

Debt Consolidation: Beware Big Fees and Big Promises

What's a nonprofit credit-counseling agency? And can you trust them?

By Jennifer Barrett
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Jan. 3 — Every time Christine Davis sees the familiar television ads offering help to consumers drowning in debt, she cringes. It was the same promise of reduced credit-card interest rates and monthly bill payments that prompted her to call the number on her television screen in the spring of 1999. She and her former husband had racked up at least \$10,000 in credit card debt.

"At the time we thought 'Wow, we can consolidate our accounts and pay off our debt,'" says Davis, now 29 and a customer-service representative for a major movie studio in California. But a few months after the couple signed up with the Germantown, Md.-based nonprofit debt consolidator Ameridebt, Davis says her creditors still had not received any of the more than \$2,700 she had sent to Ameridebt. "We'd been had," says Davis, who refused to make any more payments and filed a complaint with the Better Business Bureau alleging her creditors not only had not been

paid, but most had not even been contacted by Ameridebt.

With consumer debt topping a record \$1 trillion dollars, debt consolidation is one of the nation's fastest-growing—though still largely unregulated—industries. In the past five years, hundreds of nonprofit groups and for-profit companies offering credit counseling, debt consolidation and low-interest loans have sprung up in the United States and Canada.

The largest network is the 1,450 local offices of the National Foundation for Credit Counseling, a half-century-old foundation with stringent accreditation guidelines and certification processes for credit counselors. Ten years ago, there were just 200 credit-counseling organizations around the country and 90 percent of them belonged to the NFCC, according to chief executive Bill Cullinan.

SMALL FEES

Many NFCC-accredited agencies rely on the United Way or on government grants for part of their funding. Their offices are found in strip malls or attached to

other social-service agencies. Consumers can meet with counselors face-to-face, arrange for long-term budget counseling and set up debt management plans—all for a nominal fee, if any.

By contrast, many of the newer crop of entrants operate out of one main location, doing most of their business by phone and fax. They rely heavily on advertising to attract new clients, marketing themselves aggressively on the Internet and on television. Though they have attracted thousands of clients, some of them have become the targets of serious consumer complaints and investigations. The organizations allow consumers to consolidate their debts, and work with creditors to cut late fees and interest rates—but may charge a fee themselves that is equivalent to one month's worth of payments. Many complaints come from consumers who claim they were unaware that their first month's payment would go to the debt consolidator, not their creditors, and that payments to creditors made on their behalf were sent in so late that it threatened to damage their credit ratings.

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Some of the more egregious cases involve Canadian-based companies that solicit U.S. consumers, offering them low-interest loans to pay off their credit debt. The Canadian Council of Better Business Bureaus recently identified 50 companies in the Toronto area alone offering so-called advance-fee loans—where a consumer is asked to send in money to receive a low-interest loan. It is illegal in both Canada and the United States to ask for money upfront for a loan, as the council points out on its Web site. The site lists dozens of such advance-fee loan companies that are based in Canada but conduct a large portion of their business in the United States.

BONUSES FOR REFERRALS

While credit counseling and debt consolidation agencies typically do not offer loans themselves, some are associated with for-profit lenders or related service providers. Ameridebt used to be among them. The District of Columbia's Office of Corporation Counsel (which functions like the attorney general's office in U.S. states) filed a complaint in Superior Court in 1999 alleging that Ameridebt had violated consumer-protection laws by describing itself as a nonprofit counseling organization when one of its primary purposes was

generating new business for Infinity Resources Group, which offered loans to consumers. Bennett Rushkoff, senior counsel for the Corporation Counsel, says Ameridebt employees were offered bonuses if they made a certain amount of referrals to Infinity.

Ameridebt and Infinity agreed to cease the referral practice in a settlement reached in mid-2000, and Infinity agreed to refund some consumers who had signed up for Ameridebt's payment plan to qualify for a debt-consolidation loan through Infinity. Jeff Formulak, Ameridebt's director of operations, is now careful to distance his organization from Infinity. "We are an entirely different company. We should never have been involved with them to begin with," he says.

Still, the number of consumer complaints filed against Ameridebt quadrupled in the year since the settlement, according to Edward Johnson, president and CEO of the Better Business Bureau in Washington D.C. About 180 complaints were filed against Ameridebt between January and November of 2001.

PAYING DOUBLE

Elizabeth Hyer's was among them. The 24-year-old database manager at a New York advertising firm says she had a

good credit rating but was attracted to Ameridebt's offer to help her pay off her debt faster. But after sending in more than \$680 in monthly payments this spring and summer, she alleges some of her creditors had yet to receive any money. When she tried to contact Ameridebt, she says she was told that the man who had handled her account no longer worked there and no one else had a record of her, or her payments. "Now I'm paying double payments to my creditors and my credit could be ruined," says Hyer. "I want that money back."

Ameridebt's Formulak says that the agency's contract asks for a "voluntary contribution" equivalent to about 3 percent of the customer's debt load, which often comes out with first monthly payment. He adds that his company has helped 250,000 customers since it was formed four years ago—and the complaints represent a fraction of the 75,000 active files it has now. "There wouldn't be that many people on the program if something good wasn't happening," says Formulak. "We're here to help people get out of a bad situation, not make it worse." In fact, Hyer contacted Ameridebt on the recommendation of a colleague who she said had a good experience with the company.

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And there are others like Gerald LaCourt, 33, a computer operator from outside Philadelphia, who credits Ameridebt with helping him pay off \$6,000 worth of credit-card debt by persuading creditors to waive their fees and cut their interest rates in half. "I knew the first month's payment went to Ameridebt, but I figured it was no big deal," LaCourt says. "They made a huge difference for me, they really did."

'A REPEATED PATTERN OF COMPLAINTS'

Still, despite such endorsements, Johnson from the D.C. Better Business Bureau remains skeptical. "This is not one isolated complaint, but a repeated pattern of complaints," he says. "By seeking counseling services, these individuals are demonstrating a responsibility to the debt they have, they're taking proactive measures to get control of it and then in some cases they end up being worse off," says Johnson. "Some of these folks had good credit, but just wanted to consolidate and cut down their debt—instead, they end up incurring more debt and ruining their credit."

Davis claims that's what happened with her. A few months after she cut off payments to Ameridebt, she and her former husband filed for bankruptcy. "It

felt like that was the only alternative we had by then," she says. "We had been completely current. This ruined us financially. I thought not-for-profit meant you were on the people's side, but now my whole impression of nonprofit has changed."

While nearly all credit-counseling and debt-consolidation companies are now nonprofit, some only made the change after creditors became increasingly reluctant to deal with for-profit companies as the number of consumers seeking debt relief soared in the 1990s. "They want their money, and they'd thought these companies were helping them collect it—not keeping it themselves" says Kim Overman, vice president of the Better Business Bureau of Southeast Florida, a region where dozens of nonprofit debt consolidators have sprung up in the past few years.

'LOOKING FOR SOMEONE ELSE TO BLAME'

For-profit Advance Marketing Services, based in Coconut Creek, Fla., enrolls consumers into a debt-consolidation program, which is serviced by a nonprofit organization it owns called the National Consumer Resource Center (NCRC). Overman says AMS and its affiliates (another organization

DebtWorks, provides debt-management services) get more complaints than others in the industry. Leonard Rubino, who is president of AMS and listed as vice president for NCRC, says he is doing nothing illegal and insists the vast majority of complaints received are "invalid." With 10,000 clients now on file, says Rubino, they must be doing something right. Those that complain, he adds, "are looking for someone else to blame. They are not going to blame themselves for their situation."

Still, Overman says the new wave of debt-consolidation agencies and related companies are always among the top two complaint-getters at her office, generating hundreds of complaints this year. One South Florida-based debt consolidator alone attracted at least 226 complaints in 2001. "These whole industry is crazy right now. We are really having a difficult time—especially in these economic times, with consumers becoming so vulnerable," says Overman. "It's really unbelievable that these agencies have no regulation at all."

Until they do, consumers may have a difficult time distinguishing between the good, the bad and those in between.

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"You've got to ask what it means to be a nonprofit credit-counseling agency, and can you trust them?" says Rushkoff, from the D.C. Office of Corporation Counsel. "You think you're getting impartial advice but there may be an agenda. There is an incredible range of fees depending on the agency. If you talk to a credit counselor who wants a big fee upfront, I would think very hard before jumping in."

Former customers have some of their own advice, as well. "I'm one of those who looks at the positive side," says Davis. "But I feel like a moron for not checking out the company before I gave them my money."

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