Expert's Guide to Debt Relief

Many consumers have more debt, and higher monthly payments on credit cards and other debt, than they can afford. The Consumer Financial Literacy Survey for 2009 shows 41 percent of U.S. adults have a poor understanding of personal finances.

These two factors – the need for help with debt and the general lack of personal financial knowledge – is, in some cases, creating more problems for consumers as they seek debt relief and strong financial footing.

Both taxpaying and non-taxpaying (nonprofit) providers offer consumers debt relief services, such as credit counseling, debt management and debt settlement, to help individuals get on track financially. These firms can provide consumers with valuable programs and assistance to help them live within their budget, improve financial fitness and avoid future debt problems.

<u>How do consumers know they're in trouble?</u>
Signs people are in over their heads financially:

- Paying the minimum payments on credit cards
- Living paycheck to paycheck
- Relying on credit cards for many purchases
- Using cash advances from credit cards to pay monthly bills
- Receiving constant calls from credit card companies about late payments
- Maxing out credit cards
- Bouncing checks or overdrawing bank account
- Having cash readily available for purchases is challenging
- Shuffling credit from card to card to keep payments current and new credit available
- Maintaining a rolling balance on credit cards and continuing to make purchases that exceed monthly payments
- Building a savings cushion seems impossible
- Lacking a realistic view of how much total debt is owed
- Talking about financial debt with others is not possible

<u>About Debt Relief Services</u>
Debt relief services provide valuable programs and consultation to help consumers regain their financial footing. While some counseling agencies offer a "one service fits all" approach, there are several options for consumers facing debt.

Credit Counseling – Advising service to educate consumers on how to create budgets, pay down debt, build an emergency fund and better manage their personal finances. This is the best solution if a consumer needs to learn to live within his or her means and can afford to make monthly payments.

Debt Management – Designed to help consumers get out of debt more quickly than they could on their own by following a strict, agreed-upon repayment plan. A debt management plan is scheduled to lessen debt owed over a period of time, typically five years, and administered by financial fitness companies. Service providers can renegotiate interest rates, consolidate credit card debt and help eliminate late fees and penalties as part of repayment plan. This is the best solution if the consumer can afford a consolidated and lowered monthly payment.

Debt Settlement – Service provider negotiates with creditors on the consumer's behalf to settle on an amount less than what consumer owes on debt. The consumer, meanwhile, saves money to pay off settled debt. This is best for consumers if the debt is more than the individual can afford to pay monthly.

Bankruptcy – This option legally declares the consumer insolvent and unable to pay back debt. This should be a last resort as it affects the person's credit for up to 10 years.

<u>Choosing a financial services company</u>

A debt relief provider should assess the consumer's needs and financial situation, and offer the most appropriate solution. Unfortunately, the majority of nonprofit debt relief providers offer only one option. These "one service providers" are highly incented to get consumers into that particular service, which may or may not be the best solution for that customer. Instead, consumers should evaluate the provider. Consumers should look for:

- Appropriate licensure by the state agency
- A clear statement by the firm of what services consumers will receive
- A clear description by the firm, up front, of the fees it will charge consumers
- Some assurance of ongoing support by the firm, including the ability to talk to a human being via phone if needed
- Free educational materials

Selecting a debt relief agency based on its tax status is not an accurate assessment of the company, because it is not an indicator of quality or expertise of their services. Also, no studies or data link tax status with quality of service. Nonprofit providers charge on average the same or higher fees for their services than for-profit agencies.

Debt relief industry licensures and regulations within a state offer consumers a layer of protection against predatory companies that can further damage consumers' finances. However, regulation is uneven, sometimes weak or outdated, and inconsistent across the country. Some states don't have licensure requirements at all. If service providers in the state are not required to be licensed, consumers should be urged to look at how those providers are reviewed in regulated states.

About CareOne Services

CareOne Services Inc. is a debt relief company formed in 2002 to provide consumers with multiple solutions to complex money issues. CareOne takes a holistic approach to assisting customers in debt and reviews each situation to create achievable financial solutions. CareOne's services include credit counseling, debt management, debt settlement, as well as free referrals to bankruptcy attorneys if that is in the best interest of the consumer.

CareOne also provides the My CareOne community (http://MyCareOne.CareOneCredit.com), a free online resource for consumers that includes educational tools, blogs and forums where more than a million people share their experiences and receive support from others in similar situations.

Headquartered in Columbia, Md., CareOne has helped more than 2 million people. In 2009, it provided consumers with the tools and assistance to pay down more than $294 million in debt. CareOne provides services in 41 states. For more information, call 1-800-373-3225 or visit www.CareOneCredit.com.

About Mike Croxson

With nearly 20 years of experience in the financial services industry, Mike Croxson was named president of CareOne Services Inc. in 2005. He oversees all facets of day-to-day business operations, ensuring that services CareOne provides truly offer the support and expertise consumers need to be successful.

He joined Ascend One Corporation, parent company of CareOne Services Inc. and Amerix Corporation, in 1999 as chief human resources officer and was promoted to chief operating officer in 2000. Croxson was then named president of Amerix in 2002. He continues to serve in these roles. He has expertise in all aspects of the debt relief industry, including regulatory issues, the differences between the debt relief services, and how consumers should assess these services and the companies that offer them.

To arrange an interview with Croxson, please contact:

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Visit www.careonedebtinsights.com for more information on the debt relief industry.

About CareOne Services

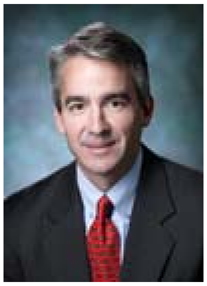
Our company is committed to helping consumers break the cycle of credit card debt by giving them the confidence to manage their money successfully. Consumer debt is a complex issue, and people need help in understanding how to manage their finances over time, while addressing their immediate debt situation. CareOne Services provides solutions that rely on sound financial fitness education and emphasize the importance of making smart budgeting decisions.

CareOne takes a holistic approach in assisting customers manage their debt; it's a way of improving their life. Traditional debt counseling firms offer a one-size fits all approach in helping customers get out of debt. CareOne looks at an individual's situation and tailors a solution that will work for the consumer. Consumers have choices. CareOne has a unique approach in that finds a repayment program that each individual consumer can actually afford. We do not have a one-size fits all approach like most traditional debt management organizations.

CareOne goes beyond providing the standard debt payment programs. We help consumers address all the day-to-day life issues that are the result of being in debt. Consumers know they are not alone in their struggle. We are a fantastic resource for consumers seeking assistance in learning how to better manage their debt.

<u>CareOne's Financial Products and Services</u>
The following products and services are available to consumers:

- *Free* Financial Educational Materials on debt management and resolution of financial difficulties
- *Free* Personal Financial Coaching
- *Free* Debt Payment Pro
- *Free* On-line Community
- *Free* FreedomPointers
- Debt Resolution Program
- Debt Management Program
- Debt Settlement Program
- Business debt negotiation
- Bankruptcy services
- Prepaid purchase card services
- Member Benefits Services



Mike Croxson
President of CareOne Services Inc.
President of Amerix Corporation
COO of Ascend One Corporation

With nearly 20 years of experience in the financial services industry, Mike Croxson was named president of CareOne Services Inc. in 2005. Croxson is responsible for all facets of day-to-day business operations, ensuring that the financial fitness coaching offered by CareOne Services Inc. truly provides the support and expertise consumers need to be successful. He is focused on direct consumer and business client services, technology and process management, human resources and organization development.

Croxson joined Ascend One Corporation, parent company of CareOne Services Inc. and Amerix Corporation in 1999 as Chief Human Resources Officer and was promoted to Chief Operating Officer in 2000. Croxson was then named President of Amerix in 2002. He continues to serve in these roles.

Prior to joining Amerix, Croxson worked at Synovus Financial Corporation in Columbus, GA, where he was senior vice president of human resources.

Croxson earned his undergraduate degree from the University of Virginia and completed advanced studies at Duke University.

Croxson currently serves as the president of the Board of Directors for Maryland Works. He is chairman of the 2008 Start! Howard County Heart Walk. Croxson is also a Trustee of the Columbia Foundation and serves on the Investment Committee. He also serves as on the Task Force to Improve Financial Literacy for the Maryland Senate.

Croxson is a member of the Board of Directors for St. John's Parish Day School and is Sr. Warden of St. John's Episcopal Church.

CareOne Fact Sheet: Nonprofit & For-Profit Debt Relief Providers

In the United States, both taxpaying and non taxpaying (nonprofit) providers offer consumers debt relief services such as debt management plans and credit counseling. Both types of providers can provide consumers with valuable programs and assistance. Key points to consider include:

<u>Tax Status</u>

- Tax status of a debt relief provider is not an indicator of quality or expertise. Several states including Maryland and Hawaii have done studies that link tax status with quality of service. These studies did not indicate that non-profits provide better service. All instances of impropriety in the credit counseling/debt management area have been perpetrated by non-profits.

- In recent years, the IRS has investigated and fined nonprofit credit counseling providers millions of dollars for abusing their tax exempt status or for preying on customers. Among the nonprofit debt management agencies that have been fined are Debt Management Foundation Services ($100 million in 2005), National Consumer Council ($84 million in 2005) and AmeriDebt ($40 million in 2007).

- On average, nonprofit agencies charge the same or higher fees for services than do for-profit agencies.

  (Note: CareOne believes that state licensure is a better indicator of quality than tax status or membership in industry organizations. Agencies that are licensed by the state have a cap on fees and must follow other requirements that protect consumer interests. CareOne is currently licensed to provide debt management plans in 26 states and is working on licensure in additional states.)

<u>Conflict of Interest</u>

- The majority of nonprofit agencies receive “Fair Share” from credit card companies. Fair Share is a fee or a percentage of the debt repaid to the credit card companies.

- Fair Share agreements create a significant conflict of interest on the part of nonprofit providers. In effect, the nonprofit agency is being paid by both the consumer (in the form of monthly fees) and the credit card company to collect debts.

- Nonprofits are required to disclose to consumers that they are receiving Fair Share payments for setting consumers up on debt management plans, but this fact is usually buried in the agreement the client signs. It is estimated that Fair Share payments from credit card companies constitute between 15 to more than 50 percent of the revenue for a typical nonprofit agency.

  (Note: CareOne does not accept fees or payments from credit card companies to ensure its advice and products are aligned with the best interests of consumers.

Range of Services

- Within the debt relief industry there are a wide range of services and products to help consumers, depending on their financial situation. The role of a debt relief provider should be to assess the needs of a consumer and offer the most appropriate solution, such as budget planning, a debt management plan, debt settlement or bankruptcy.

- The majority of nonprofit debt relief providers provide only one option, the debt management plan (DMP). These “one service providers” are highly incented to get consumers into that particular product, which may or may not be the best solution for that customer.

(Note: CareOne currently provides credit counseling, debt management plans and debt settlement directly to consumers, but refers customers to bankruptcy attorneys when those are truly the best options.)

Nonprofit Credit Counseling and Fair Share: Conflict of Interest?

What Is Fair Share?

Credit counseling, or the practice of educating consumers on how to manage debt, budget for spending and prevent future financial mishaps, started in the 1950s as a response to a rising number of bankruptcies. Nonprofit agencies offering credit counseling formed shortly thereafter and charged fees for services or received contributions from consumers to cover the costs of services**.** Heavily indebted consumers were offered enrollment into debt management plans (DMPs), which authorized the counselor to contact creditors to negotiate terms to reduce the burden of debt. This could include waived late fees and lowered interest rates.

Creditors saw DMPs as a positive alternative to bankruptcy as they could still receive all of the principle debt owed. For enrolling and maintaining consumer commitment to a DMP, credit counseling agencies received payments from creditors, typically 12 – 15 percent of the total debt payments that are made under the DMP. These payments are called "Fair Share."

Changes to Fair Share Contributions in Industry

As expenses associated with managing Fair Share payments increased for individual creditors, they began to reduce contributions to counseling agencies. Some creditors adopted payment models that were based on how many consumers were successful on DMPs. However, the Pension Protection Act of 2006[1] capped the amount of total income agencies could receive from creditors as a result of DMP enrollments at 50 percent of total agency revenues.

As a result, credit counseling agencies saw a dip in revenue. Some agencies began charging higher fees or eliminating services not funded by Fair Share contributions to make up for losses.

Abusive Practices

Many states have regulations that are weak or outdated, or don't have laws at all. As a result, unscrupulous agencies, including some nonprofits, have sometimes taken advantage of consumers.

For example, on May 7, 2009, West Virginia Attorney General Darrell McGraw filed a lawsuit against a number of credit counseling service providers, which were operating as nonprofits.[2] They were sued for charging consumers fees to establish DMPs and failing to provide services.

The Federal Trade Commission settled a lawsuit in September 2008 involving nonprofit credit counseling company, AmeriDebt Inc. Called "the largest credit counseling/debt management deception case brought by the FTC," the proceedings found AmeriDebt had knowingly engaged in deceptive practices to promote and offer services to consumers.[3]

As these examples make clear, a provider's tax status is not an indicator of the quality of services consumers receive.

Conflict of Interest

The fact that many credit counseling agencies and DMP providers get substantial revenues from creditors, and that those revenues are tied directly to the amount of money agency clients repay to creditors, creates a serious conflict of interest. Often, Fair Share arrangements are only disclosed in the fine print of the contract between the consumer and the agency. Consumers have no good way to be sure that an agency is acting in their best interest and NOT in the interests of creditors.

Knowing a credit counseling agency's tax status does not help a consumer assess the quality of services provided by that agency. If service providers in the state are not required to be licensed, consumers should look at how those providers are reviewed in regulated states. They should also find a different service provider if the agency refuses to discuss funding sources.

To find out more about choosing a credit counseling and debt management service provider, visit www.CareOneCredit.com.

Visit www.careonedebtinsights.com for more information on the debt relief industry.

Sources:
[1]The Pension Protection Act of 2006, Section 1220
http://www.dol.gov/ebsa/pdf/ppa2006.pdf

[2]Attorney General McGraw sues James R. Armstrong, Jr. and his web of Florida shell companies over fraudulent credit counseling scheme
Office of Attorney General Darrell McGraw
http://www.wvago.gov/press.cfm?ID=475&fx=more

[3]FTC's AmeriDebt lawsuit resolved: Almost $13 million returned to 287,000 consumers harmed by debt management scam
http://www.ftc.gov/opa/2008/09/ameridebt.shtm