



Federal Trade Commission News

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Telemarketing Sales Rule Debt Relief Rule Fact Sheet – 7/28/10

Overview of the Final Rule

- **Scope:** The Final Rule applies to for-profit companies that sell debt relief services over the telephone, including credit counseling, debt settlement, and debt negotiation services that aim to reduce credit card or other unsecured debt.
- **Summary of the Final Rule:**
 - **Advance fee ban:** debt relief companies may no longer charge a fee before they settle or reduce a customer's debt.
 - **Disclosures:** debt relief companies will be required to make four specific disclosures to consumers, including how long it will take for consumers to see results, how much it will cost, the negative consequences that could result from using debt relief services, and key information about dedicated accounts if they choose to require them.
 - **Misrepresentations:** debt relief companies will be prohibited making misrepresentations, including specific misrepresentations commonly made in this area.
 - **Inbound calls:** the rule extends the Telemarketing Sales Rule to cover calls consumers make to these firms in response to debt relief advertising.
- **Effective Dates:** The advance fee ban provision will be effective on October 27, 2010. All other provisions will be effective on September 27, 2010.
- **Dedicated Bank Account for Fees and Savings:** As part of the advance fee ban, the rule specifies that debt relief companies may require that consumers set aside their fees and savings for payment to creditors in a "dedicated account" if the following five conditions are met:
 - the dedicated account is maintained at an insured financial institution;
 - the consumer owns the funds (including any interest accrued);
 - the consumer can withdraw the funds at any time without penalty;
 - the provider does not own or control or have any affiliation with the company administering the account; and
 - the provider does not exchange any referral fees with the company administering the account.

Debt Settlement Industry Background

- The GAO studied the debt settlement industry and identified allegations of fraud, deception and other questionable activities that involve hundreds of thousands of consumers.
- An industry trade association estimates that there are perhaps 1,000 firms that presently offer debt settlement services.
- Two industry trade associations estimate that their 250 member firms have 425,000 customers (combined).
- Based on information that one of the industry associations provided, nearly two-thirds of enrolled consumers, almost all of whom had paid in advance, dropped out of the programs within the first three years and did not get the services for which they had paid.
- The fees for an individual consumer are hundreds or thousands of dollars, depending on the amount of their debt and state law in their state of residence.
- The FTC's cases have helped over 475,000 consumers who have been harmed by deceptive and abusive practices by various types of debt relief companies.