



Oppose House Bill 387 because it rewrites state law to permit abusive debt settlement practices

This same bill was introduced and voted down overwhelmingly during the 2013 legislative session after Georgia Watch and other consumer advocates spoke against its contents. A 2014 version of the bill never even came to a vote. The abusive debt settlement practices proposed in HB 387 would leave families worse off than if they never entered a settlement program in the first place.

Georgia Watch opposes the debt settlement model contained in this legislation because:

- **Settlement companies tell consumers entering their programs to stop paying creditors. The consumer's unsettled debts continue to grow through late fees, penalties and increased interest rates.** In many cases, this means a consumer's debt will grow more quickly than if they had not entered a settlement program in the first place, wiping out any savings on the few debts the company manages to settle. Creditors are not required to settle for a reduced amount and consumers are not protected from collection attempts, lawsuits or wage garnishments while in a debt settlement program.
- **When consumers take a settlement company's advice and stop paying creditors, they go into default and their credit scores are ruined. A terrible credit score makes it tougher for consumers to get a job, buy a car or a home, and even increases up-front home energy costs.** Even in cases where some of the consumer's debt is completely settled—a very rare occurrence—a consumer will still walk away with ruined credit because they are told to stop paying their creditors. Even the industry acknowledges that debt settlement schemes fail to work for two-thirds of clients, and government officials say the success rate is only around 10%¹.
- **HB 387 would increase debt settlement fees and fees for debt management.** Consumers who utilize the services of for-profit debt settlement companies often end up deeper in debt because of unsuccessful litigation. Debt settlement companies target financially distressed people. This makes it easy for debt settlement companies to sign up individuals who might accept exorbitant fees for potential relief. However, the program fees, owed income tax, and debt paid often outweigh any 'savings' achieved by the debt settlement program.
- **Georgia's current laws protect consumers from abusive fees—HB 387 would weaken these protections.** The fees debt adjusting businesses can charge Georgia consumers are currently capped at 7.5% of what is paid monthly to creditors through the program. The current cap increases the chance that a consumer will leave the program without losing money. Nationally, the average fee that debt settlement companies charge is approximately 20%². These fees often wipe out any savings that may have come from the negotiated settlement. Georgia's current fee cap is crucial to protect consumers who choose to use debt adjustment services, but the industry wants to weaken it by increasing these fees to 30% of consumer debt upon enrollment.
- **Credit counseling services have helped Georgia clients repay more than \$100 million in debt to Georgia banks.** Unlike debt settlement agencies, non-profit credit counseling organizations reach up-front agreements with creditors to reduce interest rates and monthly payments and to prevent late fees, penalty interest and collection efforts. Credit counselors advise consumers on managing their finances and help them develop achievable plans to pay off debt. State law already allows credit counseling organizations to operate in Georgia. HB 387 would increase the modest fees sometimes charged for these credit management services.

¹ U.S. Government Accountability Office, "Debt Settlement: Fraudulent, Abusive and Deceptive Practices Pose Risk to Consumers," 2010.

² Parrish, L. & Harnick, E., "State of Lending: Debt Settlement," Center for Responsible Lending, 2014.