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## David Leuthold: Proposed debt settlement law would hurt consumers

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### THE STATE JOURNAL-REGISTER

Posted Apr 21, 2010 @ 12:05 AM

Last update Apr 21, 2010 @ 07:04 AM

Consumer protection has two sides: preventing harm and helping consumers. Attorney General Lisa Madigan's proposed bill, the Illinois Debt Settlement Consumer Protection Act, would actually hurt consumers by eliminating an industry that provides a valuable service to those in financial straits during these tough economic times. That fact was not made clear in The State Journal-Register's recent editorial ("[Put curbs on debt settlement companies.](#)" Sunday).

Madigan's bill (HB 4781) limits fees to 15 percent of the debt reduction and prohibits any other type of service fee. These fee limits amount to about one-third the fee allowed for nonprofit credit counseling companies. In addition, the bill further delays payment of fees to debt settlement companies, who consequently would have to work for free for the significant part of the settlement process — which typically takes three years — and hardly any company in any industry could survive that.

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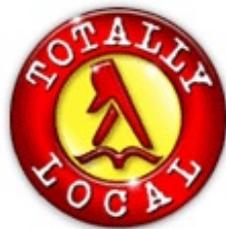
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Instead of protecting consumers, Madigan and Illinois lawmakers would be causing the thousands who are struggling to manage their unsecured debts to lose a valuable tool for getting back on their financial feet. In fact, these consumers would only be left with the so-called alternatives of credit counseling or bankruptcy.

Credit counseling takes 60 months to complete and does not seek reductions in the principal amount owed, which means many consumers cannot afford the monthly payments demanded by the creditors for this program. Bankruptcy may result in the loss of a home, and it leaves a 10-year stain on the customer's credit report. According to a report from Automated Access to Court Electronic Records, bankruptcy filings in the United States now exceed 6,000 per day.

Debt settlement is a viable, affordable debt relief option that fills the niche between a credit counseling program and bankruptcy. A study by Southern Methodist University associate professor of marketing Richard Briesch found that, for a specific class of consumers, debt settlement is the best method for reducing consumers' unsecured debt.

Many consumers currently are benefiting from debt settlement services. The Association of Settlement Companies, the largest trade group for the debt settlement industry, is pleased to report that our member companies settled an estimated \$1.1 billion of debt in 2009 alone. Plus, our research shows more than \$500 million in settlement funds saved by consumers are available to credit card companies today through debt settlement; basically, consumers are saying, "We want to pay." This is an important finding as the credit card industry charge-off rate now exceeds 10 percent.

Still, we at TASC acknowledge there are bad apples in our industry. That's why we are working on a state-by-state level to get fair legislation passed that ensures consumer protection. For example, TASC helped draft legislation adopted in several states — including Colorado, Delaware, Idaho, Montana and Tennessee, to name a few — that contains meaningful standards of operations and significant enforcement remedies against bad companies.

These laws are helping to weed out untrustworthy companies that have given the industry a black eye. Licensing, background checks, bonding, mandatory disclosures, reporting and regulations on conduct in these laws all help protect consumers while preserving the ability for consumers to use debt settlement.

In these economic times, consumers need more options, not fewer. We urge the Illinois Senate to help consumers in financial distress by not accepting Madigan's proposed law regarding fee restrictions. Instead, it should pass a law to regulate debt settlement companies that requires that they operate within certain guidelines and that contains strong consumer protections. Otherwise, consumers will be the ones who suffer the consequences at the end of the day.

David Leuthold is executive director of the Association of Settlement Companies.

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**CookVoter** 5 hours ago  Report Abuse

I don't understand what the logic would be of a bill that allows a non-profit to earn more than a for-profit and that would result in more people filing bankruptcy. So let's hurt businesses in favor of non-profits and encourage more people to not pay their bills? I feel like this is the type of legislation I'd read about in the Moscow Times in 1920 or the Detroit Free Press in 1985. Either way, I'm scared for the future of our state if this is the type of bill that our elected officials are pondering.

**buttsja** 4 hours ago  Report Abuse

Your credit rating will take a big hit even if part of what you owe is forgiven. People should be told this before agreeing to any debt forgiveness.

**BAJD** 2 hours ago  Report Abuse

What he conveniently leaves out is the fact that most 'debt settlement' companies are scams. There are a few credible ones out there, but they are few and far between. Clients enter into a contract with them, pay the company the agreed to amount, but in fact the company pays off little if any of the debt owed to the creditor, instead pocketing most of it. In the end, the client isn't much better off than when they started. As for homes being at risk in a bankruptcy, any decent bankruptcy lawyer will prevent their clients from losing their home in 90% of situations. And while a bankruptcy will be on your report for 10 years, that in no way prevents you from getting loans or mortgages well before then. Many people rebuild their credit scores back to normal within 5 years of a bankruptcy discharge.

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