

Wednesday, March 9, 2011

Kay Sarlin/Abigail Lootens
(212) 487-4283

DEPARTMENT OF CONSUMER AFFAIRS DECLARES DEBT SETTLEMENT TOP FRAUD OF THE YEAR

Commissioner Mintz Warns New Yorkers to Beware of Fee-Based Debt Settlement Companies

New Yorkers Have Safe, Free Options at the City's Network of Financial Empowerment Centers

Department of Consumer Affairs (DCA) Commissioner Jonathan Mintz today declared debt settlement the top fraud of the year. Debt settlement companies lure people struggling with debt by claiming that they will convince creditors to settle debts for less than what's owed. However, it rarely works. Companies charge high fees and counsel consumers to ignore their debts, which can cause lasting harm. DCA cautions consumers about these services and encourages them to know their rights and the latest rules about debt settlement. In an effort to provide New Yorkers with a safe way to deal with debt, the City offers a network of Financial Empowerment Centers, which provide free, professional one-on-one financial counseling. Commissioner Mintz made the announcement at a press conference with the Federal Trade Commission, the Better Business Bureau and other Federal and State agencies and organizations in order to alert New York area consumers to the top consumer complaints of the past year and to educate them on how to avoid becoming victims of these and other scams in 2011.

"Debt settlement companies aggressively market false hope to vulnerable New Yorkers who fear they have run out of options to get out of debt", said Commissioner Mintz. "In reality, settlement companies only cause further harm, using dangerous strategies that result in mounting late fees and long-lasting damage to credit scores, on top of their own fees. I encourage New Yorkers struggling with debt to visit one of the City's free Financial Empowerment Centers where they can meet one-on-one with a professional counselor to tackle their debt."

According to DCA's Office of Financial Empowerment (OFE)'s [Citywide Financial Services Study](#), nearly one in five (18 percent) New York households has credit card balances of more than \$10,000. Nationally, about one in eight (13 percent) households has balances in that range. DCA received more than 660 complaints against debt collectors last year, making it the Department's number one complaint for the third year in a row. And almost 60 percent of the nearly 8,900 clients who visit the City's Financial Empowerment Centers come seeking help with debt. DCA has been advocating at local, State, and Federal levels for comprehensive bans on fee-based debt settlement and related predatory services.

The City's network of more than 20 Financial Empowerment Centers provides free, one-on-one, confidential, and multilingual professional financial counseling to New York City residents. Counselors help clients with money management, budgeting, credit counseling, negotiating with creditors, finding affordable banking services, debt management, government benefits screenings and more. Since the pilot Financial Empowerment Center opened in June 2008, the Centers' financial counselors have helped more than 9,300 clients pay down nearly \$4 million in debt. For complete list of Financial Empowerment Centers, visit nyc.gov/ProtectYourMoney or call 311. To file a debt settlement complaint, contact the New York State Banking Department at 1-877-BANK-NYS.

KNOW YOUR RIGHTS ABOUT DEBT SETTLEMENT

As of October 27, 2010, debt settlement companies that sell their services over the phone must comply with new consumer protections:

- Be aware: Up-front fees may be illegal. For-profit debt settlement companies that sell their services by phone cannot legally charge a fee before they settle or reduce a debt. (Sales by phone include calls to you through direct telemarketing and calls by you in response to an advertisement.) Debt settlement companies that charge up-front fees may be breaking the law.
- Demand information about costs and risks of debt settlement. By law, if you signed a contract after September 27, 2010, settlement companies must tell you how long it will take them to get results, how much it will cost you and the negative consequences that could result (like damage to your credit score, potential lawsuits, and being charged more fees and interest by your creditors).
- The money you pay into a settlement account is YOURS! Money that a debt settlement company asks you to set aside in an “escrow” or “settlement” account belongs to you. You may cancel the account at any time, and the escrow company must refund all of your money minus any fees the settlement company legally earned.
- Consumer protections do not always apply. If you enroll in debt settlement online or face-to-face at a sales presentation or storefront, you do not have the same protections when it comes to up-front fees, disclosures, and escrow accounts. Do not sign up for a fee-based plan online or in person at a “debt settlement” workshop where the company can charge you up-front fees without violating the law.

DCA enforces the Consumer Protection Law and other related business laws throughout New York City. Ensuring a fair and vibrant marketplace for consumers and businesses, DCA licenses more than 78,000 businesses in 55 different industries. Through targeted outreach, partnerships with community and trade organizations, and informational materials, DCA educates consumers and businesses alike about their rights and responsibilities. DCA’s Office of Financial Empowerment (OFE) is the first local government initiative in the nation with a mission to educate, empower, and protect New Yorkers with low incomes so they can build assets and make the most of their financial resources. Toward that end, OFE seeks to increase access to high-quality, low-cost financial education and counseling; improve access to income-boosting tax credits; connect households to safe and affordable banking and asset-building products and services; and enforce and improve consumer protections to enhance financial stability. For more information, call 311 or visit DCA online at nyc.gov/consumers. Follow us on [Twitter](#) and find us on [Facebook](#).

TIPS TO PROTECT YOUR MONEY FROM DEBT SETTLEMENT

- **Get free help with debt.** Visit an NYC Financial Empowerment Center for free one-on-one professional financial counseling. Call 311 or visit nyc.gov/ProtectYourMoney
- **Don’t pay high up-front fees.** Walk away from any company that tries to charge fees before services are performed. If a debt settlement company tries to charge you before achieving a settlement, file a complaint with the Federal Trade Commission (FTC). Go online to ftc.gov or call 877-FTC-HELP (877-382-4357).
- **Be wary if you are directed to enroll for debt settlement service online or in person.** Debt settlement companies that use these tactics may be trying to evade the ban on charging fees up-front.
- **Don’t assume that debt settlement companies are acting in your best interest—or are legitimate. Companies will claim to be nonprofits, to use lawyers, or to be affiliated with the government to try to lure you in.**

- **Know that debt settlement plans initially will increase your debts and are extremely unlikely to reduce any of your debt in the end.**
- **Beware of damage to your credit score and risk of legal action.** Debt settlement can do long-lasting damage to your credit score, affecting your ability to get a loan, a credit card, or even housing or a job in the future. Your creditors may take legal action against you, such as legal judgments, lawsuits, collection activities, and freezing your bank accounts.
- **Save your paperwork.** If you've been in contact with a debt settlement company, save any advertisements, letters, contracts, statements, or other documents you receive. And take notes about your phone calls.