



Texas Attorney General Targets Debt Settlement Companies

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Financially distressed consumers have been flocking to debt settlement companies during the economic downturn, hoping to avoid bankruptcy and limit damage to their credit scores. Unfortunately, some debt settlement companies promise more than they deliver, and charge exorbitant fees to consumers.

Texas Attorney General Greg Abbott sued Richardson-based Credit Solutions of America, Inc., in March 2009, alleging that CSA has defrauded Texans by failing to negotiate settlements with consumers' creditors. Dallas-based Debt Settlement America is also under investigation.

Debt settlement companies know they have to clean up their reputation. "We've got to clean ourselves up fast," said Scott Johnson, chief executive of U.S. Debt Resolve, a Dallas-based debt settlement company. Proposed legislation would set strict rules on how debt settlement companies operate, he said.

In recent testimony before the state Senate Committee on Business and Commerce, Johnson said that qualifications needed to offer debt settlement services are "almost nonexistent." "At this time, there are no barriers to entry, and the impact on consumers looking for trusted sources becomes more difficult every day," he said. "The standards that are currently established have been interpreted as watered-down, even diminished, which allows even the weakest nonperforming companies to exist at the consumer's expense."

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Because of the ease with which debt settlement companies can be started, the industry has mushroomed from about 200 companies in 2005 to about 2,000 today. The proposed legislation would require debt settlement companies in Texas to:

- Register with the state.
- Give consumers a list of goods and services to be provided and charges for them.
- Tell consumers that defaulting on debts can lead to lower credit scores and increased charges.
- Charge a setup fee of no more than \$400 or 4% of the client’s debt, whichever is less, and charge monthly service fees of no more than \$50.

Corey Butcher, CEO of Dallas-based Financial Freedom of America, defends the industry, stating that critics of the industry “don’t see the clients that are achieving results.” Out of the \$46 million in debts his company has settled since 2006, “our clients have actually saved over \$19 million,” he said.

However, the Better Business Bureau of Metropolitan Dallas has seen an increasing number of inquiries and complaints about the industry. “It’s one of the most active categories that we have right now,” spokeswoman Jeannette Kopko said.