

Crackdown on debt schemes needs a push

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By Terry Savage

Beware debt settlement firms. That's a warning I've sent out several times in recent months. But like crabgrass in spring, they're spreading fast all over the country. The radio commercials are tempting -- telling you they can negotiate with your credit-card issuer so you'll pay as little as 40 percent of what you owe.

Now my warning has turned up in Springfield, on a fact sheet prepared by the Illinois Attorney General in support of a new bill -- the Illinois Debt Settlement Consumer Protection Act. It quotes my Sun-Times column where I reminded readers:

Don't fall for those debt-settlement companies. Most require you to divert your current payments to an account giving them the leverage to negotiate. Meanwhile your credit is further ruined, and they take their fees before negotiating any settlement.

The Illinois attorney general has filed seven lawsuits against debt settlement companies -- most alleging that consumers paid into those "special accounts" for months, money that was diverted to paying fees to the companies, but did not result in a settlement. Meanwhile, the consumers' credit was ruined, they were sued by their creditors, and many were forced to file bankruptcy.

Those upfront fees can frequently amount to as much as 17 percent of the consumer's total outstanding debt. The fees consume all the money that is being set aside monthly. And since there can be no negotiation without an offer of money, a settlement is never possible!

Some programs tell the consumer to change the address on the bill or have it forwarded automatically to the settlement company. So the individual never realizes that he or she is being sued by creditors until there's a notice that their paycheck is being garnished or a lien placed against their property.

Attorney General Lisa Madigan minces no words in attacking these companies, calling them "scam artists who are stealing people's money." But the bill is being stalled in the Illinois Senate, as lobbyists from the industry have descended on the capital to stop this legislation in its tracks.

But first you should understand the provisions of the bill. It doesn't outlaw debt negotiation. But it does limit the damages that unscrupulous firms can inflict on your credit.

The bill has received wide support from both consumer groups and the banking industry. It seems everyone but debt-ridden consumers can see the pitfalls of these enticing commercials. But the lobbyists for these companies say that crimping their business would cost jobs -- a ridiculous point, since most are based outside the state and the only dollars they spend here are on those radio commercials!

As Madigan points out: "When I first saw the commercials, I thought who wouldn't sign up for these promises to wipe out half or more of your debt? But they're taking your money and not providing a service. And they're dooming your financial situation."

If you want to help push this legislation through, it's HB 4781. It has bipartisan sponsorship. But to stave off the lobbyists, you need to express your support to Senate President John Cullerton by calling him at (217) 782-2728 or e-mailing him at john@senatorcullerton.com.

And one more word of advice. Before you try any of these programs, even after the bill passes, start with a visit to your nearest Consumer Credit Counseling Services office, which you can find by calling 800-388-2227. There you'll get responsible, inexpensive advice that will get you out of debt trouble, instead of getting you in deeper. And that's the Savage Truth.

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