



# Unrealistic Collection Expectations Drive Consumers to Debt Settlement

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***Debt collection agencies and creditors must recognize that many consumers will not be able to repay their debts in full, according to a consumer finance expert. Failure to do so will unnecessarily drive more debtors to settlement firms.***

Partial payments of outstanding consumer debt have to be incorporated into the current economic environment, says Robert D. Manning, research professor and director of the Center for Consumer Financial Services, Rochester Institute of Technology, Rochester, New York.

Manning, author of "Credit Card Nation" (Basic Books, 2000), said that while [debt settlement](#) companies fill that roll now, creditors and consumers would be better served if they worked together to determine appropriate settlements and payment plans for outstanding debts rather than using debt settlement companies.

Manning was among those who discussed these issues at the Federal Trade Commission's workshop that discussed the debt settlement industry and possible regulations for it ("[Debt Settlement Companies Put Under FTC Microscope](#)," Sept. 29).

He faults lenders for granting too much credit as the catalyst of the current credit crunch. Too much lending centered around equity and liquidity values of homes, not on income. Repayments had historically been based on liquidity values of assets and incomes.

Both the lending and the repayments need to be based on income, Manning said. He added that creditors need to accept that home values have declined sharply, so consumers no longer have the home equity safety valve that they once did, impairing their ability to repay debt.

"One of the fundamental problems is that creditors have no empirical evidence to determine what someone can afford to pay," Manning said. Therefore, creditors are demanding more than debtors can afford, driving them to debt settlement companies or bankruptcy.

But Manning said that the debt settlement companies hurt creditors and consumers alike – creditors because funds they might otherwise be able to collect go to pay debt settlement fees instead, and consumers because debt settlement companies escrow funds before any settlement is made. While creditors are waiting to be paid, the debtor's credit rating continues to drop.

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Manning thinks that some creditors will start doing a better job of incorporating partial payments into their recovery schemes in the next couple of years. He also expects to see bankruptcy reform legislation.

Debt settlement companies need to provide better transparency, Manning added. But he also said creditors could adopt what he has defined as the Responsible Debt Relief Program in which creditors have a better handle on the types of payments debtors can truly afford to make and what types of partial payments the creditors themselves should be accepting. A more thorough discussion of the program, including a formula for determining partial repayments, can be found at <http://www.creditcardnation.com>.

Jack Craven, president of Debt Settlement USA, Inc. in Phoenix, Ariz., said there are indeed a number of bad operators in the business that put a reputational burden on firms like his that he said "believe in consumer protection and full disclosure." He added that his firm provides debtors with full information about fees, eventual payments to creditors and other information before the debtor sign an agreement.

"We believe in fair and full disclosure when someone deals with a debt settlement company," Craven explained. "We encourage people to shop around."

When they investigate different companies, debtors will find that some don't provide disclosures or have other questionable practices. That's why Craven joins consumer advocates, creditors and others seeking some type of national regulation for the industry. The FTC will be collecting comments on the debt

settlement industry through Dec. 1, and will then decide how to proceed in regulating the burgeoning industry. Craven's firm has provided the FTC with a [white paper](#) explaining the issues and challenges of debt settlement and related firms.

Craven also said that his company counsels debtors to try to work out payments with creditors first – even if the debtor can only make the minimum payment each month.

The problem, according to Craven is that the creditors -- or the collection agencies that represent them -- demand higher payments that the debtors can make and threaten lawsuits, which is where debt settlement companies come in.

However, many debt settlement companies don't provide full disclosure or make promises they can't keep, Craven said. "People have to have the discipline to save in order to get out of debt." If the debtor doesn't make that commitment, the debt settlement company can't help.

Many debtors do make that commitment, according to Craven, who said his company has helped 1200 people get out of debt in the last two years.

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