

Drowning in Debt? Looking for Help? Exercise Caution When Considering Debt Relief Services

In these financially challenging times, consumers are presented with a myriad of offers from companies who promise to help them out of their debt troubles. TV commercials, web advertisements and highway billboards offer to “erase bad credit,” “repair your credit history” or “settle your debt for pennies on the dollar.” While there are legitimate organizations that can help consumers manage their debts, even more exist to simply take desperate consumers’ last dollars.

Be especially wary of offers that:

- Promise to get rid of all negative information (including legitimate info) on your credit report;
- Tout a "new government program" to bail out personal credit card debt;
- Guarantee they can eliminate your unsecured debt or enable you to pay only pennies on the dollar;
- Tell you they can stop all debt collection calls and lawsuits;
- Tell you to stop communicating with your creditors, but doesn't explain the serious consequences.

Start With Credit Counseling

Before signing up with a debt management or debt settlement service, consumers should first meet with a reputable credit counseling service. Many non-profit credit counseling services provide free or low-cost services that can help you:

- Understand different types of financial products and options available;
- Understand how you can avoid or minimize negative information on your credit history; and
- Set up a plan for managing your bills and household expenses.

Look for a credit counseling organization that employs certified counselors and is affiliated with the National Foundation for Credit Counseling or the Association of Independent Consumer Credit Counseling Agencies.

Debt Management

Debt management companies offer to consolidate consumers’ debts into one monthly payment which is then distributed to the consumers’ creditors. The debt management company negotiates with your creditors to lower your interest rate and/or waive its fees in exchange for receiving a regular monthly payment. There is no guarantee, however, that your creditors will agree to the plan proposed by the service provider. And, in most cases, you will have to pay the full amount of the debt plus the debt management company’s fees, so you may not realize significant savings.

Debt management companies must be licensed by the Maryland Division of Financial Regulation (Department of Labor, Licensing and Regulation) and must provide an education program that explains all of the alternatives available for handling your debt – including budgeting and filing for bankruptcy;

In Maryland, debt management companies:

- May not charge you any money until after you sign a debt management agreement that describes its services;
- May not charge a fee to: prepare a financial analysis or initial budget plan, to counsel you about debt management, or provide its consumer education program, even if you decide not to purchase its other debt management services;

- May charge you a consultation fee up to \$50 (which must also cover the cost of obtaining your credit report);
- May charge up to \$8 a month for each credit listed in the agreement up to \$40 a month total;
- May not charge you if you want to rescind the debt management agreement.

Debt Settlement

Debt settlement plans are the most risky for most consumers. Under a debt settlement plan, you make a payment each month into a “fund” which, under Maryland law, must be administered by an independent third party (who may charge an administrative fee). The funds deposited are owned by you and you are entitled to any interest that accrues. When the fund’s balance reaches a certain amount, the provider will begin attempting to settle your debts, one creditor at a time, for a percentage of what you owe. There is no guarantee, however, that any creditor will accept the provider’s settlement offer, and many people have trouble making these payments long enough to get all (or even some) of their debts settled.

You must, in the meantime, continue to make payments on your debts or suffer negative consequences including: damage to your credit report and credit score; the accrual of additional fees and interest on credit card debt which will increase the amount you owe; on-going collection activities and possibly being sued by your creditors. If the program relies on your not continuing to make payments to obtain the promised results, it must tell you about these consequences.

Debt settlement companies charge significant fees – usually a percentage of the debt you owe - which usually off-set any reduction made to the consumer’s debt. In Maryland, however, you cannot be charged a fee for consultation or for obtaining your credit report, and you cannot be required to pay a “voluntary contribution” for any service. In addition, debt settlement companies cannot charge a fee for their services until after:

- A written debt settlement services agreement has been executed with you;
- The company has settled or reduced at least one of the debts listed in the agreement; and
- You have made at least one payment under the terms of the agreement.

When the debt settlement company settles one of your debts it may only charge you a proportionate share of the total fee for settling all of your debts.

Do Your Homework And Carefully Consider Your Options

Before you enroll in any debt relief program, carefully review its services and its cost. Money you pay to a debt relief program could, after all, go toward paying down your debt. Before committing to a debt relief program:

- Contact your creditors to see if they will work with you to reduce your debt with or without the assistance of a debt relief agency.
- Only do business with licensed credit counseling and debt relief services. Contact the Maryland Division of Financial Regulation at 410-230-6100 to see if the company is properly licensed.
- Carefully review the company’s agreement for credit counseling, debt management or debt settlement services. If the company refuses to provide you with a copy of its contract in advance of signing, that’s a warning that the contract contains language that is contrary to your best interests.
- Contact the Maryland Division of Financial Regulation and the Howard County Office of Consumer Affairs to see if any consumer complaints are on file.
- Enter the name of the company with the word "complaints" into an internet search engine to find out what others have said about the company and whether any lawsuits with state or federal regulators have been reported.

To obtain this factsheet in an alternative format, please contact the Office of Consumer Affairs at 410-313-6420(voice/relay) or email us at consumer@howardcountymd.gov