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State to crack down on debt management practices

Legislation will protect financially vulnerable Oregonians

(Salem) — You've heard the ads on the radio, maybe even received a flier in the mail — companies offering to reduce your debt by 50, 60, even 75 percent, in as little as 12 months. It sounds like a good deal in these tough economic times, but, unfortunately, it's too good to be true. Many consumers who pay for these services end up with even more debt, a worse credit score, and, in some cases, in bankruptcy.

Oregon legislators and state agencies are cracking down on these and other unscrupulous debt management practices. Rep. Paul Holvey (D-Eugene) and the Department of Consumer and Business Services proposed legislation that would restrict the activities of companies that charge consumers for any debt-related services — whether it's reducing credit card debt, modifying a mortgage or car loan, or providing credit advice. The House Consumer Protection Committee, which Rep. Holvey chairs, will hold a hearing on the legislation, House Bill 2191, on March 27.

“In these uncertain economic times, many consumers are struggling to pay the bills and desperately looking for any way to improve their finances,” said Rep. Holvey. “Unfortunately, there are a number of scammers who take advantage of their situation by promising quick fixes but delivering nothing and often, leaving the consumer in a worse spot.”

Many companies, for example, offer to eliminate various types of debt for an upfront fee. They claim they can negotiate with creditors — usually credit card companies — to reduce principal and interest in exchange for a lump sum payment. However, while they are claiming to negotiate with creditors, these companies advise consumers to stop communicating with their creditors, which can be extremely damaging to the consumer. Settling the consumer's debt can take many months and, because the consumer is not contacting creditors or paying bills during this time, the consumer often is faced with lawsuits, judgments, or wage garnishments. There also are cases in which debtors pay a significant upfront fee and then never hear back from the company — losing more money and precious time.

“Ignoring creditors and not paying bills is the worst advice for a consumer in financial trouble,” said Sen. Suzanne Bonamici (D-Washington County/Portland), chair of the Senate Consumer Protection Committee. “We need strong regulation of these companies to ensure no more Oregonians are harmed from their misleading tactics.”

The Department of Consumer and Business Services regulates some aspects of the debt management industry.

“There are many legitimate organizations that help consumers negotiate with creditors and develop payment plans,” said Cory Streisinger, director of DCBS. “But we are concerned that a growing number of activities, such as offers to reduce debt or modify mortgage loans, can cause borrowers more harm than good. We need to have stronger standards to make sure everyone is playing by the rules and treating consumers fairly.”

The proposed legislation would achieve the following:

- Ensure the organizations that provide debt management services are legitimate and treat consumers fairly.
- Stop misleading advertising.
- Ensure fees charged for settling consumer debt are reasonable.
- Ensure consumers receive clear disclosures about what services they are paying for and what they are receiving.
- Allow consumers to cancel agreements.
- Ensure consumers have access to debt services that are valuable.

Consumers should be very careful when paying any organization to help them settle their debt, improve their credit, or modify their mortgage loan. Oregonians can call the Department of Consumer and Business Services, Division of Finance and Corporate Securities at 503-378-4140 or 866-814-9710 (toll-free) for assistance. Consumers also can file a complaint with the Attorney General's Office, by calling 1-877-877-9392 or going online to www.doj.state.or.us. Written complaints can be sent to Financial Fraud/Consumer Protection Section, 1162 Court St. NE, Salem, OR 97301-4096.

“People are in trouble and they are ready to reach out for any assistance,” said Stacey Howard, Community Development and Homeownership Director with NEDCO (Neighborhood Economic Development Corporation). “The problem is that too many debt reduction schemes are more like cement life preservers that end up sinking a consumer deeper into debt.”

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The Department of Consumer and Business Services is Oregon's largest business regulatory and consumer protection agency. For more information, visit www.dcbs.oregon.gov.