



Beware of Debt Assistance Scams

From the Office of Minnesota Attorney General Lori Swanson

Are you struggling to make ends meet financially? Does it seem like your monthly bills exceed your income? Many nonprofit credit counseling organizations can assist you for free in managing your debt and coming up with solutions to your financial problems. You should be careful, however, to avoid hiring companies that charge you money to help you but end up making a bad situation worse. There are no easy ways or quick fixes for getting out of debt. Doing so requires developing a careful budget and may take time. Attorney General Lori Swanson offers these tips so that consumers trying to do the right thing by getting help do not get bad and costly advice.

Credit Counseling

Reputable credit counseling organizations help you develop a monthly budget and give you advice on managing your money and paying your debts. Many are nonprofits that do not charge you a fee for their services. Their counselors have training in the areas of finance and consumer credit. They will review your financial situation and help you develop a plan tailored to your needs.

To locate a reputable credit counseling organization in your area, contact the following organizations:

LSS Financial Counseling Service

1-888-577-2227

www.cccs.org

National Foundation for Credit Counseling

1-800-388-2227

www.nfcc.org

You should make sure that any credit counseling organization that promotes itself as a “nonprofit” does not charge you hidden fees.

Debt Management Plans

If you owe more on your bills than you can afford to pay, a credit counseling agency may recommend that you establish a “debt management plan.” A debt management plan should be tailored to your particular financial situation. Under a debt management plan, you deposit money each month with the credit counseling organization, which may work with your creditors to lower your interest rate or waive certain fees. The credit counseling organization then uses your deposits to pay your bills, which may include credit card bills, car loans, medical expenses and the like. The credit counseling organization should work with you and your creditors to establish a payment schedule. The goal of a debt management plan is to repay the money that you owe through periodic payments.

Most debt management companies are required to be licensed by the Minnesota Department of Commerce. Therefore, before you hire a debt management company, check with the State Commerce Department to be sure it is properly licensed and has not had any enforcement action taken against it. You may contact the State Commerce Department as follows:

Department of Commerce

Market Assurance Division

85 East Seventh Place, Suite 500

St. Paul, MN 55101

(651) 296-2488

1-800-657-3602

www.commerce.state.mn.us

Debt Settlement/Negotiation Companies

“Mary” is a divorced mother in her 50’s with two children. With a reduction in her hours at work, she got behind on her bills. Mary thought she was doing the right thing by hiring a debt settlement company, which promised to reduce her bills and help her get out of debt. The debt settlement company required Mary to pay it hundreds of dollars in fees up front. It then told her to stop paying her bills so that her creditors would be willing to negotiate with the company. A few months later, Mary was shocked when one of her creditors filed a lawsuit against her. She called the debt settlement company, but it told her that it could not help her with the lawsuit and that she would have to hire an attorney. Meanwhile, Mary’s credit was further ruined, and she was faced with defending a lawsuit in court. Don’t let what happened to Mary happen to you!

Debt settlement/negotiation companies promise you quick results to get out of debt. They typically tell you to stop paying your bills altogether and instead save the monthly payments you are making in a savings account. Once you have sufficient funds, the company will supposedly contact your creditors to negotiate a lump-sum payoff of your debt. Debt settlement/negotiation companies often promise you that they can cut your bills in half or more.

You should be extremely cautious about using a debt settlement/negotiation company. These companies are currently not regulated or licensed under Minnesota law. Because they tell you to stop paying your bills, your credit will suffer. Because you are not paying your bills, you may be contacted by debt collection agencies or even sued.

Most debt settlement/negotiation companies charge high fees. They sometimes require you to make initial up-front payments to them and then take a high percentage of all monthly payments you deposit into your bank account.

Debt settlement/negotiation programs are very risky and have longterm negative impact on your credit and ability to get loans or credit in the future.

Some organizations, such as the Consumer Federation of American, warn consumers not to use debt settlement/negotiation companies. Consumers have told the Attorney General’s Office that debt settlement/negotiation companies have made serious misrepresentations to them that left the consumers far worse off then when they started.

If you follow the advice of a debt settlement/negotiation company to stop paying your bills, you will likely incur late fees, pay interest-upon-interest, and fall further into default. This may ruin your credit, and some of your creditors may even file lawsuits against you or garnish your wages and/or bank account.

Tips for Consumers

Minnesota Attorney General Lori Swanson provides the following ten tips:

1. **Find a reputable counselor.** Find a reputable credit counseling organization by contacting LSS Financial Counseling Service at 1-888-577-2227 or www.ccs.org or the National Foundation for Credit Counseling at 1-800-388-2227 or www.nfcc.org. Before you use any credit counseling organization, also check with the Better Business Bureau at:

Better Business Bureau

2706 Gannon Road

St. Paul, MN 55116-2600

(651) 699-1111

Toll free: 1-800-646-6222

www.bbb.org

Try to find an organization that will help you for free as part of its mission.

2. Is the company licensed? Debt management companies must be licensed by the Minnesota Department of Commerce. Debt settlement/negotiation companies currently are not required to be licensed. With a debt settlement/negotiation company, you pay it fees, but it does not distribute money directly to your creditors for you. Find out whether any company you intend to hire is licensed with the State Commerce Department by calling that agency at (651) 296-4026 1-800-657-3602.

3. Dangerous promises. Beware of any company that tells you to stop paying your creditors. If you stop paying your creditors altogether, you may ruin your credit, have lawsuits filed against you, and have your wages or bank accounts garnished.

4. Sound too good to be true? Some debt settlement/negotiation companies may “guarantee” to lower your monthly credit card and loan payments, or to reduce your payments by fifty percent or more. Remember: if a promise sounds too good to be true—it usually is.

5. Beware of money-back guarantees. In order to allay consumers’ concerns, some debt settlement companies promise money-back guarantees. These guarantees, however, may not be worth the money they’re printed on. Don’t let a money-back guarantee lure you into a false sense of security.

6. Know the fees. Some companies charge high up-front and/or monthly fees for enrolling in credit counseling or a debt management or settlement plan. Some credit counseling services are nonprofits, while others are for profit. Some debt settlement and management companies charge you high fees. Take time to know what your total costs are and who is receiving your money. Is the debt settlement/negotiation company taking

money up front that would be better used to pay off your bills?

7. Watch the fine print. Debt settlement/negotiation companies may have you sign written contracts that differ from what they tell you on the phone. For example, the debt settlement/negotiation company may tell you over the phone to stop paying your creditors and that you won’t be sued. The contract, however, may say just the opposite. You should read the fine print of any contract. If the contract says something different than what you are told in person or over the phone, do not sign it. Make sure all verbal promises are in writing.

8. A plan tailored to your needs. A legitimate credit counseling organization should take time to understand your income and expenses, and tailor a plan to your own particular needs. Beware of any organization that gives you generic or “one size fits all” advice.

9. What’s the end game? You should understand exactly how much the service will cost you and whether the company takes its fees before money is paid to your creditors. You should also understand what interest rates you will be paying the creditors, whether the creditors will reduce your lump-sum payments, and how long it will take to completely pay down your debt.

10. No quick fixes. Remember: there is no magic solution toward getting out from under consumer debt. Doing so takes hard work, time, and careful budgeting.

For more information, contact:

Office of Minnesota Attorney General

Lori Swanson

1400 Bremer Tower

445 Minnesota Street

St. Paul, MN 55101

(651) 296-3353 or 1 (800) 657-3787

TTY: (651) 297-7206 or 1 (800) 366-4812

www.ag.state.mn.us