

## FTC Follow up Questions from Public Comments

1. Company Background
  - a. How long have you been enrolling consumers in debt settlement programs?  
**2005** (actually 2003, but data prior to 2005 is incomplete because of the business model used in that time period; for purposes of this report only data since 2005 is considered)
  - b. Have you made significant changes in your programs since you began offering settlement programs?  
**YES**  
We have made a number of changes to the way we collect fees, including extending the rescission period (originally 3 days, now 90 days) and taking fees beginning with the 2<sup>nd</sup> month (these changes were made in 2007).  
Prior to 2005 we used a business model where settlement services for some clients were handled by other firms. We were not satisfied with the results this business model provided our clients and ceased using this model at the end of 2004.
2. Number of accounts and consumers (state the specific time period with each answer)
  - a. How many total accounts have consumers enrolled with the company?  
**74,802 (1/1/2005 to 1/21/2010)**
  - b. How much total debt have consumers enrolled with the company?  
**\$383,414,674.79 (1/1/2005 to 01/21/2010)**
  - c. How much total debt have consumers settled through the company?  
**\$82,649,610.00 (original debt balance) \$103,400,000.00 (balance at time of settlement) (1/1/2005 to 1/31/2009)**
  - d. How many total consumers have enrolled with the company? (i.e. made at least one payment)  
**12,102 (1/1/2005 to 1/21/2010)**
3. Debt reductions ("Completed" = 95% to 100% of the consumer's total debt settled)
  - a. What is the average percentage reduction of settled debt that consumers who completed your program received? (reduction versus the original debt balance)  
**51.19% reduction (this number is trending significantly downward: for 2009 it is 55.39%)**
  - b. What is the average percentage reduction of settled debt that consumers who completed your program received? (reduction versus the current debt balance)  
**60.98% reduction (this number is trending significantly downward: for 2009 it is 64.04%)**
4. Accretion
  - a. What is the average rate of increase in amounts that consumers owe to creditors between enrollment and settlement?  
**25.11% increase over the enrolled balance (based upon data from 2005 to now)**
5. Fee Structure
  - a. What is the total fee you charge to consumers for your services?  
**15% of enrolled debt**
  - b. Has this fee changed over time?  
**NO**

- c. When do you charge the fee to consumers? If the fee is charged in parts over the course of a program, please explain when amounts are collected, and what amount is collected at each time.

**No fee is taken from the first payment to allow the consumer to accumulate funds more rapidly. The fee is then taken in equal amounts from the next 20 payments (assuming the maximum length, 36 month program). In addition, our contract allows the client a 90 day rescission period for a full refund of all fees paid to our company if cancellation is requested within 90 days of the date a contract is signed.**

- d. Has the timing of fee collection changed since you began offering debt settlement programs? If so, please describe how they have changed.

**Yes. We have changed the collection of fees so that Superior Debt Services takes no fee whatsoever in the first month. We have no enrollment fee, monthly fee or setup fee charges.**

- e. What is the total amount of fees paid by consumers who have completed the program?  
**\$3,634,089.00 (calculated at 15% of \$24,227,260.00 – in some cases we reduced fees and some clients have been taken pro bono so the exact number will be considerably less)**
- f. For consumers who have dropped out of the program before completion, what is the total amount of fees paid by them?

Not available. Our accounting records do not distinguish fees for client by client status.

Most clients that cancel from our program do so to file bankruptcy because of either legal pressure from creditors or a change in their financial status. Especially in these cases, Superior follows a liberal refund policy in an effort to assist clients with fees associated with the bankruptcy filing. Our clients that file bankruptcy tell us that the typical cost of a Chapter 7 bankruptcy filing is between \$1,200 and \$2,000. Although the refund is based upon many factors, including the amount of fees paid, the average refund we issue is \$1,000.

6. Completion Rate – 28.1% completed or still active

- a. Of consumers who enrolled in the program at least 36 months ago, what percentage have completed it?

**16.9% (this is for clients enrolled 1/1/2005 to 1/21/2007)**

- b. Of consumers who enrolled in the program at least 36 months ago, what percentage are still active?

**11.2% (this is for clients enrolled 1/1/2005 to 1/21/2007)**

Note: in 2007 we changed our business model so that no fees were taken from the client's first payment into the program. We also began (on a case by case basis) using fees paid by a client to supplement that client's available funds in order to complete settlements that could otherwise not be completed.

Statistics for the time period following that change (1/1/2007 to now) are included below to demonstrate the impact of that change. On the average we refund \$100,000 each month from fees paid by clients in order to assist clients in settling their debt. Those funds are recouped over the course of the program.

Note also that 30% of our cancellations had accounts that were settled before cancellation. For those clients that do not qualify for Chapter 7 and file for Chapter 13 Bankruptcy, the settlements accomplished prior to cancellation ease the burden of the Chapter 13 repayment plan.

## 7. Number of Settlements

- a. What percentage of consumers who enrolled in your program settled at least one debt in the first year after enrolling?  
26.7% (1/1/2005 to 1/21/2007 or clients enrolled at least 36 months ago)  
40.43% (1/1/2007 to 1/21/2010 – time period following business model change)
- b. What percentage of consumers in your program settled at least one debt in the first two years after enrolling?  
46.29% (1/1/2005 to 1/21/2007 or clients enrolled at least 36 months ago)  
53.06% (1/1/2007 to 1/21/2010 – time period following business model change)
- c. How many consumers who enrolled in your program dropped out before settling any debts?  
69.7% of clients had no settled debts (1/2005 to 1/21/2007 - clients enrolled at least 36 months ago)  
Note that cancellations include 90 day rescissions (Superior retainer fees are fully refunded). Many of the early cancellations occur because clients (even though clearly informed about the collections process) are so intimidated by creditor collection calls that they feel they cannot continue with the settlement process. A significant portion of these cancellations are also clients that, despite our best efforts to qualify their ability to pay, decide that they cannot continue to make the necessary payments into the program. Superior intentionally has extended the rescission period to allow these consumers the ability to cancel without financial risk after an adequate time actually experiencing the program.

Cancellation rates for debt settlement programs will always be higher than other forms of repayment plans because the clients enrolling in these programs are consumers that have the highest risk for financial failure. These clients almost always live paycheck to paycheck and have no financial reserve at all. A single financial complication (car accident, tax bill, divorce, medical emergency or other family emergency) will frequently force these consumers into a situation where they can no longer afford even the reduced payment we offer. While we do our best to keep the program flexible by placing clients on hold, reducing fees (in some extreme cases even eliminating retainer fees), and providing the client support regardless of their circumstances, many clients are simply unable to continue. Most frequently our clients that enter bankruptcy do so with the sense that they have done everything possible to resolve their debt.