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Understanding Debt-Management Services

Consumers who are having trouble making ends meet might want to consider the services offered by debt-management companies. These businesses can be for-profit or not-for-profit enterprises. You may see advertisements on television, in the newspapers, on pop-up internet ads or you may receive mail or even phone calls directly from businesses advertising their services to assist with reducing your unsecured debt. It is important to keep in mind that while these companies may be able to assist you with credit card debt, medical bills, and other unsecured accounts, they cannot typically help with mortgage or foreclosure issues or student loans.

The services provided by debt-management companies generally fall into one of two categories:

- a ***plan-based model*** where the company negotiates certain concessions from creditors, such as a lower interest rate or the reduction or elimination of late fees. With this model, you will typically pay an upfront setup fee (which cannot exceed \$50) and a monthly fee of \$10 for each enrolled creditor, not to exceed \$50 per month. Each month, you make one lump-sum payment to the provider, who pays each creditor on your behalf (after deducting the provider's earned fees).
- a ***debt-settlement model*** where the company negotiates with your creditors to settle a debt for less than the full amount owed. With this model, you will also make monthly payments to the provider, who holds them on your behalf until you have saved enough money for the provider to approach creditors with a potential settlement. A provider using this model may charge you fees up to 18% of the debt enrolled.

Regardless of the model, businesses providing debt-management services for a fee in Delaware are must comply with the [Delaware Uniform Debt-Management Services Act](#) (the “Act”) and the [regulations](#) associated with the Act. The Act is enforced by the Delaware Department of Justice Consumer Protection Unit.

Are there any alternatives to using debt-management services?

Do not assume using a debt-management service is your only option to resolve debt that may seem overwhelming. Think about alternatives such as:

- You may be able to pay off the debt with some careful budgeting that reduces spending.
- Perhaps a part-time job or other plan to increase income could help you to find the money to pay off your debts.
- Talk to your creditors directly to see if they can reduce your interest rate and lower your payments. Also, do not be afraid to offer your creditors a one-time settlement payment of whatever money you have saved up to pay for the debt.
- Consider consolidating debt by borrowing with more favorable terms such as from a family member or credit union. Be careful about increasing your mortgage to pay unsecured credit card debt as you do not want to put your home at risk.
- Some consumers with high unsecured debt may need to consider filing for bankruptcy.

How do I choose a debt-management services company?

If you consider debt management services, be smart. Investigate providers and compare costs and services. Here are some additional tips:

- Make sure the business is licensed in Delaware. A list of currently-licensed debt-management companies can be found [here](#). If you are offered services by an unlicensed provider, do not sign the agreement and contact the Consumer Protection Unit immediately.
- Check with the [Better Business Bureau](#) to see if other consumers have made complaints about the company.
- Avoid businesses using high pressure sales tactics. No reputable provider will expect you to sign a document on the same day that it is provided to you.
- Reach out to a few licensed debt-management services providers and request to see their agreement and enrollment materials. Compare the programs, how long it will take to complete each program, and the fees each provider is charging. Call each provider back and compare the customer service from each.
- Many trade associations set standards for members. Ask about a provider’s membership in trade associations.
- Get and review all agreements before you sign. Never sign any document unless you understand what it says. Don’t rely on what someone else tells you it says, read and understand it yourself.

I already signed a contract with a debt-management services company, but am having second thoughts. Is there anything I can do to get out of it?

The Act provides for a three-day “cooling off” period. By law, agreements with debt-management service providers must be accompanied by a ‘Notice of Right to Cancel’ explaining that you have three business days to cancel your agreement with the company. **If you cancel the agreement in the first three business days, you will be entitled to a refund of all fees paid.**

After the first three business days, you can still cancel at any time without penalty or further obligation. In you were in a debt settlement program, a provider must refund to you the amount in your “savings account”—the money that they are holding on your behalf, less any fees already paid. Also keep in mind that, under a plan-based model, you may lose the concessions that the provider had obtained for you. For example, if your provider had negotiated an interest rate reduction, your rate may increase was once you terminate your agreement.

Additional Resources

<https://www.consumer.ftc.gov/articles/0150-coping-debt>

<https://www.consumer.ftc.gov/articles/0153-choosing-credit-counselor>

<https://www.ftc.gov/news-events/media-resources/consumer-finance/debt-relief-credit-repair-scams>