

Testimony of Martin Lynch before the Banks Committee
March 11, 2010

My name is Martin Lynch, and I am the Director of Education and Compliance Manager at Cambridge Credit Counseling, a HUD-approved housing and credit counseling agency located in Agawam, Massachusetts. I am here today on behalf of the credit counseling agencies listed below, a number of which are licensed as debt adjusters by the Connecticut Department of Banking to service residents of this state. We appreciate the opportunity to support, with amendments, House Bill 5409, *An Act Concerning Debt Settlement Services*.

I have distributed copies of a document containing the text of proposed amendments to HB 5409 that we recommend for your consideration. There are a number of reasons we feel that such changes are necessary.

We would respectfully suggest the following revisions to Raised Bill 5409:

1. Permit an initial fee of not more than \$50, depending on the individual's financial circumstances, to cover the cost of an initial counseling session, the retrieval of the credit report, and the establishment of the client's account.

Comment: This is slightly more than the current average initial fee that reputable credit counseling / debt adjuster agencies charge in Connecticut. We anticipate that settlement industry representatives will strongly advocate that you adopt the fee already proposed under HB 5409 (an amount that also may be allowed under the Uniform Debt Management Services Act), but that amount, \$400, is far higher than what is necessary to establish an individual's account. Also, because most settlement companies require that their clients enroll at least \$10,000 in unsecured debt, the actual fee charged would almost always be \$400.

Such a fee far exceeds what is necessary to establish an account; it essentially pays for the cost of acquiring the client through non-stop television and radio advertising, the primary reason that settlement company ads dominate today's media. Their excessive up-front fees cover the cost of advertising and the substantial numbers of clients who fail to complete their settlement program. Reducing the amount of the initial fee will not only help level the advertising playing field for all debt management providers, for-profit and non-profit alike; it will ensure that clients pay only for the services rendered.

In addition, if an equitable fee structure is not established, individuals who are only exposed to debt settlement advertising will undoubtedly come to hold two common misperceptions: (1) that settlement is the only viable option for dealing with their debt; and (2) that America's major creditors will settle their debts for less than what is owed (It is typically a collection agency that settles.). Allowing high fees ensures media saturation, which will eventually result in the needless compromise of the credit standing of thousands of Connecticut consumers.

2. Permit a monthly fee of no more than \$25.

Comment: We feel this is appropriate because the costs of delivering credit counseling / debt adjusting services on a monthly basis are significantly higher than those for the decidedly more limited services provided by a settlement company. Credit counseling agencies provide multiple counseling

sessions, perform periodic benefit audits to ensure that each client is receiving the concessions authorized, and we also conduct a variety of financial literacy education programs within our communities. Further, credit counseling agencies also disburse payments to our clients' creditors on a monthly basis, an expense that is simply not incurred by a settlement company. Though there are legitimate account maintenance costs associated with debt settlement programs that must be given fair consideration, there is no logical reason that a settlement company should be allowed to charge more than the \$25 monthly average assessed by the undersigned credit counseling / debt adjusting agencies. A reasonable monthly service fee would allow the settlement option to remain available for Connecticut residents, and it would encourage settlement companies to maintain their focus on seeing clients through to completion.

3. Permit a program completion fee of 20% of the amount saved through the settlement, minus any initial and monthly fees previously collected.

Comment: We feel that the fee currently proposed, 30%, is excessive. The 20% completion fee we propose is reasonable, particularly when one considers the financially distressed condition of the individuals pursuing settlements. In light of the fact that the majority of settlement companies require their clients to have at least \$10,000 in unsecured debt, the 20% fee cap would represent a minimum completion fee of approximately \$1,000. Higher amounts of enrolled debt would result in proportionally higher completion fees.

House Bill 5409 may quickly come to serve as an example for those states considering the Uniform Debt Management Services Act, the template form of which also allows settlement fees that are excessive (\$400 up-front, \$50 per month, and 30% of the amount saved through settlement). Although establishing national precedent is not ordinarily a consideration in the normal course of your duties as legislators elected to serve the best interests of Connecticut residents, it is true that other states will look to your law and its restrictions.

It is critically important that some form of legislation be passed to protect consumers, and to give regulators the tools they need to effectively regulate the settlement industry. We believe that a bill with limited but reasonable fees would deflate the settlement industry's arguments against this legislation and stand a better chance at passage before the general assembly. We urge the committee's favorable consideration of HB 5409 and the additional amendments proposed in this testimony.

I thank you for your time and attention.



Martin Lynch

On behalf of:

Christopher Viale, President and CEO
Cambridge Credit Counseling Corp.
67 Hunt Street
Agawam, MA 01001
Phone: 413-821-6919
cviale@cambridgecredit.org

Russell Graves, Executive Director
Consumer Credit and Budget Counseling
299 South Shore Road
Marmora, NJ 08223
Phone: 609-390-9652 or 888-738-8233 x-203
debtonator@cc-bc.com

Judith R. Sorensen
VP & General Counsel
National Foundation for Debt Management
14104 58th Street North
Clearwater, FL 33760
727-254-5353 ext 107
jsorensen@nfdm.org

Melissa Pearson
Director of Compliance & Industry Relations
Debt Reduction Services, Inc.
6213 N. Cloverdale Rd., Suite 100
Boise, Idaho 83713
Phone: 208-378-0200 ext 704
mpearson@debtredutionservices.org

Sam Hohman
President, CEO
Credit Advisors Foundation
1818 South 72nd Street
Omaha, NE 68124
402-514-3333
shohman@creditadvisors.org

Mary H. Melcer
President
Lighthouse Credit Foundation
2300 Tall Pines Drive, Suite 120
Largo, FL 33771
727-535-9653
MMelcer@Lighthousecredit.org

Bradley Wood
Vice President
Advantage Debt Management of America
4424 Aicholtz Road, Suite H
Cincinnati, OH 45245
513-753-6500
bwood@helpwithbills.org

Alan Franklin
President
American Credit Alliance, inc
2 South Delmorr Avenue
Morrisville, PA 19067
215-295-7195, ext. 1129
Alanfranklin2002@yahoo.com