



**Written Testimony of CareOne Service, Inc.
concerning Raised Bill 5409
March 11, 2010**

Senator Duff, Representative Barry and members of the Banks Committee, my name is Michael Croxson, President of CareOne Services. I am here today to testify in support of Raised Bill 5409, An Act Concerning Debt Settlement Services.

CareOne is a national debt relief services company and one of the largest taxable providers of credit counseling and Debt Management Plans (“DMP”). Founded in 2002, CareOne provides credit counseling and debt management services in 41 states. CareOne is fully licensed and/or authorized to provide these services under state law. We are a licensed Debt Adjuster in Connecticut.

We understand that for our services to help consumers succeed, the debt challenges of each our customers must be addressed efficiently and fairly. And the services must also be appropriate for the particular situation of each individual in need of assistance. Our track record of service to customers is evidence of our commitment to quality and the people we serve. In the past seven years:

- Over 750,000 consumers have called for counseling assistance
- Over 290,000 customers enrolled in a Debt Management Plan
- More than 700,000 customers have taken advantage of our 24/7 customer service call center
- Over 9 million creditor payments were processed
- More than \$650 million in payments have moved from consumers to their creditors
- Less than 35 Better Business Bureau (“BBB”) complaints were filed in the last year on approximately 70,000 new customers. All complaints have been successfully resolved. CareOne maintains an “A+” rating with the BBB.

Debt relief services are exceedingly valuable to consumers struggling to manage unsecured debt when those services are well-regulated, the terms are fully disclosed and the pricing is fair. We support strong regulation and licensing requirements at the state level, and believe there should be a minimum federal standard.

CareOne has been active for many years in supporting the adoption of state laws that establish a strong regulatory environment for the entire industry – credit counseling, debt management and debt settlement services.

CareOne has traditionally provided consumers with credit counseling and Debt Management Plan (“DMP”) services. In 2009, CareOne began piloting a debt settlement program designed for consumers who do not qualify for a DMP and are not candidates for bankruptcy. We believe the model we are employing in this pilot represents a consumer-focused service that is beneficial to those in need.

We began exploring direct debt settlement services because creditors that we have worked with for many years have demonstrated a growing acceptance of settlement offers in recognition of the growing population of consumers who cannot afford a DMP and yet are not candidates for bankruptcy. We believe that because most consumers do not understand the benefits and downfalls of different debt relief services, a provider, such as CareOne, that offers services across the spectrum of need, can better address the individual nature of each consumer’s debt situation.

Problems occur when providers encourage consumers to manipulate their debt situation to fit the product they offer. This is often the reason consumers are counseled to stop paying their creditors so they become delinquent enough to make debt settlement the right solution. By offering a range of services, providers are better able to serve consumers and consumers are not placed into products that are not the best option for them.

For many years, debt management plan services offered by debt relief providers have been well-regulated to protect consumers from high fees and to provide appropriate disclosures about the nature of the services being offered. Connecticut’s licensing requirement for Debt Adjusters is an example of a good structure for regulating these services. Now, debt settlement protections must catch up with the regulation of traditional debt relief services, such as credit counseling and DMPs.

We believe any offer of debt settlement services to a consumer should be based on the following tenets:

Suitability – When a debt relief product is the right path for a consumer, only those who cannot afford or qualify for a DMP should be offered debt settlement services. Often, when a consumer seeking debt relief services calls a debt settlement company they get nothing other than a debt settlement service. Each consumer’s situation is unique and, therefore, must have an unbiased evaluation to determine which, if any, service is appropriate to address his or her needs. CareOne’s experience in dealing with hundreds of thousands of consumers shows that roughly one-third of those who contact us need nothing more than budgeting assistance to help them better manage their financial situation. We provide this service along with all our educational offerings – at no charge. Approximately 40 percent are candidates for a DMP (enrollment rates range between 25-30 percent). We find that approximately 20 percent are candidates for debt settlement plans and for roughly 5 percent bankruptcy is the most appropriate option.

Affordability – The fees charged for debt relief services should be tied to the benefit of the service and the cost of delivering the expected outcome. Fees for DMPs are well-regulated at the

state level and reflect an accepted level that is tied to the relative benefit and cost of the service. Debt settlement fees are mainly unregulated and while the total cost may reflect the cost of providing the service, there is a point at which the level of fees can harm the consumer and create a disincentive for the provider to deliver on the promised outcome.

The predominant business model of the debt settlement industry has been based on significant up-front fees that make it difficult for consumers to amass funds for a settlement while enduring extended creditor collection efforts. The model also removes all incentive for a provider to reach a successful settlement with a creditor. As such, consumers often pay high fees for services they never receive. This approach is unacceptable making this model unsustainable.

We believe that compensation for providers should be linked to success for consumers. The fairest model for consumers creates an incentive for providers to perform the promised service as quickly and effectively as possible – speed to a successful settlement benefits the consumer, creditor and provider.

Transparency – Consumers who contact a debt relief provider are often seeking a quick solution to a chronic debt problem. As such, many consumers who engage in debt relief services may either buy something they do not fully understand or not realize the difficulty associated with achieving their desired objective. Only when consumers understand the burdens, difficulties and costs of the debt relief services that address their needs should they make an educated decision to engage the service. Any offer of debt settlement should be presented with “plain-English” disclosures on the terms and impact of debt relief services being offered.

Additionally, debt settlement providers should be required to be licensed and meet high standards to be able to offer services in Connecticut. We believe it is important for the provider to establish that it is committed to this business, not just some organization that sees an opportunity to benefit when consumers are struggling with growing debts. The firm and its executives must be reputable and the organization must have an organizational structure to provide sound money management of consumers’ funds, education and counseling support to consumers provided by certified counselors, and the financial stability to support bonding and insurance requirements. A high bar is good for the consumer and the industry.

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The proposed legislation would better align regulation of debt settlement with the current regulation of debt adjusting. We view that as a positive change because these are similar services designed to address repayment of unsecured consumer debt obligations. Current law lumps debt settlement into the “Debt Negotiator” statute which covers both secured and unsecured debts. The consumer need and the servicers or providers differ greatly between secured and unsecured obligations. Clarifying the distinction is a clear benefit of this bill.

The bill establishes many of the requirements we support as stated above including strong licensing requirements, appropriate consumer disclosures regarding the impact of debt settlement programs on debtors, and important prohibitions on providers regarding conduct or actions that could harm consumers.

With regards to fees, the bill establishes two fee models which are consistent with fee levels established in the Uniform Debt Management Services Act (UDMSA) drafted by the National

Commission on Uniform State Laws (NCCUSL) and adopted by six states and the Virgin Islands.

CareOne operates on the “success fee” model which ties provider compensation to the successful settlement of debts on behalf of the consumer. Fees are calculated as a percentage of the amount a debt is reduced. This approach properly aligns the incentive of the consumer to reach settlements with creditors and the provider whose compensation is tied successfully to settling a consumer’s obligation.

The “flat fee” model in the bill limits total compensation to a percentage of the total debt on a settlement plan and stretches payment of these fees over at least one-half of the life of the plan. This helps minimize the abusive practice of “front-loaded” fees.

CareOne supports strong regulation of the debt relief industry and believes that this legislation would establish appropriate safeguards for consumers in need of debt settlement services.

Thank you.