

NY Attorney General Cuomo Announces Nationwide Investigation into Debt Settlement Industry

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New York, N.Y. - New York state Attorney General Andrew M. Cuomo today announced a nationwide investigation into the debt settlement industry, subpoenaing fourteen debt settlement companies and one law firm. Companies in the debt settlement industry often prey upon consumers who find themselves unable to keep up with credit card payments during these difficult economic times.

“Today, millions of hardworking Americans are finding themselves imprisoned by debt. In response, a rogue industry has stepped in, offering consumers false hope, charging tremendous fees, and leaving them in a worse financial situation,” said Attorney General Cuomo. “Our mission is clear: to hold unscrupulous businesses accountable; to rein in a renegade industry; and to ensure that people are not victimized when faced with financial hardship.”

As part of his broad investigation of the debt settlement industry, Cuomo today issued subpoenas to fourteen debt settlement companies and one law firm: American Debt Foundation, Inc.; American Financial Service; Consumer Debt Solutions; Credit Answers, LLC; Debt Remedy Solutions, LLC; Debt Settlement America; Debt Settlement USA; Debtmerica Relief; DMB Financial, LLC; Freedom Debt Relief; New Era Debt Solutions; New Horizons Debt Relief Inc.; Preferred Financial Services, Inc.; U.S. Financial Management Inc. (d.b.a. My Debt Negotiation); and the Allegro Law Firm.

The subpoenas include requests designed to uncover the companies’ fee structures, how many people have benefitted from the companies’ services, and what kind of relief the companies are actually providing.

Cuomo is also currently investigating Nationwide Asset Services, Inc., based in Phoenix, Arizona, and Credit Solutions of America, Inc., based in Addison, Texas.

The debt settlement plans offered by these companies are often inherently flawed and, based upon consumer complaints, it appears that many consumers are being misled regarding the nature of the services offered by these companies. For example, some companies falsely represent that they can reduce consumers’ credit card debt by as much as 75 percent through negotiations with creditors. In addition, the companies often take their fees up front and keep their fees even when they do not provide the promised services.

The debt settlement plans are generally premised on consumers aggregating savings, over one to three years, from which both the payment of the company’s fees and any negotiated settlement are to be made. Yet most consumers who are targeted by these companies are unable to meet the savings requirements because of their precarious financial situation.

Some of the companies also urge consumers to seek additional sources of funds through means such as selling their blood plasma, mowing lawns, cutting down on car insurance, and borrowing from their neighbors and church. Even for those consumers who can meet the requirements set out by a plan, their amount of aggregated savings is ordinarily insufficient to settle their debts. As a result, many consumers find themselves worse off financially because of these debt settlement plans.

Many consumers may benefit more from working directly with their creditors, seeking credit counseling, or consulting an attorney about filing for bankruptcy. Additionally, even when enrolled in a debt settlement plan, consumers are often still subjected to collection efforts and lawsuits filed by their creditors. Consumers are even told not to discuss their debt situation with creditors.

Attorney General Cuomo has actively pursued unscrupulous companies and individuals that have attempted to take advantage of people who are experiencing personal financial problems during these trying economic times. On April 14, 2009, the Attorney General arrested the owner of Long Island-based American Legal Process for allegedly providing “sewer service” to thousands of New Yorkers owing debt. According to the Attorney General’s criminal complaint and civil suit, this company failed to properly notify individuals that they faced debt-related lawsuits. As a result, individuals would unknowingly default and have judgments entered against them, without the chance to defend themselves.

Consumers who believe they are being defrauded by a debt settlement company are urged to contact the Attorney General’s office at 800-771-7755 or www.oag.state.ny.us.

The Attorney General’s investigation of the debt settlement industry is being spearheaded by the Bureau of Consumer Frauds and Protection in New York City and several of the Attorney General’s Regional Offices across the state, under the supervision of Consumer Frauds Bureau Chief Joy Feigenbaum and Deputy Attorney General for Regional Affairs David Sampson.

The following are some helpful information tips for consumers faced with significant credit card debt:

- Be wary of debt settlement companies which falsely promise to obtain substantial lump sum debt reduction settlements. Many advertise “reduce debt now,” and claim as much as 50% to 75% off credit card debt, but rarely obtain advertised reductions.
- Never agree to sign a contract with a debt settlement company that requires payment in advance prior to obtaining the promised debt reduction.
- Enrollment in debt settlement plans may not stop creditors from bringing collection law suits, or prevent enrolled accounts from growing larger by the addition of late fees, interest, and penalties. Also, credit reports will reflect derogatory information, including assessed late charges and non-payment of debt, and consequently credit scores will be adversely affected.
- Creditors are under no legal obligation to accept a settlement offer for less than the outstanding balance owed.

- Only a small number of consumers who enroll in debt settlement plans have the financial means to complete them. Usually, they drop out after having paid service fees to the companies with no settlements.
- Enrollment in a debt settlement plan premised on stopping payments to creditors will likely lead to more frequent and aggressive creditor collection efforts often resulting in judgments, wage garnishments, and freezing of bank accounts.
- Check with the Better Business Bureau to obtain a Reliability Report on a particular debt settlement company and its rating.
- A wise first step to help resolve an outstanding account is to speak directly to the credit card issuer. Alternatively, it may be helpful to speak to an attorney or an accredited credit counselor who can help develop a plan of action that best works for each consumer's unique situation.