



Division of Freedom Financial Network, LLC

Federal Trade Commission
Office of the Secretary
Room H-135 [Annex T]
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580
ATTN: Allison Brown, Esq.

Re: Telemarketing Sales Rule – Debt Relief Amendments, R411001
FDR Supplemental Response to Follow Up Meeting of December 3, 2009

Dear Ms. Brown:

Thank you for the opportunity to respond to your follow up questions, generated in advance of our meeting on December 3, 2009. While much of the information has already been delivered to you, we are pleased to make our responses available in writing for inclusion in the public record.

Our responses follow each of the numbered questions, below:

1. On page 3 of FDR's comment letter, FDR states that it has settled more than 100,000 accounts for customers and resolved more than \$467 million of consumer debt, based on the amount owed at settlement. How many total accounts have consumers enrolled with FDR?

From inception (June 2003) through September 30, 2009, Freedom Debt Relief enrolled approximately 450,000 accounts held by approximately 70,000 consumers.

2. How much total debt have consumers enrolled with FDR?

From inception through September 30, 2009 FDR estimates that consumers have enrolled approximately \$2.3 billion of unsecured debt.

3. How much of the \$467 million of settled debt constitutes interest and other fees that accumulated between the time of the consumers' enrollment and their settlements?

Based on data associated with the most recent 46,000 accounts settled (from January 1 through October 31, 2009), FDR's experience shows average account accretion of 21.9% from enrollment to settlement. Using this accretion number, we estimate that approximately \$83.9 million of the aggregate settlement amount of \$467 million was interest and other fees.



FDR calculated its accretion rate by comparing the amount of debt at time of enrollment with the amount owed at time of settlement for every settlement completed in 2009 (through October 31).

4. On page 3 of its comment letter, FDR states that it has settled debt for an average reduction, based on the amount owed at settlement, of 55.3%. How did FDR calculate the average debt reduction?

The 55.3% average reduction (i.e., a settlement rate of 44.7%) is calculated from outstanding balances at the time of settlement (i.e., the amount of the settlement payment divided by the balance owed at the time of settlement). Although FDR does not have available precise data about debt at time of enrollment for settlements negotiated prior to January 1, 2009, we can use the accretion data presented in our response to question 3 above as a proxy to allow us to estimate an average portfolio debt reduction of approximately 45.5%, based on the amount of debt at time of enrollment.

5. Does this “debt reduction” figure take into account fees paid? If not, what portion of the debt reduction was paid to FDR in fees?

The debt reduction figure does not include the fees paid to FDR by consumers. FDR typically charges 15% of the amount of debt at time of enrollment with those fees charged incrementally over not less than the half life of the consumer’s program (in other words, for a 36-month program fees are spread out and charged over no less than 18 months).

In this context, it is significant to note that during each of the client consultation, suitability analysis and contract discussion phases, FDR provides its clients with a schedule of the savings deposits required to complete the program; this schedule takes into account both the anticipated accretion in debt owed and all fees that will be paid by the consumer. The benchmarks we use to estimate the amount of savings a client will need to complete the program successfully are based on our historic experience.

6. What is the average percentage reduction if you use the amount of debt at time of enrollment, rather than at time of settlement?

As described in question 4 above, there is about a 9-10% difference in the debt reduction percentage if you use the amount of debt at the time of enrollment rather than at the time of settlement as the base. The average reduction changes from 55.3% to approximately 45.5% if you use the amount of debt at the time of enrollment as the base, rather than the amount of debt at the time of settlement.

7. On page 10 of the comment letter, FDR states that a “completed” client has had 75% or more of his or her debts settled. Is the 75% figure based on number of debts or total amount of debt?



FDR used the 75% number to conform to the way TASC reported its data. This number is based on the dollar amount, not the absolute number, of debts settled. For example if FDR worked for a client and settled three debts, each with a balance of \$1,000, and failed to settle one debt with a balance of \$10,000, the client would not be classified as “completed.” If, on the other hand, FDR settled two debts, each with a balance of \$10,000, and failed to settle one debt with a balance of \$1,000, the client would be classified as “completed.” Please note that the vast majority of clients that FDR statuses as “completed” have had all of their debts settled: approximately 99% of FDR clients that are classified as “Completed” received more in debt reduction than they paid to FDR in fees.

8. Of the debts FDR has (i) enrolled, and (ii) settled, what percentage are debts of less than \$2,000?

In 2009, FDR enrolled 183,951 accounts. Of those enrollments, 33.0% had a balance of less than \$2,000 at time of enrollment.

In 2009, FDR settled 56,358 accounts. Of those settlements, 41.7% had a balance of less than \$2,000 at time of enrollment.

9. Of the debts FDR has (i) enrolled, and (ii) settled, what percentage are debts between \$2,000 and \$5,000?

In 2009, FDR enrolled 183,951 accounts. Of those enrollments, 30.1% had a balance of \$2,000 or more but less than \$5,000 at time of enrollment.

In 2009, FDR settled 56,358 accounts. Of those settlements, 30.0% had a balance of \$2,000 or more but less than \$5,000 at time of enrollment.

10. Of the debts FDR has (i) enrolled, and (ii) settled, what percentage are debts between \$5,000 and \$10,000?

In 2009, FDR enrolled 183,951 accounts. Of those enrollments, 21.9% had a balance of \$5,000 or more but less than \$10,000 at time of enrollment.

In 2009, FDR settled 56,358 accounts. Of those settlements, 18.3% had a balance of \$5,000 or more but less than \$10,000 at time of enrollment.

11. Of the debts FDR has (i) enrolled, and (ii) settled, what percentage are debts larger than \$10,000?

In 2009, FDR enrolled 183,951 accounts. Of those enrollments, 15.0% had a balance of more than \$10,000 at time of enrollment.

In 2009, FDR settled 56,358 accounts. Of those settlements, 9.9% had a balance of more than \$19,000 at time of enrollment.



12. On page 10 of the comment letter, FDR places 7,803 consumers in three categories – Active Clients, Completed Clients, or Terminated Clients. Do these 7,803 consumers include all consumers who signed up for your services prior to the cut-off date of August 31, 2006, or only consumers who had one or more accounts settled?

This number includes all consumers who made at least one fee payment to FDR, regardless of whether any debt was settled for that consumer. The number does not include any consumers who sign up and, for whatever reason, terminate without ever having made a payment.

13. For each of the three categories on page 10 of the comment letter, can you please provide: (i) the dollar amount of settled debt based on the dollar amount at time of enrollment, and (ii) the total amount of debt enrolled by consumers in that category?

Due to limitations associated with a changeover in the way FDR kept and managed its data prior to January 2009, we do not have precise figures. However, we have estimated these numbers using the 21.9% accretion observed over our most recent 46,000 settlements. Using this assumption to estimate debt at time of enrollment, the chart becomes:

Active Clients:

Total Fees Paid:	\$3.3 million
Debt Settled (time of enrollment):	\$16.0 million
Total Debt Reduction (from enrollment):	\$6.5 million

Completed Clients:

Total Fees Paid:	\$8.8 million
Debt Settled (time of enrollment):	\$60.8 million
Total Debt Reduction (from enrollment):	\$25.2 million

Terminated Clients:

Total Fees Paid:	\$8.7 million
Debt Settled (time of enrollment):	\$20.3 million
Total Debt Reduction (from enrollment):	\$9.1 million



Total Enrollees:

Total Fees Paid:	\$20.8 million
Debt Settled (time of enrollment):	\$97.1 million
Total Debt Reduction (from enrollment):	\$40.8 million

Please keep in mind that all of the other consumer bankruptcy alternatives (such as debt consolidation and consumer credit counseling) require the consumer to repay the total amount of debt *plus interest and fees*.

14. Is it correct that *on average* each consumer who has enrolled with FDR has settled just under 1.4 accounts? This calculation is based the comment letter's statement that more than 72,000 (page 5) consumers have enrolled with FDR, and FDR has settled more than 100,000 accounts (page 3).

This is not a meaningful calculation because significant numbers of the 72,000 consumers have not had an opportunity to have experienced any settlement opportunities, let alone complete the program. Treating each of the 72,000 consumers the same when each has been in the program a different length of time, including many who have been in the program only a few months, is not a useful way to approach the data. For example, of the 72,000 consumers that FDR had enrolled through October 31, 2009, fully 42% of them were enrolled in the prior 12 months, thus having had a very limited amount of time to have set aside funds sufficient to commence serious settlement activity.

It is only meaningful to review customer experience data on a vintage basis, which is why we presented data in the comment letter for all consumers who enrolled not less than three years ago. Attempting to extract conclusions from participants with less than that amount of time would be like trying to report the graduation rate of a four-year university by looking at all students enrolled, including those recently matriculated.

15. On page 5, footnote 7 of the comment letter, FDR estimates that it manages between 6-8% of all debt currently enrolled in debt settlement programs. What is this estimate based on?

This number is a good faith estimate based on our awareness of the industry, together with TASC's estimate of the size of the industry.

16. Mr. Housser stated at the forum that "the people that were least successful in our program still got . . . debt reduction two cents more than their fees." (Transcript, page 62).

- a. Is this statement based on the TASC survey or Freedom Debt Relief data?



When Andrew made this statement, he was speaking on behalf of TASC. In fact, the correct TASC number is actually 4.5% more in debt reduction than fees for the Terminated Clients (\$58.1 million in debt reduction compared to \$55.6 million in fees).

With respect to FDR, FDR's Terminated Clients received approximately 55% more in debt reduction than they paid in fees (\$13.5 million in Debt Reduction compared to \$8.7 million in total fees paid).

Keep in mind that this is the subset of consumers that were least successful in their debt settlement programs.

- b. What is the basis for the statement?

This is a calculation based on the data collected in the TASC survey.

- c. Is debt reduction being calculated based on the amount of debt at the time of enrollment or settlement?

Time of settlement.

Thank you again for the opportunity to submit comments on the NPR.

Very truly yours,

/Robert Linderman
General Counsel