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PRESS RELEASE

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UNDERSTANDING CREDIT COUNSELING AND DEBT SETTLEMENT

Boise, Idaho... Many people face a financial crisis at some point in their lives. As Covid-19 has reminded us, unexpected financial changes can arise without warning. But more often than not these challenges can be overcome. If you or someone you know is facing financial hardship and considering debt relief services, like credit counseling or debt settlement, do your homework first as this choice may carry serious consequences to your financial future.

HOW CREDIT COUNSELING WORKS

Credit counseling organizations can provide guidance in managing your money and debts, help you develop a budget, and offer free educational materials and workshops. Credit counselors help you get a complete picture of your finances including ways you can improve your credit and begin paying off your debt. They should be certified and trained in consumer credit, money and debt management, and budgeting. These organizations may work with creditors on payment plans, and to stop collection efforts and late fees but do not typically negotiate to reduce debt. Credit repair services cannot legally do anything that you can't do yourself. They, and you, can contact creditors and credit bureaus to fix inaccurate information on your credit reports.

HOW DEBT SETTLEMENT WORKS

Debt settlement typically involves a for-profit company negotiating with your creditors to allow you to pay less than the full amount you owe to resolve your debt. To make that lump sum payment, debt settlement companies usually ask that you transfer this amount every month into an escrow-like account to accumulate funds to make settlement payments and withdraw their settlement fees. Payments are not made to creditors until a settlement is reached, and in the meantime the face value of the debt may increase with interest and fees. While some debt settlement services may be successful in reducing your debt, these programs may come with risks that could leave you deeper in debt. Avoid debt relief scams by doing your research on any debt settlement program you may be considering.

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WATCH FOR THESE RED FLAGS

Avoid any debt relief organization — whether it's credit counseling, debt settlement, or any other service — that:

- charges any fees before it settles your debts or enters you into a debt management plan
- touts a "new government program" to bail out personal credit card debt
- guarantees it can make your unsecured debt go away
- tells you to stop communicating with your creditors, but doesn't explain the serious consequences
- tells you it can stop all debt collection calls and lawsuits
- guarantees that your unsecured debts can be paid off for pennies on the dollar
- tries to enroll you in a debt relief program without reviewing your financial situation with you

The Idaho Collection Agency Act includes a requirement that debt counselors, debt settlement companies, and credit repair companies be licensed prior to conducting business in Idaho. False claims include representations that the company can eliminate a debtor's debt and remove legitimate negative items from a debtor's credit report. Consumers can check the listing of licensed collection agencies, debt counselors, and debt settlement companies on the department's website at www.finance.idaho.gov.

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Consumers can obtain information about financial firms, professionals or products, as well as view more Department press releases and other information on the Internet at <https://finance.idaho.gov> or by contacting the Department at (208) 332-8000 or Idaho toll-free at 1-888-346-3378.