCLUSIONS AND DISCUSSION

Similar to most studies, this research has several limitations. First, the empirical analysis only examines a single company over a single time period and does not contain educational measurements or other behavioral measurements after the clients exit the program. Therefore, it is unclear whether or not the findings can be generalized beyond this firm to the industry as a whole. Second, the data does not include information on settlement offers for cancelled accounts, so it is very difficult to determine if value was generated for these customers. However, given that the median cancellation time is similar to the median time until the first offer, I find it unlikely that all of these clients received no offers if they stayed in the program long enough.

Probably the most important empirical finding is that this firm adds significant value to their customers where the median and modal settlement offers are less than 50% of the original debt, much better than the 60-60 rule. This finding confirms the assumptions in Manning (2009) and calls for programs which reduce the debt principal as an effective means of helping consumers (Plunkett 2009). Given the high rate of cancellations due to bankruptcy (13.5%), this finding also suggests that consumers need regulatory protection from creditors (i.e., the "creditor's dilemma") while they are making satisfactory progress in the program.

A second important empirical finding is that the upper bound for the cancellation rate is much lower than speculated (Plunkett 2009). However, accurate cancellation and completion rates cannot be calculated from the data, as consumers who cancel due to paying off their debt and who cancel due to entering bankruptcy are included in the cancellation rates. Further, completion of the program requires consumers to accept the offers. The data indicate that many more accounts have offers than are settled, with the modal client having more than 90% of their debt with offers. Even without adjusting the cancellation rate for these factors, the rate is comparable to or lower than other subscription-based businesses which have BBB-certified members. Therefore, excessive cancellation rates cannot be used as a rationale for excluding DSPs from certification.

Finally, a large portion of the consumers who cancel (6.8%) indicate that they are not able to save enough. This implies that the DSPs need to monitor consumer savings as part of their program. One effective means for doing this would be to establish third-party trust accounts that have consumer protections in place:

1. Require periodic audits of the accounts,
2. Require arms-length relationship with the DSPs,
3. Only allow disbursements to creditors (with signed letter from creditor and consumer), to DSPs (for pre-approved fees), to consumers who cancel the program or encounter new financial hardships.

If appropriate savings are pre-conditions for consumer protection from litigation and harassment from creditors, consumers will have very strong incentives to save and pay off their debts.
The policy simulations have strong implications as well. First, both CCCSs and DSPs increase consumer welfare versus the consumer paying off their debt. However, DSPs are the only option where consumers end up paying off less than 100% of their debt, so they create the greatest amount of consumer welfare of any option considered. Not surprisingly, the affordability of the DSP is dependent upon the length of time the consumer has to save to pay off their debt. If a three-year period is used, the DSP is comparable in affordability to the 60-60 rule and can be more affordable than CCCSs. This finding adds support to the recommendation of protecting consumers in the programs to ensure that they have enough time to build their savings to pay off their debts. This finding also supports the regulatory recommendation of establishing fiduciary accounts that can be monitored by the DSPs to ensure that consumers are saving enough.

The policy simulations also suggest that CCCSs may be overcharging some of their clients, where CCCSs receive 29% or more of the original debt amount in consumer fees and "fair share" payments. Even worse, their fee structure is regressive: where lower debt (and income) clients pay a larger percentage of the original debt amount in fees than higher debt (and income) clients. This finding suggests regulatory action to require CCCSs to disclose all fees, including fair share payments to consumers, is required to ensure transparency and that consumers can make good decisions. This finding also suggests that DMPs need to ensure that their fee structures are at least neutral or progressive in terms of the percentage and amount of the original debt amount to ensure lower income consumers are not paying unnecessarily large fees.

While not discussed in the empirical or policy sections, the extant literature suggests that education should be required to be provided as part of any certified DMP due to the positive outcomes. However, "satisfactory progress" in DMPs should also include satisfactory progress in the educational programs, which implies firms need to monitor and measure educational attainment. Technologies for this already exist, where consumers can already take driving educational courses over the internet.

Finally, we find that charging consumers reasonable "up-front fees," i.e., fees before settlement, is consistent with practices in other industries, e.g., legal industry, and can be justified based on value provided to consumers as well as expenses incurred generating this value. Any attempt to ban these fees would have a chilling effect on the industry and is inappropriate for this industry.

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## Appendix A: Definition of Acronyms

BAPCPA – Bankruptcy Abuse Prevention and Consumer Protection Act
CCCS – Consumer Credit Counseling Service.
DMP – Debt management program - this term refers to a program that is intended to help a consumer pay off their debt, so it refers to both CCCSs and DSPs.
DSP – Debt Settlement Program.
Settlement – refers to when the consumer and creditor agree to terms (may be one or more payments, could be all or only some of the principal, fees and interest) to repay the debt.

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## I. Introduction

This brief report, prepared by NERA Economic Consulting, analyzes the effect credit negotiation services are likely to have on creditworthiness after an individual completes the negotiation program. Credit negotiation may result in improved creditworthiness relative to other alternatives available and may lead to improved credit scores for some individuals after completion of a negotiation program.

First it is important to make distinctions among an individual's credit *score*, which usually refers to the FICO score, an individual's fundamental credit worthiness considered from an economic point of view, and an individual's ability to access sources of credit.

The FICO credit score is a one-dimensional numerical measure of a consumer's credit risk. It is calculated by the Fair Isaac Corporation based on credit reports provided by credit bureaus. The calculation is done by a fully computerized algorithm and does not depend on judgment. There are other credit scores commercially available, most notably the VantageScore, that are also calculated by computer. The exact impact of debt negotiation programs on these credit scores cannot be determined because both of them are based on proprietary scoring algorithms that are closely-guarded trade secrets.[1] As will be discussed below, however, some qualitative features of these scores are reported publicly and have some bearing on the effect of credit negotiation procedures. It is likely that, as noted in the promotional materials of some debt negotiation services, the initial effect of a credit negotiation plan on a consumer's credit score

[1] See, for example, The Scoring Game: FICO and Vantage Credit Scores explained, HSH Associates, available on the HSH website http://library.hsh.com/?row_id=86#. The fact that such credit scores are sold to potential lenders explains the need for secrecy.

will be negative. However, credit scores may rise afterwards and there is evidence that they have done so for some consumers.

From an economic point of view, the most important component of general creditworthiness is the ability to repay new loans. As will be discussed below, the improvement in the debt-to-income ratio that results from a credit negotiation plan will improve creditworthiness in this sense.

Finally, there is the question of the actual ability of a consumer who has engaged in a credit negotiation program to gain access to credit after the program. We do not have data that allow us to address this question directly. It is important to note that a credit score is not the only measure that is used by lenders when making a credit decision. Credit card lenders will typically access the entire credit report of a consumer when making a decision and will analyze these data themselves. Particularly, for car and mortgage loans, the debt-to-income ratio will also be a consideration. For credit card companies, the probability of repayment will be only one consideration as consumers who pay off their balances every month are not profitable.

The marketing materials of some debt negotiation services have been explicit in stating that credit ratings will fall during participation in the program. Marketing materials have clearly stated improvement would come through an improved debt-to-income ratio and that this was primarily used for determination of eligibility for car loans and mortgages.

## II. Effect on Credit Scores

As discussed above, the exact effect of a credit negotiation program on the credit score of an individual cannot be precisely calculated. Further, the effect will vary depending on the prior credit history. The effect of a credit negotiation program on credit is best analyzed relative to likely alternative outcomes. These alternatives may in turn depend on the credit history of the individual.

Consider, for example, an individual with $20,000 of credit card debt and no other debt, who has never missed a minimum payment, never had a judgment against her or a bankruptcy and still has $10,000 of unused credit available. Under these conditions, she should have a near-

perfect credit rating. Given an initial excellent credit rating, it is indeed unlikely that such an individual could improve her credit rating through a credit negotiation process. However, this type of individual was not the sort targeted by the marketers of debt negotiation services. Marketing materials of such services explicitly state that the program was not for people who are capable of continuing to make all of their payments into the future.

Instead, debt negotiation services are typically marketed to clients who faced a substantial likelihood of personal bankruptcy.[2] Whatever the effect of the debt negotiation program on an individual's credit score, it was likely to produce a better ultimate credit rating than would a declaration of bankruptcy.[3] Similarly, an organized credit negotiation program may provide a better ultimate credit rating than an individual would have with a slow slide into non-payment.

At least some clients who have completed credit negotiation programs in fact ended up with very good credit scores. NERA has been provided with credit reports of several such clients. One has a credit rating of from 718 to 730 across the three credit bureaus. According to Fair Isaac, the median credit score is in the range 700-749.[4] The FICO score lies in the range of 300-850. For many banks, the lowest mortgage rate is available for consumers with a score in excess of 650.[5] Mortgages made to consumers with scores above 620, other things equal, are normally considered prime loans.[6] Another consumer had a FICO rating of 697 from the Experian credit bureau, which Experian rated as "Good." This credit report clearly shows multiple accounts as having been closed with payment for less than the full amounts. This is important as it shows that this solid credit rating was not the result of the credit bureau failing

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[2] This can be seen both from firm websites and phone scripts for solicitations. Further, high levels of credit card debt are generally correlated with bankruptcy rates. (See e.g., Stavins, Joanna ,"Credit Card Borrowing, Delinquency, and Personal Bankruptcy," *New England Economic Review*, July 2000, pg. 15-19.)

[3] Again, the exact effect on credit scores is impossible to determine. However, a bankruptcy can remain on credit reports for ten years, as opposed to seven years for a negotiated settlement. See the Fair Credit Reporting Act §605. Further, bankruptcy "can make it difficult to obtain credit, buy a home, get life insurances or sometimes get a job." ("FTC Facts for Consumers" December 2005, pg.4.)

[4] "Understanding Your Fico Score," Fair Isaac Corporation, 2005, pg. 7.

[5] According to Fair Isaac's website, myFICO.com, as of February 19th 2007, a perfect credit score would reduce the 30 year mortgage rate by fewer than 30 basis points as compared to a consumer with a credit score in the 700-759 range.

[6] See, for example, Remarks by Governor of the Federal Reserve Board Edward M. Gramlich, at the Financial Services Roundtable Annual Housing Policy Meeting, Chicago, Illinois, May 21, 2004. http://www.federalreserve.gov/boarddocs/Speeches/2004/20040521/default.htm

to record negative information that resulted from the negotiation program. Instead, it indicates that while such information may stay on credit reports for the full seven years, write-downs on the part of lenders do not necessarily lead to a poor credit rating for all that time.

Since the FICO score is computed by algorithm, not by individual judgment, these credit reports indicate that completion of a credit negotiation program can lead to good credit scores. This of course does not mean that every individual completing a credit negotiation program will have a high credit rating. Certainly some people who have had trouble with debt will borrow unwisely again, for example.

There are specific mechanisms by which a credit score may be raised, even in the presence of a weak credit history. First, according to Fair Isaac, payment history accounts for only approximately 35% of the FICO score.[7] On the other hand, 30% of the score is based on amounts owed. According to Fair Isaac, the total amount of all debt, as well as the amount of credit card debt, are factors in this category. By reducing the debt load through a debt negotiation program, these factors in the credit score will be immediately improved. Another factor in this category is the fraction of available credit lines utilized. This may be directly improved by a credit negotiation program as accounts are closed while other "emergency" credit cards are held open with low or zero balances.

Another approximately 10% of the FICO score is from a category Fair Isaac calls "New Credit." One of the factors in this category is whether the consumer has a good recent credit history following past payment problems. For consumers who have had trouble making payments before starting a negotiation program, which is to say the sort of consumers targeted by debt negotiation companies, reducing outstanding debt will make room for improved payment behavior in the future. This improved payment behavior will, according to Fair Isaac, have a positive effect independent of the effect on the overall credit history.[8]

Thus, while the exact effect of a credit negotiation program on a consumer's FICO score is impossible to predict, it is clear that Fair Isaac considers a number of factors that will be

[7] "Understanding Your Fico Score," Fair Isaac Corporation, 2005, pg. 10.

[8] "Understanding Your Fico Score," Fair Isaac Corporation, 2005, pg. 13.

substantial positives after completion of the program. These factors, according to Fair Isaac, have greater total weight than the consumer's credit history. It is clear that stopping payments on accounts at the beginning of a program will lead to a reduced credit score. It is equally clear, from the information disclosed by Fair Isaac, that there are other factors which will lead a credit score to improve after completing such a program. How important those other factors are will depend, in part, on the subsequent actions of the consumer. Further, as noted above, some individuals have completed a credit negotiation program and ended up with solid credit scores, while having the write-downs associated with debt negotiation clearly recorded in their credit histories. Given the algorithmic nature of credit scores, anyone with a similar pattern of behavior would end up with a similar score.

## III. Debt Negotiation Improves Creditworthiness

From an economic point of view, creditworthiness is simply the economic ability to repay loans. For this, the critical factor is the debt-to-income ratio. This is the result of simple arithmetic. Debt service, the payment of interest and principle, comes from income. The higher income is relative to the level of debt the easier it is for the consumer to service the debt. As such, an individual will be better able to repay future debt if she does not have extremely high levels of current debt.

The idea that reducing debt levels can lead to a higher ultimate payment to lenders has been explored heavily in the context of sovereign lending. There is substantial agreement for this proposition in the academic literature.[9]

Indeed, this idea is the fundamental basis of the public policy role of Chapter 11 corporate bankruptcy. The bankruptcy allows relief from debt in the short term in order to maximize debt repayment in the long term. There is no analog for Chapter 11 bankruptcy for an individual, though there may well be a public policy case for such a law. Debt negotiation allows for what is in essence an analog of the Chapter 11 bankruptcy – it provides a respite for the consumer

[9] For a recent summary of practical ideas for sovereign debt see, Arslanalp, Serkan and Peter Blair Henry, "Debt Relief," *Journal of Economic Perspectives*, **20**, 1, 2006, pg. 207–220. The foundation work on this topic was done in the late 1980s.

while allowing a reasonable settlement for lenders. In essence, it is an individual level reorganization.

Finally, as discussed below, the debt-to-income ratio is considered an important indicator of creditworthiness by banks and other lenders.

# IV. Debt Negotiation May Improve Access to Credit

## A. Debt negotiation improves the debt-to-income ratio

As advertised by some debt negotiation services, debt negotiation will improve basic creditworthiness as a result of the reduced debt load. The debt-to-income ratio is in fact used by banks and other lenders when evaluating car loans, mortgages and home equity loans, although it is not an element in standard credit scores.

An important example is that of home mortgages, for which a 36% debt-to-income ratio for all debt, including credit card debt, is the usual maximum for a mortgage.[10] Some mortgage lenders will lend at somewhat higher debt-to-income ratios, but it is still an important determinant of creditworthiness. The debt-to-income ratio is also a consideration for auto loans and may be considered by credit card lenders as well.[11]

The debt-to-income ratio is particularly important for mortgage and home equity loans. As such, there is another way in which a lowered debt-to-income ratio may improve a borrower's creditworthiness. The reduced debt-to-income ratio may lead to easier access to home equity loans. Home equity loans can be used for debt consolidations that substitute low interest rate home equity debt for high interest rate credit card debt. Lowering the interest rate on a consumer's overall debt makes total interest payments lower and increases the consumer's overall creditworthiness.

[10] In mortgage lending this is referred to as the Fannie Mae DTI guideline – this is expressed as the ratio of interest rate payments to income.

[11] See, for example, "Debt-to-income ratio important as credit score," Erin Peterson, Bankrate.com.

### B. Some debt negotiation clients have opened new credit card lines

As discussed above, NERA has been provided with credit reports for multiple debt negotiation clients. One important feature of these reports is that they clearly demonstrate the ability to access substantial lines of credit with charge-offs and settlements reported in the credit history. One client was able to open multiple store accounts, at least one bank credit card and a $100,000 line from a mortgage lender despite having write downs and settlements reported in the credit history. Other reports also show new credit activity after completing the program.

These examples simply show that the logic above – that credit negotiation does not necessarily have a long run negative impact on credit scores and that it improves the debt-to-income ratio – leads to the expected conclusion: borrowers who complete a debt negotiation program and then borrow sensibly are able to access credit.

### C. Credit card companies extend substantial credit to individuals with imperfect credit histories

Even in the presence of a poor credit history, credit card lenders may choose to extend substantial credit limits to borrowers. The economic logic of this fact is simple: a consumer who pays her total balance every month will not prove very profitable for the lender. This is why American Express cards charge annual fees and higher merchant fees than cards that allow consumers to carry balances. Credit card companies make money when consumers maintain balances month after month. Consumers making only minimum payments are particularly attractive. It has been estimated that 75% of the revenues of credit card issuers come from interest payments.[12]

Indeed, credit card companies have increasingly targeted riskier borrowers as competition in the industry has increased. From 1983 to 1995, for example, the fraction of families with incomes below the poverty line holding at least one credit card more than doubled.[13] Net revenues are higher for credit card companies that charge higher interest rates, minimum

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[12] Evans DS and RL Schmalensee, *The Economics of the Payment Card Industry* (Cambridge, MA: National Economic Research Associates, 1993).

[13] Stavins, Joanna, "Has Widespread Use of Credit Cards Contributed to the Increase in Personal Bankruptcy?" *Boston Federal Reserve Quarterly Review*, 2001Q1.

finance fees and late fees, while charging higher annual fees is associated with lower revenues.[14]

Thus, there is evidence to suggest that even were a debt negotiation to lead to a reduced credit score, this may not substantially limit access to credit card debt. For a credit card company, a customer may be profitable even if some portion of the outstanding balance is written down. Four years of 17% interest amounts to 87% over four years.[15] Even a substantial write-down of principal on such a loan would be profitable for the lender. As such, consumers who have engaged in credit negotiation may still prove to be attractive to credit card companies.

## V. Conclusion

Credit negotiation will have different effects on creditworthiness and credit availability across individuals and across time. The initial halting of payments on existing credit card debts will limit credit availability in the short term. However, the reduction of the individual's debt load, gained by the successful completion of a credit negotiation program, will lead to an increased ability to handle new debt. It provides breathing space for a consumer pressed by debts. That reduced debt load may lead to an improved credit score for such a consumer, depending on their behavior both before and after the debt negotiation program. It will also directly improve a consumer's debt to income ratio, an important factor in mortgage and auto lending. Importantly, any black marks on an individual's credit record arising from debt negotiation will still be better than those created by a personal bankruptcy that might be avoided by debt negotiation.

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[14] Ibid pg. 3.

[15] The State of New York's Banking Department, December 30, 2005 survey of credit cards lists many cards charging 17% or more annual interest rates.

# CONSUMER FRAUD ADVISORY

THE FOLLOWING IS A PUBLIC SERVICE ANNOUNCEMENT SPONSORED BY:

**LAW OFFICES OF BARRY STERNBERG**

If you or someone you know is considering the use of a Debt Negotiation or Debt Settlement company it is imperative that you read the following warning before losing hundreds or even thousands of dollars.

**If you have already been the target of a debt negotiation scam contact the Buffalo Office of the NYS Attorney General Consumer Fraud Bureau at (716) 853- 8404.**

## Debt Negotiation is a Consumer Fraud

Debt negotiation scams are not new. They have been around for the better part of 20 years. Unscrupulous shylocks know that people in tough financial straights yearn to believe there is an easy way out of debt. For people deeply in debt, the debt negotiator's sales pitch can be too appealing to resist: " we have the secret to getting you out debt for pennies on the dollar without filing bankruptcy." What is new is the way search engine and television advertising is allowing the debt negotiator to ensnare whole new groups of financially troubled and unwary people.

## Is Debt Negotiation Possible?

Many creditors will agree to settle longstanding delinquencies for less than the full amount -- but only if your debts are already severely delinquent (a minimum of a year in most cases), and you have a significant sum of cash on hand to offer an immediate settlement. Debt negotiation is NOT credit counseling, where creditors will expect full payment of the debt by making monthly payments under a predetermined, voluntary repayment plan set up by qualified non-profit agencies or attorneys. Debt negotiation companies try to blur the distinction between credit counseling and debt negotiation to make themselves appear legitimate.

## How Debt Negotiation Companies Steal Your Money

Since it is theoretically possible to settle delinquent debts for less than what's owed provided you have ready cash available, debt negotiators sell people on a scheme to save up enough money by making monthly

"savings deposits" to the debt negotiator over time. When enough money is saved, debt negotiators claim they will contact creditors to arrange for the expected easy settlement. Now that you have been hooked, here is the catch! The standard debt negotiator contract requires that the first several payments into the account go towards the debt negotiator's fee. Not surprisingly, four months is usually about the time it takes to realize that debt negotiation simply doesn't work. Most people end up doing what they should have done from the start -- they see a bankruptcy attorney -- but not before losing a big chunk of cash to the bogus debt negotiator.

## Why Debt Negotiation Doesn't Work

**Most of your creditors will not work with debt negotiators.** Creditors know about debt negotiation companies, and want no part of helping you dodge paying the full amount of what you owe. many credit card lenders instruct their employees to send delinquent accounts for legal action immediately upon discovery that the customer is working with a debt negotiator. Credit card lenders do not endorse a policy designed to cut their revenues in half. Unlike credit counseling where full payment is expected, there is no long term payment plan that creditors willingly accept through a debt negotiator.

**Lawsuits, collection calls and letters won't stop if you start a debt negotiation plan.** Most people consider bankruptcy or credit counseling because they want collection agents to stop making their life miserable. Unfortunately many people are duped into believing that debt negotiation schemes will stop the creditor harassment. Debt negotiators often instruct people to tell creditors they are working with the debt negotiator's company when they call. They will also tell people to forward any collection letters or legal process they receive to the debt negotiation company, implying that the debt negotiator will do something to stop the collection activity. When the debt negotiator receives your collection letters or legal process, however, all they can do is simply file them in the "circular bin." The collection calls and letters just keep on coming.

**Debt negotiation ruins your credit.** If you get hoodwinked into a debt negotiation plan thinking that you are settling debt while saving your good credit, you are seriously mistaken. The only possibility to settle a debt for less than what's owed is when that debt is hopelessly delinquent. Delinquencies, charge-offs and late payments are part of your credit history for a minimum of seven years, and they do not come off your credit report when the debt is settled or paid. Your history of non-payment

remains long after your debts are paid or settled. Assuming it was even possible to complete a debt negotiation plan, it's true that you may not have filed bankruptcy, but your credit score will look the same as if you did.

**Forgiven debt or a debt settlement is taxed as income by the IRS.** Let's say you settle a $20,000 debt for half of what you owe, or $10,000. You didn't actually settle the debt for $10,000. At the end of the year the creditor is obligated to file a Form 1099 with the IRS disclosing the settlement, and you are taxed on the amount of the forgiven $10,000 debt the same as if you had earned another $10,000 from your job that year. The real kicker is since there was no withholding of the tax, as there is for wage earners, you likely will get hit with a huge tax bill at the end of the year, and now your right back in debt.

**When delinquent debts are settled, the amount forgiven is mostly the high interest and late fees that have been accumulating while the debt has been delinquent.** If you go to a debt negotiator when you're current with your bills, and thereafter are advised to stop making payments to the creditor for a year or more to allow the debt to be settled, late fees and exorbitant interest charges continue to mount. Even if the debt negotiator could settle the account, the amount of the settlement would likely be only for the late fees and interest that accrued since the debt negotiator told you to stop making payments. In other words, you're back to where you started from, minus the debt negotiators fees.

**Debt negotiators are not authorized to operate in New York State.** Only a non-profit organization or an attorney can legally represent people in settling debt in most states. There is a good reason! People with financial problems have long been the target of consumer scams, and the various states have passed laws limiting who is allowed to settle consumer financial accounts in an effort to curb these abuses. Unfortunately there has not been enough funding to enforce these consumer protection laws, and dishonest individuals can put up a website and solicit business through a post office box, then quickly set up shop under a different name when the consumer complaints start to pouring in. Don't be fooled by Better Business Bureau logos or the like that are pasted onto their slick looking web sites. As anyone who has ever received an "phishing" scam email from ebay or paypal can attest, it's easy to put a logo on a site to make it appear legitimate.

**You can easily settle your own delinquent debts without a debt negotiator if you have a lump sum of money.** Should you come into enough money and want to settle longstanding, delinquent debts, almost all creditors have certain set standards and rigid policies regarding the amount that can be accepted for a settlement. Usually that amount is based on the length of time the debt has been delinquent. In other words, debt negotiators do not get any better deal for you than if you were to call the creditor's Delinquency Recovery Department for yourself.

Barry Sternberg Attorney at Law Website

Learn how Bankruptcy legitimately solves financial problems by clicking on the above website. New York State law requires that this communication be labeled as an attorney advertisement.

# FIA CARD SERVICES™

www.fiaeasypay.com

September 09, 2009

Account:

Dear

We recently received notification that you have retained a debt reduction agency or attorney to assist with the resolution of your debt. Please be aware that not all of these agencies or firms have your best interests in mind and through our experience we have found them difficult to work with. In fact any settlement amounts offered by the agency or firm will not be considered by FIA Card Services N.A.

We prefer to work with you directly. We are willing to offer you a settlement of 50%, provided that you call our office and speak with our Customer Assistance area to accept the offer by September 22, 2009. FIA Card Services N.A. offers many additional programs that may assist you with your financial difficulties if you are unable to meet the settlement offer.

Please call our office to make payment arrangements and continue to make your required minimum monthly payment as described in the original Credit Card Agreement. Failure to pay your minimum monthly payment will result in your account being referred to an attorney to enforce your obligation under your Credit Card Agreement, which states that "Legal proceedings may result in a judgment and can be enforced to the fullest extent of the law."

Your current payment due is $1,455 by September 22, 2009. Please mail all payments to P.O. Box 15137, Wilmington, Delaware 19850-15137 or call 1.800.294.7597 Monday through Thursday from 8 a.m. to 9 p.m., Friday, 8 a.m. to 5 p.m., or Saturday, 8 a.m. to 12 p.m. Eastern. Our knowledgeable Account Managers are ready to assist you.

Sincerely,

Customer Assistance Department

# State of Wisconsin
*Department of Financial Institutions*

Jim Doyle, Governor | Lorrie Keating Heinemann, Secretary

RECEIVED 8/6/09.    COPY

August 5, 2009

26088 Newport -

Jeff Hass
J Hass Group, LLC
7590 E. Gray Road #204
Scottsdale, AZ 85060

Re: [redacted]

Dear Mr. Hass:

The Wisconsin Department Financial Institutions received the enclosed complaint against J Hass Group, LLC ("JHG") from Dennis and Stacy Hendrickson, residents of Sparta, Wisconsin.

Mr. and Ms. Hendrickson state that they signed a contract with JHG in December of 2008 for debt settlement services. A monthly payment of $385 is being withdrawn from the Hendricksons' bank account by JHG. They have found out that JHG has not contracted any of their creditors and one creditor is ready to sue them. As resolution to their complaint, the Hendricksons are requesting a refund of the $385 withdrawn from their account since December 2008 and for all of their personal information held by JHG destroyed.

As you are aware, until JHG becomes licensed, JHG is not authorized to charge any fees or receive any compensation for the services offered to the Hendricksons. A refund must be issued for any funds received from the Hendricksons and not remitted their creditors.

Please furnish this Department with your written explanation of the relevant facts concerning the Hendricksons' account. Your response should also include, at a minimum the following.

- A list of the dates and amounts of the payments that JHG has received from the Hendricksons.
- A list of the date and amount of each payment, if any, that has been paid to the Hendricksons' creditor(s).
- An explanation of the amounts of the fees, if any, assessed to the Hendricksons.
- The amount of money, if any, refunded to the Hendricksons.
- A copy of the refund check.
- Describe the relationship between JHG and Newport Financial Services. Also indicate what compensation, if any, is paid to Newport Financial Services.

We ask that you furnish us with a written reply to this letter by August 24, 2009. If you have any questions, you may contact me at 608-261-2312 or by e-mail at nancy.schreiber@wisconsin.gov.

Sincerely,

Nancy Schreiber, Examiner
Licensed Financial Services

Enclosure

BBB OF AZ



**CUSTOMER EXPERIENCE INFORMATION**

**Customer Information:**

[redacted]

Daytime Phone - [redacted]
Evening Phone - [redacted]
Fax - [redacted]
E-mail - [redacted]

**The details of this matter are as follows:**

Complaint Involves:
Service Issues

**Customer's Statement of the Problem:**
I have been paying The J Hass Group for six months. The first payment was in Deacember 2008 and they have been deducting the paymant each month from my checking account. They have not contacted any of my four creditors. The creditors have been charging me late fees and some even turned me over to a National Collection Org. They are calling me everyday. When I call the J Hass Group all they tell me is that the work is in progress and that the creditors do not have to acknowlege that they are working with them.

**Desired Settlement:**
I just want them to do something about the creditors so they won't be calling me everyday.

Privacy Policy Trademarks Terms of Use

Go out by 6/5

6/17 once response out Have Matt follow thru on this / has Dan been ordered?

#26240

#51

Issue is Calls

Clt called 3 times offer done Prob. Solved

**CUSTOMER EXPERIENCE INFORMATION**

**Customer Information:**

Daytime Phone:
Evening Phone:
E-mail:

**The details of this matter are as follows:**

**Complaint Involves:**
Service Issues

**Customer's Statement of the Problem:**
To the Better Business Bureau: I signed up with the J. Hass Company back on December 18, 2008. I was becoming concerned about all the calls I was receiving from my creditors(Bank of America and HSBC Mastercard) and all the fees I was accumulating on the unpaid credit cards. Every month J. Hass would take $394.05 out of my checking account and hold on to it. I called J. Hass on several occasions and I was told to ignore the creditors because they were in negotiations with them. They specifically said they had contacted Bank of America and had negotiated the amount down to 60% of what I owed. I was very leary of what they were telling me so I called Bank of America and asked if J. Hass had contacted them. Bank of America said they do not negotiate with debt consolidation companies and have not talked with anyone from J. Hass. After hearing that I had been lied to, I cancelled my contract. J. Hass collected a total of $1576.20, upon cancelling I received $184.44 reimbursment. J.Hass kept $1391.76 for services that they said they were rendering. Since they apparently did not contact Bank of America, even though they said they did, I would like the rest of my money back. I feel they are in breach of contract. Sincerely,

**Desired Settlement:**
To get reimbursed $1,391.76 for services not rendered.

Privacy Policy Trademarks Terms of Use

RECEIVED 1/27/09

19646/17
Alma
~~$31,500~~
$27,872.05

January 22, 2009

J. Hass Group
7590 East Gray Road Suite 204
Scottsdale, AZ 85260

Dear J.Hass Group,

I came to your program because I was in desperate need of taking control of my financial situation. I had some mishaps in my life and was trying my best not to have to file bankruptcy. One of your Senior Financial Advisors convinced me that this program would be very beneficial for someone like me who has been living from paycheck to paycheck for quite sometime trying to keep my head above water. I was told that this program would relieve me of the stress I was under concerning my debts. You said you would send power of attorney to all of the creditors and that you guys would do all the work at negotiating settlements that I would be able to pay over a short period of time. Payments are taken out of my bank account monthly. So far it has been seven months and I have paid you $4106.09 and still nothing has been done. I am still receiving threatening phone calls and most of the creditors say they haven't spoken to you. I started getting letters from attorneys and all I am told is not to worry just wait. No one from your company can give me any positive answers. When I call customer service I get different representatives who can't tell me any positive about my account. When I go to note world to look at the update on my account I see that most of my money is going to you instead of the settlements which you told me you would negotiate. I am also in bigger debt now because for the last seven months finance charges and fees are being added. Something I asked you about in the beginning. You promised I would be out of debt in a shorter amount of time. I just don't see that happening. I have a friend that also started the program the same time I did. She received a court document from one of her creditors. One of your negotiators handled it and told her that they had come to an agreement with the creditor. My friend was told that she would have a payment plan totaling $13,000.00 dollars. That she would pay in installments. This was a good deal considering my friend owed this creditor $26,000.00 dollars. The scary part is when the agreement came for her to sign the documents stated she would have a payment plan totaling $33,000.00 dollars. And now I am more stressed and scared knowing that I came to this program with you promising to make it easier and less stressful, to knowing that I must cancel this contract with you before I get in any deeper. I must also try to find a better way to deal with this mess I am in. To top it off I recently received a letter from you stating you are increasing the settlement disbursement fee on my account. I would like for you to consider giving me my money back and I am also notifying you to discontinue the automatic withdrawal from my checking account. Please cancel my contract as soon as possible.

Respectfully,

10/12/99

Jason Hass
7590 E Gray Rd
204 Scottsdale
AZ. 85260

the Hass group helped me payoff a Chase card dept of $11,000.00 with a fee of $1647.77 to settle for $6019.84 total

which helped me a lot

11014/16

October 3, 2009

Dear Washington politicians,

I had a chance to use a credit card debt reduction program last year. This program allowed me to reduce my debt so my family and I could avoid bankruptcy. I own a small business; sales were down by 40%, my primary occupation was down by 50%. I was experiencing the worst economic conditions ever.

I want to express that this service helped us stay on top of our finances; it was a process that only took 3 months to come to terms with my credit card issuer. We had $23,000 at 16%+ interest costs. We had it reduced to $11,000 and were able to consolidate that debt. We saved approximately $12,000 and kept us from not bring late on our house payment.

Please allow this program to remain an option for middle income Americans.

Sincerely,

Scott Karl

7321 N. Tamera Ave.

Fresno, CA 93711

559-439-4221

9/26/19

To Whom It May Concern in Washington DC,
I am writing you this letter to implore you to keep Debt Reduction Programs suchas the J. Hass group provides.
We owed almost $20,000 in credit Card debt to Discover and Citibank. First, They kept raising our Credit limit luring us to spend more and more, and then when we could not pay the high bills, our interest rates became exorbitant. Who gives them the right to do this to a mostly un-suspecting, unaware American Public. Who bailed us out??? Not the Government!! With the help of J. Hass Group we bailed our-selves out in less than 30 months, they were able to settle our Debt.
Why shouldn't we have the same rights to help as the Banks did in the "Great Bailout"

They get away scott-free and without the Government's Billions a Dollar bailout, we would be without banks.

Please keep this program and others like it in place! Otherwise Bankruptcy Court will be backed up for decades. By the way, you could make Bankruptcy easier for the average citizen, and if you discontinue the HAMP program, you will have to!!

Respectfully and Truthfully Yours,

9201/19

To Whom it may concern,

My name is Jason Hopkinson and I participated in the J. Hass Group debt settlement program. It was a great help to me and my family. Three months before I enrolled, I was r laid off and using my credit cards to survive. While I was unemployed, the credit card companies would not work with me to make lower payments. Instead, they would continually hit me with fees and higher rates. I was able to get a good a job but, by now, I was drowning in credit card debt. I then signed up for the J Hass Group debt settlement program. I was in the program for 3 years and it cut my credit card bills in half. It was a great benefit in allowing me to rise back to my feet and provide for my family. When I enrolled three years ago, I had over $30,000.00 in credit card debt. I am now DEBT FREE besides my mortgage. I was able to save roughly $15,000.00 through the program. I would recommend this program to others and it would be a shame to see it taken away from hard working Americans like myself.

Sincerely,

Jason James Hopkinson

19875 | 84

To Whom it may concern,

Debt settlement programs do wonders to help people get out of debt. I'm living proof. In 2005 I tried to start an online business unaware at the time that it was a scam. I cost me several thousand dollars with no return on my investment. Desperate to make my money back I tried other businesses but the result was the same and suddenly I found myself with nearly $24,000 in credit card debt.

It was completeky ruining my life. Making the monthy payments was strangling me to death. I paid as much as I could but with the interest I was paying I only got it down to $19,000 after about 3 years and it seemed there was no end in sight. It was then I learned about the J. Hass Group and JDH & Associates. In June 2008 they told me they could settle my debt for 55 cents on the dollar. We worked out an 18 month plan which would have me out of debt by December 2009.

By March of 2009 they called me to tell me they had negotiated a deal with my creditors to settle for 22 cents on the dollar. With the money I had paid up to that point, it was enough to pay off my debt. They got me out of debt in half the time. It almost seemed to good to be true. I had all but forgotten what it was like to have a normal life and now I have my life back thanks to J. Hass Group and JDH and Associates. To end programs like this would be a terrible disservice to millions of Americans struggling with debt. Please don't let that happen.

Sincerely,

a109/191

Allison Artavia

**From:** angelanunes418@aol.com
**Sent:** Wednesday, October 07, 2009 1:58 PM
**To:** graduate
**Subject:** (no subject)

To Whom It May Concern:

The J. Hass group has helped me get through a tough situation. I was in the J. Hass Group program for 2 years and a large weight has been lifted from my shoulders. I was in debt for about $20,000 due to mistakes by the creditor who didn't care to resolve their errors. I saved about $14,000 working with the J. Hass Group. This program definitely changed my life for the better because it would have been impossible for me to get this done on my own. I would have been in debt probably until the day I die if not for this program. After 2 years in this program I was able to have a second chance with my credit. Anyone who thinks companies like the J. Hass Group do not help people are seriously mistaken, the help people more than you could ever imagine!

Respectfully,

Angela Mendez

Allison Artavia

|  |  |
|---|---|
| **From:** | Annette Netsch [anetsch@fsbfostoria.com] |
| **Sent:** | Thursday, October 08, 2009 5:48 AM |
| **To:** | graduate |
| **Subject:** | Graduate letter |

Dear J.Hass Group:

I am writing in response to your letter as a "graduate" of the debt settlement program.

My husband and I were in the program for approximately 4 months. We settled with our creditor early as we were tired of receiving the phone calls from them, and we were somewhat afraid of what this was doing to our credit score. We had $12,000 in credit card debt and we settled for $4500.00 with Bank of America. This has helped our financial burden. We don't have that large credit card debt hanging over our heads, so in the long run I would say it was worth it. Thank you.

Sincerely,

Annette Netsch
3405 Kuchel Trail
Milford, IA 51351

Dear J. Hass Group, 28765/32. 9/28/09

I want to thank your Company and the professional associates I ad contact with during the few months I participated in your debt ettlement program. My goal was to be debt free in a year and I was able to meet that goal in seven months! I have heard of the Washington Politicians wanting to do away with your program. I find this very sad as if it weren't for the J. Hass group, I don't know what would happen to my family. I had 3 accounts that J. Hass settled. One balance was around $3,100.00 and J. Hass settled it for $1380.00 another account had a balance close to $4,800.00. J. Hass settled that one for $1,893.11 and if you think that was impressive, I was litterally in tears of joy when the ast account that had a balance of $10,489.97 was settled for $2,730.00!! Being able to settle these debts was, is, life changing for our family. I can not give enough thanks to them for all their help and professionalism! I am proud to refer friends to the J. Hass Group. I hope and pray that the Washington politicians will see how your company is an asset to Americans!

Sincerely yours,
The Sjostedt family.

9-28-09



To whom it may concern:

I was a client of The Hess group for 20 months to settle a debt of over $10,000. this program helped me to get my life back on track. I saved around $5,000 from the original debt. I could not have made it without there help. this is a good program that needs to continue to help others. Thank you.

23504

J. Hass

9-2009

I Eddie Woods, appreciates the opportunity to thank you For Helping me with my Financial Needs. Earing and Keeping your trust has Been my pleasure. When you become A J. Hass Customer they are Committed to Helping your personal and Financial Needs. they helped me out of Debt of $14,000 Dollars; And saved me $8,000 Dollars. it's Important to let you know how much I appreciates your Company, and how much you meet all my needs. When you got me out of Debt and saved my Credit. this program mean so much to me. I will always let people know they can Count on your Company to be Debt Free. J. Hass Company and other that are Affiliated Debt service Helped me and others, out of Debt, thaks J. Hass For let me be Debt Free.

I would like to thank you For All you Done. you will Be hearing From us. Soon.

thank you
Mr. Mrs. Woods

9543

To Whom It May Concern,

My name is Dave Ellinger and the J. Hass Group definitely helped me to pay off my credit card debt, without their help I probably would have just stopped paying the cards until I was taken to court. I was in their program for about 3 years, which I had over $8,000 in credit card debt between 3 cards. They were able to save me thousands of dollars in principle and interest. AS we know with credit cards and compounding interest, if you miss just one payment (like I did) it's almost impossible to catch back up since they increased my interest from about 10% to 33% on all of my cards! I am thankful for the wonderful staff at the J. Hass Group and their genuine interest in helping me get out of debt. Now I will be able to start a new life with my wife and try to re-establish my credit so that we can one day own a home together. I am a firm believer in the debt settlement program and have since recommended a few friends that were in similar situations to give it a shot.

I would like to add though, that if there was any industry that needs to be closely regulated by the government it would be the collection agencies. The harassment, threats, and outright disrespect from companies like Mel Harris and Associates was deplorable. Often times I was seeing red when getting off the phone with these companies and their lack of concern for anyone's feelings or current situation. I would definitely like to see collection agencies looked at more closely, namely. Mel S. Harris and Associates who has had thousands of complaints against, yet are still allowed to do "business". That's a shame. Luckily for me the J. Hass Group was able to have me avoid most of these calls and now I no longer have to worry about it any longer since I am now debt free.

With best regards,

David J Ellinger

8764

September 22, 2009

To American Senators and Congressmen and women:

This year, I completed a debt settlement program. I began the program in August, 2007 and finished in February, 2009. Fortunately a relative gave me some money to finish off my debt earlier than planned, which would have been August, 2009. Call it my own personal bail-out plan if you will, but today I am debt free and at peace with my financial condition.

Two years ago I contacted the J. Hass Group for assistance. I had read about them on the internet. Through my own fault, I was about $40,000 in debt. Add to that the burden of a mother-in-law who had a stroke and for whom my husband and I had to assist with finances. But it was my own personal debt that I had to deal with, and fast.

From the very beginning, I was treated with courtesy and respect. No one made me feel as if I were a "loser". The staff was ready to help me with a plan. They guided me through the steps of the process and not only explained everything over the phone in detail, but followed up with that in writing.

Of course, there was a fee attached to the service. But this particular firm was excellent in negotiating fair repayments for the debt. Even with the fees, I was able to reduce my debt by 50%.

I know that there is a tax liability for 2009, but it was still a better alternative to bankruptcy. And I am in better financial shape than I have been in a long time. I have no major credit cards—period. I have a car lease payment and a gas card. I use either my checking account debit card or cash now. This was a hard lesson to learn, but I am grateful to the J. Hass Group for their assistance.

While I have to take my own actions into consideration for creating my financial difficulty, the credit card companies had no compassion in working with me personally when it came to reducing interest rates and fees. When I stopped using the cards and was trying to pay them back, the interest keep accruing, interest rates were climbing and fees were being attached. I could not get ahead and they would say "Well, that's the way it is." And that attitude is precisely what led me to consider a debt settlement solution.

I don't know much about companies other that the one I dealt with or how they are regulated. But there is a myriad of information about these companies out on the internet and I did find mine accredited by the Better Business Bureau. And there are probably a lot more good companies doing the same job with good results. Suffice it to say, there are those that take advantage. But with all the information available, it is possible to find reputable companies to assist you.

If the government can bail out the financial institutions and the auto industry, they should allow debt settlement companies continue to do business. Why shouldn't private citizens

be allowed the same privilege of being helped out of a jam? The government is still going to get their slice of the pie in the form of taxes when the W-9 is issued and the money not paid to the creditors has to be shown as income. These other industries have no consequences like private citizens do. In fact, the very banks that received bail-outs are now paying hefty bonuses to their executives.

I feel very strongly that the credit card companies and/or issuing banks have to stop putting unnecessary burdens on the private sector and work together to find a solution for payment rather than bullying the private parties and raising interest rates and fees as a punitive action. But until this is done, and is not going to be in the near future, the need for reputable debt settlement companies exists as an alternative to banckruptcy.

I am one of the more fortunate people who got out of my debt before the county was placed in one of the most severe economic crises we have seen in years. I have been able to keep my employment and I have a family who helped me get out of this mess that I created for myself earlier than I thought I would. But the biggest help was through the work of the debt settlement company who negotiated on my behalf to get these debts settled.

I have made great gains in keeping my spending habits in check. I am happier. It was hard work and I made sacrifices. But it was all worth it. I would recommend the debt settlement company that I worked with to anyone in need of this type of assistance.

Thank you for the opportunity to share my views and my personal experience.

Sincerely,

Linda Iannone
29 Ironwood Rd.
New Hartford, NY 13413

25883

Sept, 2009

We were not able to make the minimum payments to our credit card balance. The debt was getting larger because of an increase in interest rate and fees added to original charges. The credit card "machine" would not negotiate at all with us even though we tried for almost 8 months. After we quit calling them and talked to J Hass Group to get an acceptable settlement, (one we could reasonable accomplish) our credit card "machine" suddenly started contacting us. Without J Hass Group our only alternative would have been to turn to bankruptcy court. Thanks for helping us and keeping our sanity.

the Jacobsons

P.S. I figure we were shorted approximately $250 from our Noteworld account. Please check and refund. Thanks, J.

10960

To whom it may concern.
The J. Hass Group help saved my marrige. I was in debt up to my eyeballs. One day I got a phone call to join The J. Hass Group. The promise to help me get out of debt, and they did everything they promise

I had ~~over~~ 15,620.46 worth of debt. With their program I was schedule to pay the debt off in 18 mos, But with the good negoiating I did it in less time then orginally plan.

My life is much less stressful for me and my husband.

I saved over $7,000. This was ~~the~~ one of my greatest accomplishment

I would like to thank J. Hass for rescuing me from a losing Battle.

I would recommend this Company to my friends and enemies

Thanks a thousand times

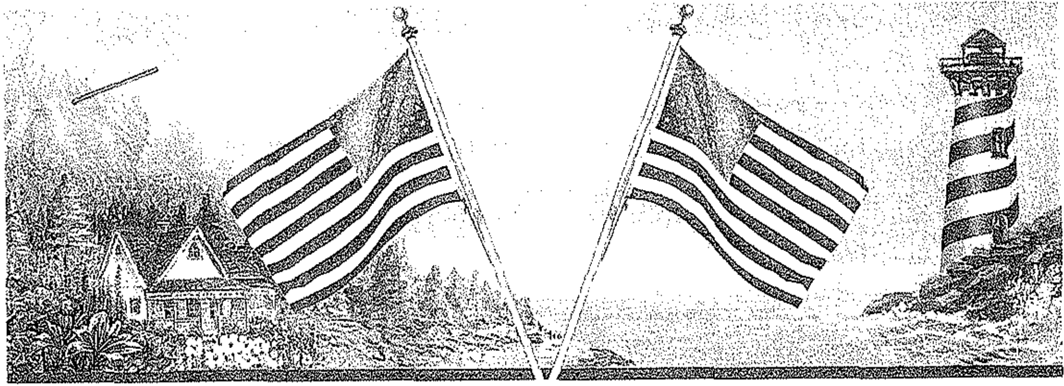
25883

Sept, 2009

We were not able to make the minimum payments to our credit card balance. The debt was getting larger because of an increase in interest rate and fees added to origiral charges. The credit card "machine" would not negotiate at all with us even though we tried for almost 8 months. After we quit calling them and talked to J Hass Group to get an acceptable settlement, (one we could reasonable accomplish) our credit card "machine" suddenly started contacting us. Without J Hass Group our only alternative would have been to turn to bankruptcy court. Thanks for helping us and keeping our sanity.

the Jacobsons

P.S. I figure we were shorted approximately $250 from our Noteworld account. Please check and refund. Thanks, JJ.



Sept. 22 09

I am writting this letter to say how I thank. the one's that down this for me. I owed visa 10,722.85 and I got behind on paymat's and they wonted me to

is no way I
eped me
$ 7252, 29

with I tryed my best to make & Thank God I did.
so I appreshate this so much.

Thank You

20006

Allison Rioux
176 Belmeade Road
Rochester, NY 14617

To Whom It May Concern:

I am writing this letter in regards to my experience with the J. Hass Group over the past couple of years. The debt settlement program was one that certainly helped my family get back on our feet again. With my husband in school full time and two infants due to be born any day we decided to give the program a try. We were struggling to pay bills and worried about how we were going to feed our kids without digging ourselves into more debt.

The J. Hass Group helped us get our act together financially. At the time we joined the program we were almost $20,000 in debt. In addition to our growing student loans these bills were making it challenging for us to get by. We were able to lower our monthly payment and in turn completely stop using credit to live our lives. We saved about half of what we would be paying the credit companies. The program helped us to manage what money we did have. Although at times it was frustrating dealing with creditors the end result was well worth it. We currently have cleared our debt and were even able buy a used car that was a better fit for our growing family. Most important was a lesson learned for us about managing our money.

I hope that the J. Hass Group will be able to continue to service other individuals and families in the years to come.

Sincerely,

Allison Rioux

9849.

9/23/09
Mt. Pleasant, IA 52641

Dear Mr Hass Group,

Thank you so very sincerely for working with the Debt Settlement with Bank America. It took nearly a year but it was handled honestly + well. The harrisment I endured from Bank America was mind boggling, night & day up to 15 times a day. I'd paid them thousands of dollars before and after my accident + in the hospital + nursing home 55 days I couldn't even walk, but the phone kept ringing. Now since it's all settled they are still releasing my name and phone number to other companies who still call from 5 to 7 times a week saying if I owe money they can help me. Their calls are maddening. I just tell these new companies that their people are the ones that agreed on the settlement + they want to know who helped me + I tell them you're in AZ and did a honest and fair deal to complete this program with Bank America.

I am getting rid of all credit cards + No more ever I won't get in such a financial mess again. I was doing okay until the accident the Drs + hospital + nursing home all had to be paid. Insurance didn't pay it all, 2½ years later I still use the walker + canes + still not able to drive. Balance is still an issue. I'm so grateful to you and your group for helping with a terrible situation.

Thanks sincerely for me being able to have sanity back in my life. That BA could truly ruin peoples lives. Your Company was always courteous when I'd call + tell me what gains you all were making talking to that company.

I'm forever grateful for your first class help.

To begin I'd borrowed about 20,000, I had about 40,000 after all my payments. It should not of been that high. I paid nearly 15,000 that they asked for. Thanks to you I'm able to pay all other credit cards now.

Sincerely,

17278

Sept 22, 2009

JAMES R. CALKINS
12 Mclean St.
Ballston Spa N.Y. 12020

To Whom it May concern:

I recently completed a debt management program with the J. HASS Group. In two years time (24 mo.) I was able to reduce my approximately $10,500 debt down to zero. If I did not participate, there is no telling how long it would of taken to do that. My guess is start over. I never wanted o, far behind. Unfortunately circumstances arise in life, as in my case - a divorce, and I had to rely on credit cards to survive. I am now financially stable once again. And can now contribute my money to the U.S. economy, instead of credit card interest rates. After my experience with my particular program, I would recommend it to any one who needs help. It was much better than filing bankruptcy. Please end any proceedings that have taken place to eliminate related causes.

Sincerely,

10664

J. Hass Group
7590 E. Gray Rd, #204
Scottsdale, AZ 85260

Gentlemen:

I am writing to thank you for your help in reducing my credit card debt through your debt settlement program.

Your staff successfully negotiated approximately $49,000 in credit card debt resulting in nearly $22,000 in savings. During the 26 months in your program, your staff was always very courteous, tried to negotiate the best settlement, returned phone calls promptly, and appeared to be willing to help in any way possible.

It's a tremendous relief to be free of credit card debt... no more phone calls from creditors and less stress for my family due to financial difficulties.

Sincerely,

To Whom it may Concern;

My name is Ryan Patrow and I was guided by J. Hass Group to eliminate my credit card debt. I entered their program August 2007 with roughly $40,000 in credit card debt and struggling to pay the monthly minimum payments. I was part of the program for two years and reduced my debt, and settled my six credit cards for roughly $19,000. This has allowed me to have over $800 per month for minimum payments return to my savings account and provide for my family. Without the option of this program, my family and I would be in a completly different financial position. Please consider keeping this an option for the American people. It has reelly helped me and my family.

Thanks,

10518

24913

Sept 23, 2019

J. Haas Group –

A brief note of thanks for all your help in our recent time of trouble. Once we realized the enormity of the debt and after many sleepless nites wondering how we would pay this all back we decided to give ..... a call.

A call well worth making. Although we where very happy with the outcome we hope to never use your services again. This is a situation we will strive to avoid at all Costs –

Thanks Again

Dear Wayne Toczek,

I would like to take this opportunity to thank you for participating in our debt settlement program, and congratulate you for navigating this program successfully. The J.Hass Group and JDH & Associates are a family run business that strives to deliver the best debt settlement program possible. We understand that it wasn't always easy, but the results were worth the pain. As a legitimate and legal alternative to bankruptcy, debt settlement programs like the one you completed are a source of hope to millions of Americans in these rough economic times. Unfortunately, there are those in Washington that want to deprive deserving Americans of this type of program because the Big Banks and other Financial Institutions have convinced them we do not help people.

We are fighting these proposals as hard as we can to help save this alternative to Bankruptcy from becoming another casualty of politics, but we need your help. As a graduate of our program, we would kindly request a letter from you to give to these Washington politicians that talks about how the program was a success for you and benefitted you and your family. Examples of what the people in Washington are looking for are: how long you were in the program. How this has changed your financial life for the better, how much debt you had, and how much you saved. We understand that you are busy, and as a thank you for helping, we will send you a $20 Target gift card upon receipt of your letter. Enclosed, please find a self-addressed envelope to return your letter to us. Should you desire to send an e-mail, please send it to graduate@jhassgroup.com. Your response means the world to us, you came to us for help and now we need your help. Together we can turn the tide in Washington and save this program for other deserving Americans.

Thank you,

The Hass Family

P.S. Over the course of the next couple of weeks, one of our senior managers or a member of our family may be calling you to complete a phone survey regarding your experiences in the program.

My CREDIT Rating <u>was</u> hurt by this program!

12021

Jason Hass
7590 E Gray Rd #204 Scottsdale AZ 85260
800-565-126(
Fax: 877-572-505(

9/25/09

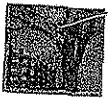
Dear Nass Family,

Thanks to your program and kind understanding staff I can sleep much better at night. They were very helpful and answered any questions I had. Having the payment taken out of my checking acct every month was also great. As for some reason I could not make a payment & I called to inform you. they never made me feel bad about it.

Thank you for having a program like this and for having it be on the up & up!

20114.

JORDI LABANDZ



Mr. Patrick Cefalo
96 Lawton Ave.
Fitchburg, MA 01420

To whom it may Concern,

My name is Patrick Cefalo and I would like to tell anyone who needs the debt relief help that it works and that J.D.H. is the best possible route to solving it!

I was in debt over $10,000 and JDH help me Lower the Debt of $6500 in about 14 months.

J.D.H took the time to call The creditors to negotiate a lower sum. J.D.H. also clean out the Harassment calls That typically come from Creditors once You fall behind on payments.

I no longer have any calls and I can sleep without worry. This program should always be available for anyone who needs it. Being a sole Provider for my Disabled wife and son it help solve a tough problem when I needed it MOST!

Yours Truly,

P.S.
THANK GOD
for The J. HASS Group

18746

To Washington Politicians,

One night sitting in front of my television I was in tears. I had no idea how I could possibly pay $13,000.00, possibly a little more back to my six creditors without the shame of bankruptcy. I would never ever do that only as the very last resort. Well it was as though the Lord sent my answer to me directly. An add from J. Hass Group came on and as I listened I felt a wave of relief. Finally I had my answer. I immediately called the number on the screen and found the answer. I knew that if I didn't do something the delinquent bills would start plus the interest charged for any late payment. I felt how unfair it was that institutions like Bank of America, and other large companies could get their much needed help but we the people had to take our savings which have already gone for everyday expenses, taxes, car payments, medical bills, etc in today's economy. I was able to save a little over $7,000.00 in enrolling in this program. I started in 2007, and waas able to pay all creditors in ~~2009~~. (2008)

I know it would be the wrong decision to even consider depriving deserving Americans of this type of program.

Very truly yours.

September 21, 2009

I enrolled in J. Hass Groups Debt Settlement Program in October of 2008 and finished the program in June of 2009. When I entered the program I had approximately $18,000 in credit card debt on one credit card. I was stuck between a rock and a hard place with no place to turn except for bankruptcy. And then I heard a commercial on the radio for J. Hass Groups program and made a phone call immediately. I made the decision to enroll in the program after some careful discussions with my family. During my eight months in the program I actually never received any calls from my creditor and the only the thing I received in the mail were my monthly statements. With that being said my experience was great never once was I harassed, but I had entered the program with the understanding that I may be. By the end of my time in the program I settled with my creditor for $8,300 and with settled mark on my credit report. This program may not be as successful for some people, but for me it was extremely successful and everyone needs the opportunity to make the decision for their self whether a debt settlement program or bankruptcy is the right choice for them.

Sincerely,

Dana Preston

24984

## Allison Artavia

**From:** Barry Alexander [b.martin.alexander@gmail.com]
**Sent:** Thursday, September 24, 2009 7:00 PM
**To:** graduate
**Subject:** Letter

To whom it may concern,

I wanted to take this time to tell you how appreciative I am of the services that have been provided to me by the J. Hass Group. About 2 1/2 years ago I came to them with multiple accounts past due that exceed well over 10 thousand dollars. I was way behind on my minimum payments and they helped me get onto a program that aligned with what I was able to pay monthly and as of the beginning of 2008 was able to settle all accounts with my collectors. Since I received their help, I have been on track with my finances and credit and have been able to live without the worry and hassle of debt collectors calling me.

Throughout the entire process, the J. Hass group was very informative about every step of the process and completely honest with me about my situation, even if it was something I didn't necessarily want to hear. Even in these situations, they constantly reassured me that everything would be alright and that there was a light at the end of the tunnel- and they were right.

I am extremely thankful for what the J. Hass Group has done for me. I wouldn't be where I am today without them.

Sincerely,

Barry Alexander (Torrance, CA)

## (No Subject)

From: **kate himes** (kahhimes@live.com)
Sent: Tue 9/22/09 8:57 AM
To: graduate@jhassgroup.com

Dear J.Hass Group and Associates:

To: Washington bureaucrat/politicians.

I participated in the debt settlement program through J. Hass Group and they navigated me throught this prgram with great success. During this rough economic time, this program was a life saver for myself and a blessing. I participated and graduated from the program in two years time with money left in my escrow account. The J. Hass Group was very helpful and this alternative was much better for myself and my family than bankruptcy. My financial life has changed for the better by participating in this program and my financial situation has a brighter outlook thanks to this program. Sincerely, Kate Himes

Bing™ brings you maps, menus, and reviews organized in one place. Try it now.

9648

To Whom It may Concern

I'm writing this letter to let you know how much debt settlement program has helped me. I'm begging Washington not to remove this program For bankruptcy that is not the solution. When I started this program I owed $20,000 in less then 2 years I paid less then $6,000. I saved over $14,000 I couldnt be happier. It helped me and my Family very much.

Thankyou

Sincerely

9-22-2009

J. Hass Group

I received yours and wish to respond by indicating that your debt settlement program saved me $6100 on a Countrywide account I had. This will help me to reduce my debt greatly and appreciate your assistance.

Regards

29879

Mr. Robert L. McKoy
5104 Woolverton Ave
Baltimore MD 21215-5135

Dear sir are who ever it may conern
I am wring you to tell you about J Hass Group
They help me get out of Debt in a Short
time I was in the program for one year
My Debt was 37,000.00 They save me
28 17.40 They change my Financial
life so Good my Financial life is a Great
deal Better The Hass Family is a great
Group.

Yours Truely

21660

September 24, 2009

J. Hass Group
7590 E. Gray Rd, #204
Scottsdale, AZ 85260

Dear J. Hass Group,

I would like to thank you for helping me in my credit card situation. I had three credit cards and I was falling behind on my payments and all I was making were minimum payments. It got really hard because I was paying them and the balance wasn't going down. I was starting to get phone calls and letters from the credit card companies about my balances on my credit cards. They were telling that me that I was overdrawn. I was lost because I was trying to make payments when I couldn't make them and I was falling behind.

I thought about filing for bankruptcy but all I was having trouble was with my credit cards. I thought about getting a loan but the bank wouldn't give me a loan because my credit cards were over their limit. Then I heard about these types of programs on TV and the radio and thought I would give it a try so I called J. Hass Group.

They arranged a payment that I could make and took care of the credit card companies so they weren't calling and harassing me. Well I'm very glad that I gave J. Hass Group a call because they helped me out of my jam in about 18 months.

Sincerely,

Stephen J Cox

9726

Sabrina Pla

5 Veragua Ave

Coral Gables, FL 33134

September 29, 2009

Dear J Hass Group and Friends,

I would like to thank you for all your work your company has done for me and my family. Due to this program, I have been able to get out of debt and stay debt free. I just recently had a new baby girl, and my finances couldn't be any better at this time.

I recommend this program to whomever is in need of debt settlement. It is a relief for me and my family to sleep at nights and not have the worries that we had before because of debt.

Once again thank you in advance.

Graduate

*Sabrina Pla*

Sabrina Pla

23967

September 24, 2009

Good Afternoon,

I just wanted to take a few minutes to say how appreciative I am for the J. Hass Group helping me out over this past year. I am a single mother of two teenagers. I was a victim of identity theft last year and lost partial time of my job. I became so stressed out not knowing what I was going to do with all my financial responsibilities. It was a nightmare. I contacted the J. Hass Group (recommended by a friend) to see if they could help me out in anyway. I was way over my head in credit cards (25K) basically using them to buy food and basic essentials for my family. J. Hass Group was able to contact my creditors and help me out with a program that was comfortable in paying in a timely manner. Although they weren't able to help me with all my creditors (some went legal) they were very helpful with one. I wish to thank them from the bottom of my heart and will definitely recommend them to family and friends.

Many thanks,

LaVern Navarro
(Graduate)

Sept 28, 2009 11578

ATTENTION WASHINGTON POLITICIANS

I WOULD LIKE TO INFORM YOU OF MY DEBT SETTLEMENT. I WAS WAY OVER MY HEAD IN DEBT. IF IT WAS NOT FOR J. HASS GROUP, I WOULD NEVER HAVE PAID IT OFF.

THE INTEREST THESE CREDIT CARD COMPANYS CHARGE IS CRAZY. THEY ARE GREEDY AND OUT OF CONTROL. NOT EVERYONE HAS MONEY IN THE BANK TO COVER EMERGENCYS. WE LIKE TO TURN TO CREDIT CARD COMPANYS FOR HELP BUT THEY ARE SO GREEDY WITH INTEREST. WHEN YOU MAKE A PAYMENT IT JUST COVERS THE INTEREST.

I AM GRATEFUL J. HASS GROUP HELPED ME.

THANK YOU

15308

9/26/09

To whom it may concern:

My name is Pat O'Malley. I had a little over $12000 in credit card debt. I have always been one to pay my bills but we had a couple of bad years and got in over our head.

When we started the program with J. Hass Group, I was on time with all my credit cards. I knew that was not going to last we were sinking fast.

We started the program in March of 2008, and f[illegible] le the program did not save me any money. What it did do was allow me to pay off my debt and the J. Haas Group were "My People" when it came to working with the credit card companies.

With my debts paid we are able to breath easier, we don't have to worry about groceries. The credit cards were killing us, we could never get ahead. This program and the J. Haas Group gave me the ability to get my feet back under me.

Sincerly,

24759.

Lora J. McManus
8185 W. 81st Drive
Arvada, CO 80005
720-732-5257

October 2, 2009

J. Hass Group
7590 E. Gray Rd. #204
Scottsdale, AZ 85260

To Whom It May Concern:

I would like to take a moment to express how J. Hass Group has made such a positive change in my life. At the time I started with this program, just about one year ago, I was looking at some detrimental decisions that needed to be made regarding my debt. I had managed to accumulate $31,832.52 in debt within a very short amount of time due to some un-foreseen circumstances.

My options were to apply for bankruptcy, or just stop paying my bills, neither of which I would allow myself to do, or look into a debt settlement option. When I called the company to discuss my options, they were extremely helpful, and calming in a very difficult time. They were clear about my choices and helped me make my decision with clarity.

We agreed to go forward with the program. I felt good about it because I was NOT bailing on my responsibilities. I was taking a positive step to right my wrong with a reputable company and walked into this with a positive outlook.

I made my monthly payments to my account without fail. My communication with J. Hass Group was often, and open regarding my accounts. Before one year was over, we had settled both of my accounts for $9925, which was about 31 cents on the dollar.

My goal to be debt free, and free from any kind of credit cards or revolving credit has come true, and I couldn't feel better about myself, my decisions, and my new outlook on life.

Your company has truly made a difference in my life, and I thank you.

Very sincerely,

Lori McManus

writer but from the
bottam of my heart I do
not know what I would
have done with out your
help and I will never
forget what all of you
did to help me. I have
told some people that
have been in the same
spot I hope they get in touch
with you.

thank you

Oct. 2 - 09

1772

Dear Sir

In replay to your letter I would be happy to write this letters on Dec 1999 my husband had a heart attack + was rushed to IA City where he had open Heart surgery + 4 days later he was gone, While in IA City my daughter law brought the mail. there was 2 credit cards that we never asked for + did not want to throw them away ythea so I put them under some pictures + was going to deal with them later. end of Feb I recived 2 letters + I thought they was wanting me to order but I did not open the letters I threw them away + then I got a phone call wanting payment on things I was supose to have used. I called them to see what I was supose to have bought + when they told me I knew who had used my cards + I was sick it was my daughter. I knew I could not pay these bills so I went over + talked to her + told her she had to make the payments + she was very angary but the payments was only covering the interest. I heard of J Hass Group. so I called them + I am so glad I did because other wise I would have lost what little I had. they kept me up to date + was very good to me. We need people like them + I will never forget what they did for me it took time but it sure pd off at the end

Thank you for what you + your staff did for me. I will never forget what you + ~~[illegible]~~ staff did for me

it might not have been ~~[illegible]~~ ~~[illegible]~~
I am not sure but it took a least 1½ yrs. hope this helps you (over)

what little I have left I am thank
full for all the helps + Kindness that you
gave me thru this mess, and good advice
I never dreamed my daughter would
do what she did I had to make your
payments + the regular payments but I
hope she has leanered some thing out
of this mess. And again I am sorry for
what she did I started working when
I was 13 yrs old + I had a very good husban
but we always payed our bills first
thank you again for what you + your
staff did for me.

thank you again

Yours truly

9740

180 South Main St. #4
Attleboro, MA 02703
September 26, 2009

To whom it may concern:

This letter is to explain my successful experience with the "debt settlement" process and the J. Hass Group. I started with United Financial Services, which was taken over by J. Hass Group. Originally my total debt was around $25000. My fee was about $3000 and I finally paid creditors around $19000, which makes it look like I only saved $3000 from the original debt. But there were interest and penalties of $15000 added over time, which were negotiated away. So even with the fee I saved $18000. It took about 3.5 years for me to save up the money.

At the time I entered the program I was not in a position to pay off my debt, so the program gave me the time to save up and pay the debt. I did not negotiate myself with the creditors because I did not think they would give me the chance I would get with the debt settlement company. This program definitely helped me because these debts are no longer hanging over my head. Don't worry, I am not getting something for nothing. It is on my credit report and it affects the interest rate of any credit I obtain in the future. But debt settlement is definitely better than bankruptcy.

Very truly yours,

Elizabeth A. Page

**Allison Artavia**

**From:** Alana Smith [alanasmith61@yahoo.com]
**Sent:** Tuesday, October 13, 2009 5:16 PM
**To:** graduate
**Subject:** Success and Benefits of Going Through the Settlement Program

11047

Dear Sir or Madam,

I wanted to let you know how much it meant to be me to be able to become a little closer to being debt free because of your program. We were in such dire straights that we did not see any way out and we did not want to have to file bankruptcy. We were in the program a lot less time than we had originally thought we would be mainly because the staff and negotiators at the J. Hass Group were very professional and worked hard to get the settlement finalized in each of our cases. We had over $50,000 in debt and we would have never been able to see the light at the end of the tunnel if had not been for their professionalism and hard work. With the settlements that the J. Hass Group were able to facilitate, we ended up saving at least $22,000. Although filing bankruptcy seems to be the way alot of individuals go, not having the option to work with a debt settlement company would have put us in a horrible bind. Alot of companies do not hire people who have filed for bankruptcy. I implore the government to reconsider its thinking in taking away this option. Being an struggling individual, our day-to-day life is a challenge in itself. Without options and not being a large corporation, I certainly do not see how we could have ever possibly been able to make ends meet. My husband is very very sick and I am pretty certain the government will not come to our aid to bail us out like they did the large corporations whose CEOs alone make more in month than we could possibly make in over two or three years working two jobs.

Again, I thank you so much for all of your help and because of you, we have a bit more of a fighting chance to stay living in a house, instead of a box.

Sincerely,

Terry and Alana Smith

`October 5, 2009

9380

J. Hass Group
7590 East Gray Rd, #204
Scottsdale, AZ 85260

Dear Sirs,

I am writing to say that I am very satisfied with your debt settlement program. I subscribed to your program in 2006 with over $28,000 in credit card debt on two accounts. Your representatives explained the program thoroughly and at that time we targeted a debt settlement of 40% of my debt. After paying into the program for 20 months of a 32 month plan, your representative called me to say they had an offer from one of my card companies for 22% of that debt. We immediately accepted the offer and settled $24,000 in debt for about $5,000. It only took 5 more months to pay the other debt off for approximately $0.60 on the dollar. My debt of $28,000 was settled in less than two years for approximately 7400.00.

This program allowed me to stop the very high interest rates on the credit cards, stop the harassing phone calls from creditors, pay down the debt at a reasonable monthly rate, and get debt-free without detrimental affects to my credit rating. I actually was able to purchase a new truck within 3 months of finishing the program.

I must also make you aware that because of my high debt to asset ratio, being totally insolvent, allowed me to avoid claiming the debt settlement claim on my federal tax return.

In closing, I am very happy with the program you provided. I would highly recommend it to anyone who has the ability to pay a realistic monthly payment and honestly work off the debt under a guided settlement plan.

Thank you again for your expert, professional help.

Ronald D Slate
301 White Water Loop
Conway, SC 29526