

The Consumer's Edge

Consumer Protection Division, Maryland Attorney General's Office

Issue # 134

Education On Debt Management and Settlement Companies

Consumers affected by the current economic downturn are facing increasing debt and some are seeking alternative solutions to relieve their financial burden. Marylanders hoping to reduce some of that debt are bombarded by advertisements for debt management plans and debt settlement plans. Some ads make questionable claims that consumers can reduce their debts by as much as 50% to 70%. Consumers should not assume that they will be able to enjoy the claimed savings.

The Office of the Attorney General recommends not signing up for either debt management or debt settlement plans unless consumers first undergo credit counseling from a reputable credit counseling agency. Counseling may provide the consumer less expensive and more effective options to eliminate their debts. A certified credit counselor can help consumers understand their options, create a budget, and offer advice on spending habits.

Debt management companies, which are required to be licensed in Maryland, allow consumers to consolidate their debts into a single monthly payment, which is then distributed to the consumers' creditors. These companies negotiate with creditors to waive late fees and lower interest rates. Debt management companies must also provide consumers with an education program and explain consumers' alternatives for addressing their debt situation, including budgeting or filing bankruptcy. However, under a debt management plan, a consumer is usually required to pay the full amount of the debt plus the debt management company's fees.

Debt settlement companies are not licensed and offer plans that may be riskier than those of debt management companies. Debt settlement companies often advise their clients to stop paying their creditors and instead deposit monthly payments into an account so an amount can be built up that would allow the settlement company to negotiate a settlement with creditors. As of October 2010, debt settlement companies can no longer charge fees until they have settled the consumer's debt, due to a regulation issued by the Federal Trade Commission. Under the FTC Rule, the debt settlement company must explain to consumers important information such as how long it will take to see promised results, the cost of the debt settlement plan, and any negative consequences that could arise

from using debt settlement companies. The FTC Rule specifies that fees for debt relief services may not be collected until:

- the company successfully renegotiates, settles, reduces, or otherwise changes the terms of at least one of the consumer's debts;
- there is some sort of written settlement agreement between the consumer and the company, and the consumer has agreed to it; and
- the consumer has made at least one payment to the creditor as a result of the agreement negotiated by the debt relief company.

In addition, the Final Rule allows debt relief companies to require consumers to set aside money for payment to creditors in "dedicated accounts." Debt settlement companies may only require a dedicated account if:



- the consumer owns all the funds in the dedicated account, including any accrued interest;
- the consumer can withdraw money without paying a penalty;
- the account is maintained by an insured financial institution that does not have any affiliation with the debt relief company; and
- the debt relief company cannot exchange referral fees with the financial institution.

To protect Marylanders in the midst of debt problems, the Attorney General recommends the following:

- Explore all alternatives with a legitimate counseling agency, such as those who are members of the National Foundation for Credit Counseling.
- Contact the local bankruptcy court to make sure the credit counseling agency has been approved by the United States Trustee.
- Contact creditors to see if they will reduce the debt. Many credit card companies will work with consumers to resolve their debt situation.
- Carefully read and review any contracts before purchasing any credit counseling, debt management or debt settlement service. If the business refuses to provide a copy of its contract, this is a warning sign that the contract contains language that may be harmful.
- Only do business with licensed credit counselors and debt management companies.
- Check with the Consumer Protection Division and the Department of Labor, Licensing and Regulation to find out whether complaints have been lodged against the business.

If you have any questions regarding credit counseling, debt settlement companies or debt management companies, call the Consumer Protection Division's hotline at 410-528-8862 (TTY: 1-888-743-0023) or e-mail the Consumer Protection Division at consumer@oag.state.md.us.

Volunteer Opportunities and Internships

Do you like to help people? Do you live in the Baltimore area? Then come volunteer in the Attorney General's Consumer Protection Division.

Our volunteers respond to consumer inquiries on the telephone hotline, and mediate consumer complaints against businesses and health care providers. You will receive training in mediation and learn valuable skills. The division also offers college and law students a variety of internship opportunities.

Our downtown office is convenient to the Light Rail and Metro, and volunteers receive a travel stipend. No experience necessary. Interested? Call 410-576-6519.

Attorney General's Consumer Offices

Consumer Protection Division
200 St. Paul Place, 16th Fl.
Baltimore, MD 21202-2021

- General Consumer Complaints: 410-528-8662
Toll-free: 1-888-743-0023
TDD: 410-576-6372
9 a.m. to 3 p.m. Monday-Friday
- Medical Billing Complaints: 410-528-1840
9 a.m. to 4:30 p.m. Monday-Friday
To appeal health plan claims decisions:
Toll-free within Maryland 1-877-261-8807

Branch Offices

- **Cumberland**
301-722-2000; 9 a.m. to 12:00 p.m. 3rd Tuesdays
- **Frederick**
301-600-1071; 9 a.m. to 1:00 p.m. 2nd and 4th Thursdays
- **Hagerstown**
301-791-4780; 8:30 a.m. to 4:30 p.m. Monday-Friday
- **Prince George's**
301-386-6200; 9:00 a.m. to 5:00p.m. Monday-Friday
- **Salisbury**
410-713-3620; 8:30 a.m. to 4:30 p.m. Monday-Friday
- **Southern Maryland (Hughesville)**
301-274-4620 Toll-free 1-866-366-8343
9:30 a.m. to 2:30 p.m. Tuesdays

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