

# Beware of Debt Settlement Services

Over your head in debt? Struggling to pay your bills? Beware of services that claim they can eliminate or “settle” your debts. In the majority of cases, **debt settlement does not work** and can cost you thousands of dollars in fees, leaving you even further in debt.

Get **free help at the City’s Financial Empowerment Centers**. Financial Empowerment Centers offer free one-on-one professional financial counseling. **Call 311** and ask for an NYC Financial Empowerment Center near you or visit [nyc.gov/TalkMoney](http://nyc.gov/TalkMoney)

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## What is Debt Settlement?

- Debt settlement companies promise “debt relief,” claiming they can wipe out your debts by negotiating lump-sum payments for less than you owe.
- Debt settlement companies may tell you to stop making payments to your creditors and instead pay into a special “settlement” or escrow account. Meanwhile, your creditors keep charging you **late fees** and **interest**, so your debt may double or triple. And you can still face **legal actions** by creditors trying to collect your debts.

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## Know Your Rights about Debt Settlement

As of October 27, 2010, debt settlement companies that sell their services over the phone must comply with new consumer protections:

- **Be aware: Up-front fees may be illegal.** For-profit debt settlement companies that sell their services by phone cannot legally charge a fee before they settle or reduce a debt. (Sales by phone include calls to you through direct telemarketing and calls by you in response to an advertisement.) **Debt settlement companies that charge up-front fees may be breaking the law.**
- **The money you pay into a settlement account is yours!** Money that a debt settlement company asks you to set aside in an “escrow” or “settlement” account belongs to you. You may cancel the account at any time, and the escrow company must refund all of your money minus any fees the settlement company legally earned.

**Warning: Consumer protections do not always apply.**

If you enroll in debt settlement online or face-to-face at a sales presentation or storefront, you do not have the same protections when it comes to up-front fees, disclosures, and escrow accounts. **Do not sign up for a fee-based plan online or in person at a debt settlement workshop where the company can charge you up-front fees without violating the law.**



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## Tips to Protect Your Money

- **Get *free* help with debt.** Visit an NYC Financial Empowerment Center for free one-on-one professional financial counseling. **Call 311** or visit **[nyc.gov/TalkMoney](https://nyc.gov/TalkMoney)**
- **Don't pay up-front fees.** Walk away from any company that tries to charge fees before services are performed. If a debt settlement company tries to charge you before achieving a settlement, file a complaint with the Federal Trade Commission (FTC). Go online to **[ftc.gov](https://ftc.gov)** or call **877-FTC-HELP** (877-382-4357).
- **Be wary if you are directed to enroll for debt settlement online or in person.** Debt settlement companies that use these tactics may be trying to evade the ban on charging fees up-front.
- **Don't assume that debt settlement companies are acting in your best interest—or are legitimate. Companies will claim to be nonprofits, to use lawyers, or to be affiliated with the government to try to lure you in.**
- **Know that debt settlement plans initially will *increase* your debts and are extremely unlikely to reduce any of your debt in the end.**
- **Beware of damage to your credit score and risk of legal action.** Debt settlement can do long-lasting damage to your credit score, affecting your ability to get a loan, a credit card, or even housing or a job in the future. Your creditors may take legal action against you, such as legal judgments, lawsuits, collection activities, and freezing your bank accounts.
- **Save your paperwork.** If you've been in contact with a debt settlement company, save any advertisements, letters, contracts, statements, or other documents you receive. And take notes about your phone calls.

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