DEBT SETTLEMENT

Fraudulent, Abusive, and Deceptive Practices Pose Risk to Consumers

What GAO Found

GAO’s investigation found that some debt settlement companies engage in fraudulent, deceptive, and abusive practices that pose a risk to consumers. Seventeen of the 20 companies GAO called while posing as fictitious consumers say they collect fees before settling consumer debts—a practice FTC has labeled as harmful and proposed banning—while only 1 company said it collects most fees after it successfully settles consumer debt. (GAO was unable to obtain fee information from 2 companies.) In several cases, companies stated that monthly payments would go entirely to fees for up to 4 months before any money would be reserved to settle consumer debt. Nearly all of the companies advised GAO’s fictitious consumers to stop paying their creditors, including accounts that were still current. GAO also found that some debt settlement companies provided fraudulent, deceptive, or questionable information to its fictitious consumers, such as claiming unusually high success rates for their programs—as high as 100 percent. FTC and state investigations have typically found that less than 10 percent of consumers successfully complete these programs. Other companies made claims linking their services to government programs and offering to pay $100 to consumers if they could not get them out of debt in 24 hours. To hear clips of undercover calls illustrating fraudulent, abusive, or deceptive practices, see http://www.gao.gov/products/GAO-10-593T.

Examples of Fraudulent or Deceptive Marketing Claims by Debt Settlement Company

New Government Programs!
New free and easy programs are available for those who are in debt right now! Take advantage while they’re still available.

IF WE CAN’T GET YOU OUT OF DEBT IN 24 HOURS
We’ll Pay You $100

Source: Debt settlement company Web site. Images enhanced by GAO.

GAO found the experiences of its fictitious consumers to be consistent with widespread complaints and charges made by federal and state investigators on behalf of real consumers against debt settlement companies engaged in fraudulent, abusive, or deceptive practices. Allegations identified by GAO involve hundreds of thousands of consumers across the country. Federal and state agencies have taken a growing number of legal actions against these companies in recent years. From these legal actions, GAO identified consumers who experienced tremendous financial damage from entering into a debt settlement program. For example, a North Carolina woman and her husband fell deeper into debt, filed for bankruptcy in an attempt to save their home from foreclosure, and took second jobs as janitors after paying $11,000 to two Florida companies for debt settlement services they never delivered. Another couple, from New York, was counted as a success story by an Arizona company even though the fees it charged plus the settled balance actually totaled more than 140 percent of what they originally owed.

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