

Mi s l e D
e
Con
Dup E
P
chea T
I
RI p Of f
n

**The Game of False Representations, Misleading Advertising,
Dubious Credit Counseling Referrals and Consumer Deception**

The American Association of Debt Management Organizations'
Request for Investigation
by the United States Federal Trade Commission
of Advertising Practices by
The Credit Exchange Corporation, Inc. and Dilated Media, LLC

Presented September 25, 2008



“The Credit Counseling Industry’s Largest Trade Association”

The American Association of Debt Management Organizations, on behalf of the legally operating credit counseling and debt management industry, requested an investigation by the United States Federal Trade Commission (“FTC”) and numerous state regulators into the advertising and referral practices of the Credit Exchange Corporation (“Credit Exchange”) and Dilated Media, LLC (“Dilated”) – both from California. These two companies operated a series of web pages that offered credit counseling, debt management and debt settlement services to consumers – “more than fifty-thousand” according to their own advertising. In fact, these web pages were only referrals to other organizations that paid Credit Exchange and Dilated for the consumer leads. The web pages in question were:

www.NATIONAL-DEBT-SETTLEMENT.com
www.NONPROFITDEBTSOLUTIONS.com
www.DEBTCONSOLIDATIONGURUS.com
www.DEBTCONSOLIDATIONWITHOUTALOAN.com

There are numerous typographical and grammatical errors contained in the quotes from the various web pages referenced herein. These errors have been retained from the original and are not noted as errors.

REFERRALS ONLY TO LICENSED AGENCIES

The greatest issue that we saw was the claim that these web pages led consumers to only “licensed” agencies that met all “applicable regulatory requirements”.

Given that many state laws require debt management organizations to be licensed, Credit Exchange and Dilated could only provide referrals to licensed agencies or otherwise they are falsely representing the credentials of other non-licensed agencies offering regulated services.

Either way, consumers are either being referred to licensed agencies using false and deceptive advertising or being directed to unlicensed agencies with the false representation that these organizations are operating lawfully.

The web pages claimed to have made the determination of referring consumers only to properly operating agencies based on “due diligence and background checks”. We have learned that these web pages DO NOT always refer consumers to licensed debt management services. One of the web pages claiming to lead consumers to only licensed companies stated:

“We only work with debt consolidation companies that are licensed to do credit counseling business in your state.”

One of the web pages proclaiming the “due diligence and background checks” read in pertinent part:

“DebtConsolidationWithoutALoan.com **only works with** the most responsible companies in the industry. In order to join our program a consolidation company must: 1) abide by all industry standard best practices, 2) have a good standing with the Better Business Bureau, 3) have certified counselors, 4) be **fully licensed**, and 5) must be non-profit. We have these requirements because there are so many bad consolidation companies online. We do the **due diligence and background checks** on companies to make sure we put you in touch with respectable debt professional with an impeccable record of helping others with their financial problems.” (emphasis added)

The page claiming that all agencies to which consumers are referred meet all “applicable regulatory requirements” stated:

“Our partners consistently provide service that meets customer and applicable regulatory requirements.”

FALSE CLAIMS OF SAVINGS BY “LICENSED” AGENCIES

Two of the web pages that referenced licensed credit counseling services made representations about the amount of savings that can be obtained each month. While a savings of “50% or more” may occur on an occasional basis, it is neither normal nor the rule of standard operations.

The web page at www.DEBTCONSOLIDATIONWITHOUTALOAN.com promised that the work of licensed agencies will cut payments by “50% or more” stating:

“We only work with legitimate debt consolidation companies that specialize in negotiations with creditors and work to consolidate your debt and deliver lower interest rates.

We work directly with **licensed** credit counseling services that can cut monthly payments on unsecured debts by 50% or more!” (emphasis added)

The web page at www.NONPROFITDEBTSOLUTIONS.com made the same grandiose assertions. It read:

“We work directly with **licensed credit counseling services** that can cut monthly payments on unsecured debts by 50% or more! Our proven service has helped over fifty thousand Americans become debt free.” (emphasis in original)

Some of the salient other false claims and inducements among the web pages stated:

“In addition to the free information on debt, credit, bankruptcy, and debt reduction options, we also established direct relationships with licensed credit counseling agencies. We check out all companies before they can become a partner to make sure that they consumers best interests in mind.”

“FACT: Getting out of debt is easier with the help of licensed credit professionals. Our debt experts can lower your monthly payments and get you out of debt fast. If you want to learn more about how you can start saving money right away, just call us at 1-800-452-3135 or fill out the short form below. A certified, licensed, credit counseling professional from a nonprofit agency will contact you right away and tell you how a debt consolidation or debt settlement program can get you out of debt without a loan.”

“Click here to have a speak with a **licensed** credit counselor about how to lower your monthly payments and get out of debt for less!”(emphasis added)

“Now offering Debt Consolidation and Debt Reduction solutions in All 50 States
- Select Your State for a **licensed** Debt Consolidation or Debt Reduction service in your area” (emphasis added)

If Credit Exchange and Dilated actually referred consumers to licensed organizations these consumers were mislead about services, savings and benefits and are the victims of false advertising. If these advertisements were leading consumers to organizations that are not licensed, this is a deliberate campaign of misinformation designed to funnel consumers into illegal debt management programs.

ALL ADVERTISING LEADS TO THE EXACT SAME PHONE NUMBER AND THE INTERNAL CONTRADICTION OF SERVICES

It is interesting to note that all four of the referenced web pages directed consumers to the exact same phone number: 800-452-3135. While this may not seem relevant at first glance, it is the contradictory statements of the individual web pages that created the falsity of the individual AND collective claims.

On two web pages, Credit Exchange and Dilated declared the benefits of credit counseling and the important concessions that it provides consumers. The two web pages stated:

“Credit Counseling is a way to get out of debt in the shortest amount of time and with the least amount of money without getting a loan or filing for bankruptcy.”

“Credit Counseling, also known as debt consolidation without a loan, is a process where a third party negotiates with creditors and establishes a payment plan on behalf of the debtor. ... Credit counseling also includes advice by professional credit counselors on how to use credit responsibly and how to stay debt free after a program is complete.”

In spite of the above proclaimed benefits of credit counseling on two of the web pages, a third web page, however, decried credit counselors, because they “work for credit card companies”. The web page stated:

“How we Help

National Debt Settlement’s debt specialists negotiate your unsecured debt for you. Our expert debt negotiators use proven debt arbitration and debt reduction techniques to help you avoid bankruptcy (which ruins your credit) and consolidation companies (that work for credit card companies) to end your debt stress.”

It is imperative to remember that these contradictory messages all led consumers to the exact same phone number. The consumer ends up at the same service provider regardless of the motivation or interest in a particular type of service.

The web pages even went so far as to contradict themselves on the benefits of the credit reporting aspects of debt settlement. The last quote cited tells how bankruptcy “ruins your credit”, yet another of the web pages claims that debt settlement ruins credit. It stated:

“Debt Settlement is reported to the credit bureaus. It can show up on your credit reports for up to 10 years, just as long as bankruptcy.”

The representation that debt settlement remains on a credit report for up to 10 years is also a false statement.

FALSE CLAIMS OF SERVICES ON TAX DEBT

Despite the questionable abilities of the Credit Exchange and Dilated to “lower the debtor’s interest rates” on certain types of debts, including “Legal bills”, it is worthy of note that the services of these organizations were claiming to be able to reduce the interest rate by “50% or more” on “Tax Debt”. The web page stated:

“The debt consolidator or credit counselor is able to lower the debtor’s interest rates on debts like: Credit Cards, Department Store Cards, Magazine / Record clubs, **Tax Debt**, Medical Bills, Legal bills, Personal loans, Signature loans, Health club memberships, Repossessed vehicles, Student loans, Collection Agencies, utility bills, and cable bills. Usually the current interest rate is **reduced by 50% or more.**” (emphasis in original)

Assuming a consumer has not had an offer in compromise accepted by the Internal Revenue Service (“IRS”), in which case the consumer would not need the services of a debt consolidator, the consumer would enter into a payment plan with the IRS that has an interest rate set by law.

The assertion that these services can reduce the interest rate by “50% or more” on “Tax Debt” is a complete and total fabrication. Note again that the interest rate reduction is at least 50%, “or more”!

Credit Exchange and Dilated also further enhanced their self-proclaimed capabilities by asserting their specialization in income tax debt. The web page stated:

“We specialize in credit card debt, medical bills, and income tax debt.”

GENERAL FALSE CLAIMS OF SAVINGS

The web page at www.NATIONAL-DEBT-SETTLEMENT.com made some of the most incredulous and unimaginable statements ever about the savings that will occur through the advertised services. Assuming *arguendo* that debt settlement actually works and that savings do occur, the representation that this service, or any service for that matter, will “Eliminate 50 - 75% of your debt” is dubious. The web page promised:

“Eliminate 50 - 75% of your debt

We negotiate with creditors to settle your debts for 50-75% less than what you currently owe! *

*Based on average debt settlement of \$10,000 in debt or more.”

The claims on this one web page were even more insidious given the fact that these results are not typical – if at all available. The savings promised by a “typical settlement” were stated as:

“Debt settlement is a process to settle your outstanding debt with the creditors. The reduction is usually between 40-60% of the total original debt amount. ... Again, a typical settlement can eliminate up to 60% of your original debt.”

It is interesting to note that some of the web pages used the conjunction “and” when making promises of lowering monthly payments along with lowering the interest rate, thus creating the illusion of greater savings. The promise of potential savings expressed in these pages was, however, limited only to credit counseling agencies – called “debt consolidation”. The claimed savings are overshadowed by the complete fabrication of the dollar amounts shown in the calculation samples.

In the savings calculation the debt owed to “a credit card company” is “\$3,500”. Through the “debt consolidation” (i.e. credit counseling) services offered on the web pages, the consumer’s “Total Payment Using Service” is now somehow reduced to only “\$3,279.91”. The web page stated:

“How much money can I save when I consolidate my debts?

An established debt consolidation company can lower your monthly payments and interest rate by up to 50% for each of your unsecured creditors. In some cases, they can even eliminate all interest charges. The savings over the term of your repayment period are substantial and dramatic. Here is just one example of the typical amount you might save in interest charges if you using a debt consolidation service.

You owed a credit card company **\$3,500:**

Total Payment Not Using Service **\$7,761.98**
(assumes an average repayment period and full interest)

Total Payment Using Service **\$3,279.91**

Amount Saved: **\$4,482.07 saved ***

(* Actual savings may differ based on your total debt and interest rates)”

The other web page at www.DEBTCONSOLIDATIONWITHOUTALOAN.com also repeated the exact same false information. There is no conceivable calculation known in credit counseling that would explain a reduction in the total amount of a debt by \$220.03. Credit counseling programs provide for the full repayment of the debt with little or no interest. The second web page also claimed:

“How much money can I save when I consolidate my debts?

An established debt consolidation company can lower your monthly payments and interest rate by up to 50% for each of your unsecured creditors. In some cases, they can even eliminate all interest charges. The savings over the term of your repayment period are substantial and dramatic. Here is just one example of the typical amount you might save in interest charges if you using a debt consolidation service.

You owed a credit card company **\$3,500:**

Total Payment Not Using Service **\$7,761.98**
(assumes an average repayment period and full interest)

Total Payment Using Service **\$3,279.91**

Amount Saved: **\$4,482.07 saved ***

(* Actual savings may differ based on your total debt and interest rates)”

ADDITIONAL FALSE ADVERTISING IN PREVIOUS VERSIONS OF THE WEB PAGES

The aforementioned web pages are the previous versions of the Credit Exchange and Dilated’s advertising campaigns. It was only after both companies were sued in U.S. District Court for false claims of affiliation, false advertising and copyright infringement that the blatant misrepresentations were removed from their advertising.

USE OF VARIOUS LOGOS FOR FALSE ENDORSEMENT OF SERVICES

The previous versions of the web pages all displayed the logo for the American Association of Debt Management Organizations (“AADMO”) and at various points the logo for the National Institute for Financial Counseling Education (“NIFCE”) and the British Standards Institute (“BSI”).

AADMO is the largest trade association for the credit counseling industry. Nationwide the majority of licensed and legally operating credit counseling agencies are members of AADMO. The AADMO logo was issued a Certificate of Registration, No. VA-1-265-681 by the Registrar of Copyrights on June 22, 2004. The logo is available to bona fide members of AADMO to use subject to the conditions of a license agreement.

Neither Credit Exchange nor Dilated have ever been members of AADMO nor ever executed a license agreement with AADMO for use of the AADMO logo.

Credit Exchange’s and Dilated’s aforementioned four separate and distinct web pages incorporated and reproduced the AADMO logo and business name, therefore causing each web page to bear the false representation that they are affiliated, connected or associated with AADMO.

Credit Exchange and Dilated have disseminated advertising bearing these false designations of affiliation, connection, or association with the sale of their services. Credit Exchange’s and Dilated’s conduct is likely to create confusion among members of the public inducing them to believe, contrary to fact, that they are members of AADMO or that AADMO approves or condones their services.

Credit Exchange’s and Dilated’s web pages are false and misleading in that they state or imply that Defendants are members of, or affiliated with, AADMO. Such false representations, as alleged above, are likely to cause public and consumer confusion, mistake and deception as to any relationship between them and AADMO.

Credit Exchange and Dilated each knew that they had no affiliation, connection, or association with AADMO.

In communications with NIFCE and BSI, we have been advised that neither Credit Exchange nor Dilated have ever had any involvement or affiliation with either of these organizations.

One web page even made the outright claim that there was some level of involvement with BSI and NIFCE. It states:

“Our purpose is to put people in touch with Certified BSI Consumer Credit Counseling Agencies who can help their financial situation. If you want to learn about better options for getting out of debt, just use submit the short form below. We will refer you to a company belonging to the National Institute for Financial Counseling Education.”

FALSE CLAIMS OF BSI CERTIFICATION AND REGISTRATION

The two web pages at www.NONPROFITDEBTSOLUTIONS.com and www.DEBTCONSOLIDATIONGURUS.com also made the further claim, beyond mere affiliation, that their services are “Registered” and “Certified” by BSI. In conversations with BSI, neither Credit Exchange nor Dilated are, nor ever have been, “Registered” or “Certified” by BSI.

The web page at www.NATIONAL-DEBT-SETTLEMENT.com also displayed a BSI certification logo for “PB 74613”. This is a valid BSI registration number but does NOT belong to either Credit Exchange or Dilated – it properly belongs to a credit counseling agency in Florida.

FALSE CLAIMS OF WINNING AWARDS

The web pages at www.DEBTCONSOLIDATIONWITHOUTALOAN.com and www.NATIONAL-DEBT-SETTLEMENT.com also made the claim:

“Award Winning Program”

There is no record of the services advertised on these two web pages having ever won any award.