



DEBT SETTLEMENT COMPANIES

Overview

Debt settlement companies, sometimes also referred to as “debt management” or “debt adjustment” companies, claim they can settle a consumer’s debt owed to a creditor or debt collector with a significant reduction in the amount paid. These companies typically cast themselves as working on behalf of consumers to settle their debts for “pennies on the dollar” and claim to either prevent collection actions or stop collection actions that have already begun.¹ Debt settlement companies often promote themselves as being faster and a less expensive option than slowly paying off debt, an appealing option for individuals seeking debt relief.

However, these companies charge consumers significant fees and do not generally disclose that creditors are under no obligation to work with debt settlement companies and can still obtain (and may accelerate the process of obtaining) a judgment against a borrower who is working with a debt settlement company.² In recent years, many debt settlement companies have increasingly acquired a financial interest in new debts for settlement amounts, either by direct affiliation with a settled debt creditor, or by remuneration from an unaffiliated creditor.

“Stop Paying”

A hallmark—perhaps *the* hallmark—of the debt settlement industry is the instruction given to consumers who are current with their debts and paying their bills: they are invariably told to stop paying their bills and to become delinquent. For those consumers who were current and become delinquent, damage to their credit profiles may be significant and long-lasting.³

¹ Consumer Financial Protection Bureau, *What is a debt relief program and how do I know if I should use one?*, at <https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-relief-program-and-how-do-i-know-if-i-should-use-one-en-1457/> (August 28, 2023).

² *Ibid.*

³ Fair Credit Reporting Act §605(a)(5), 15 U.S.C. §1681c (1970).

Misleading Debt Settlement Company Claims⁴

The debt settlement industry's leading national association, the American Association for Consumer Debt Relief (ACDR), until recently known as the American Association for Debt Resolution (AADR), states its mission is to educate consumers and policymakers about debt relief benefits, and to “hold debt relief companies to the highest standard,” as well as to protect and expand access to debt relief.⁵ Prior to August 2023, the organization existed as the American Fair Credit Council (AFCC), but the group rebranded with the stated purpose of communicating its mission more clearly with policymakers, regulators and consumers, and then apparently rebranded again in 2025.⁶

The ACDR/AADR/AFCC mission appears at first blush to be a benefit for delinquent debt-burdened consumers. The debt settlement industry promotes its services through claims that companies can negotiate with creditors to reduce a consumer's debt up to 50 percent⁷, that they must abide by federal law to provide its services before it can collect payment, and that debt settlement companies never have custody of a consumer's funds.⁸ The industry goes further to tout a supposed bonus for state coffers, too. Going back to 2018, the debt settlement industry claimed that consumer bankruptcy reduces state coffers and increases government expenditures; claiming thus, debt settlement allows consumers to avoid bankruptcy and keeps them “productive, tax-paying members of their communities” while decreasing the courts' backlog.⁹

Common services offered by debt settlement companies may include¹⁰:

- Developing a debt settlement plan with consultants;
- Assisting with opening a separate bank account to deposit payments for debts;
- Negotiating payments for a percentage less than owed.

⁴ Note here we discuss debt settlement companies, not credit repair organizations, many of which inaccurately claim consumers have a right to delete negative but accurate information, or other more absurd claims such as “according to FCRA Section 605B it is illegal to report anything on my credit report without my permission.” TikTok post by @dacreditplug at <https://afsaonline.org/wp-content/uploads/2025/04/Credit-Reporting.pdf>, (March 31, 2025).

⁵ Association for Consumer Debt Relief, *Who We Are*, at <https://aa4dr.org/who-we-are/>, (2025).

⁶ American Association for Debt Resolution, *American Fair Credit Council Relaunches as the American Association for Debt Resolution*, at <https://aa4dr.org/american-fair-credit-council-relaunches-as-the-americanassociation-for-debt-resolution/>, (August 1, 2023).

⁷ American Fair Credit Council, *2020-2021 North Carolina Data Chart*, at <https://aa4dr.org/wpcontent/uploads/AFCC-2020-North-Carolina-Data-1.pdf>, (2021).

⁸ American Association for Debt Resolution, *Debt Resolution 101*, at <https://aadr.wpengine.com/debt-resolution101/>, (2023).

⁹ NorthJersey.com, *Opinion: Help NJ families tackle household debt*, at <https://www.northjersey.com/story/opinion/contributors/2018/11/30/help-nj-families-tackle-household-debt/opinion/2156422002/>, (2018).

¹⁰ Bankrate at <https://www.bankrate.com/personal-finance/debt/what-is-debt-settlement/> (2025).

These services are typically promoted as having “no fees” for rejection of a settlement offer and “no fees or penalties” for cancellation of a debt settlement plan at any time.

But many of these claims are misleading. A 2010 study from the United States Government Accountability Office found extremely low success rates in debt settlement when compared to what the debt settlement companies were claiming. While representatives for companies in **Colorado** touted success rates as high as 100 percent, the Colorado attorney general compiled data demonstrating that less than 10 percent of Colorado consumers successfully completed their debt settlement programs.¹¹ More recently, the Consumer Financial Protection Bureau (CFPB), found that Western Benefits Group, a debt relief service company targeting student loan borrowers, charged fees “regardless of success in loan relief” and made false claims about how their fees would be applied.¹²

Success rates for debt settlement companies are low, leaving many people with bigger financial burdens after being promised debt relief. A report from the CFPB disclosed that working with a debt settlement company could leave a consumer much more in debt than when the consumer started the debt settlement plan.¹³ Importantly, the core service offered by debt settlement companies – negotiation of the amount owed – is available to consumers for free if they contact their creditors directly. A CFPB [lawsuit](#) against Freedom Debt Relief claimed that the company made claims that Freedom would “negotiate directly with [consumers’] creditors to settle [their] debt for less than” what was owed, despite the evidence that Freedom knew that certain creditors would not negotiate. Creditors frequently work with their customers on repayment solutions, without the assistance of a debt settlement company, and those conversations come without any cost to the consumer.

Debt Settlement Company Lending Activities

Some debt settlement companies have engaged in consumer lending to finance debt settlement programs and debt consolidation loans for their clients. These loans allow debt settlement companies to make money on debt settlement company fees and on financing settlement loans. These loans are increasingly being made through subsidiaries and affiliates of the debt settlement company; for example, National Debt Relief offers loans through Liberty Lending Group. Pre-sale securitization rating reports show some larger debt settlement companies with lending

¹¹ United States Government Accountability Office, *Debt Management: Additional Actions Could Strengthen Treasury’s Efforts to Reduce Improper Payments and Enhance Oversight*, GAO-24-500, April 2010, <https://www.gao.gov/assets/a124500.html>.

¹² Consumer Financial Protection Bureau, CFPB Takes Action Against Western Benefits for Swindling Student Loan Borrowers, at <https://www.consumerfinance.gov/about-us/newsroom/cfpb-takes-action-against-western-benefits-for-swindling-student-loan-borrowers/> (May 20, 2024).

¹³ Consumer Financial Protection Bureau, *What is a Debt Relief Program and How Do I Know if I Should Use One?*, at <https://www.consumerfinance.gov/ask-cfpb/what-is-a-debt-relief-program-and-how-do-i-know-if-i-should-use-one-en-1457/>, (August 2023).

portfolios nearing \$5 billion in receivables.¹⁴ For debt settlement companies that do not offer direct loans, a network of affiliate lenders is often used to finance debt settlement program fees.¹⁵

Debt settlement companies frequently market lending options to consumers on the initial intake for debt settlement, and some of the largest companies have shifted to using the debt settlement process to underwrite debt consolidation lending. As a result, debt settlement company loans can saddle consumers looking for debt relief solutions with additional debt. This additional debt may eliminate any savings achieved by the debt settlement process, leading some critics of the industry to characterize the practice as “debt swapping.”

Recent State Legislation

California [AB 1166](#) was introduced on February 21 and referred to the Assembly Banking and Finance Committee on March 13. This bill would expand the state’s [Fair Debt Settlement Practices Act](#) by extending its existing consumer protections to include commercial financing recipients.

Illinois [HB 1279](#) was read for a first time in the House and referred to the House Rules Committee on January 28. The bill would require debt resolution service providers to be licensed in the state. The bill also outlines specific requirements for contracts between licensees and consumers, including mandatory disclosures and the right for consumers to terminate agreements without penalty.

Similar bill [HB 1289](#) was also read for a first time in the House and referred to the House Rules Committee on January 28.

A Senate version of the bill, [SB 1685](#), was read for a first time and referred to the Senate Assignments Committee on February 5.

New Jersey [SB 1310](#) passed the Senate as [amended](#) on December 19, 2024 and was referred to the Assembly Regulated Professions Committee. The bill would allow certain for-profit entities to be eligible for licensing as a debt adjuster. Current law only allows nonprofit social service agencies and nonprofit consumer credit counseling agencies to act as debt adjusters. SB 1310 would also require debt adjusters to supply a debtor with a copy of their agreement, with certain disclosures required to be included. The amendments would require the annual report required by the commissioner of the Department of Banking concerning certain activities of a licensee to

¹⁴ Business Wire, *KBRA Assigns Ratings to FREED ABS Trust 2020-2CP*, at <https://www.businesswire.com/news/home/20200520005758/en/KBRA-Assigns-Ratings-FREED-ABS-Trust-2020-2CP> (May 20, 2020).

¹⁵ The Wall Street Journal, *That Offer to Make You Debt-Free? It Can Make You Worse Off*, at <https://www.wsj.com/articles/that-offer-to-make-you-debt-free-it-can-make-you-worse-off-11565409601> (August 10, 2019).

include the total number of active consumers in the state, the total number of enrolled consumers in the state, the total fees collected in the state and the total amount of debt settled in the state. AFSA submitted a letter to the Senate Commerce Committee in June 2024 to express concerns with the bill as written. That letter can be found [here](#).

Identical bill [AB 4598](#) was introduced and referred to the Assembly Regulated Professions Committee on June 17, 2024.

New York [AB 1427](#) was introduced and referred to the Assembly Consumer Affairs and Protection Committee on January 9. The bill would require entities offering debt settlement services to obtain a license from the state's Department of Financial Services. AB 1427 would also establish specific consumer protections, including mandatory disclosures, fee limitations and the right for consumers to cancel agreements without penalty.

Oregon [HB 3779](#) is scheduled for a work session in the House Commerce and Consumer Protection Committee on April 3. The bill would require debt resolution service providers to register with the Department of Consumer and Business Services. The bill also outlines mandatory disclosures that debt resolution service providers must present to consumers, including clear explanations of fees, potential effects on credit scores and the estimated duration of the debt resolution process.

Tennessee [HB 743](#) passed the Banking and Consumer Affairs Subcommittee of the House Commerce Committee on March 19. The bill would increase the time that the commissioner of the Commerce and Insurance Department has after denying an application for initial registration as a debt management services provider to inform an applicant of the reasons for denial from seven days to seven business days.

Companion bill [SB 1078](#) was heard in the Senate Commerce and Labor Committee on March 25.

Washington [HB 1599](#) was heard in the House Consumer Protection and Business Committee on February 5. The bill would require debt adjusters and debt resolution services providers to be licensed and regulated by the Department of Financial Institutions. The bill would also establish recordkeeping requirements, prohibited advertising practices and annual reporting requirements for both debt adjusters and debt resolution services providers. A recording of the committee's hearing can be found [here](#) and a bill analysis can be found [here](#).

Draft Model Act

AFSA has been working on creating a debt settlement model act, titled the Debt Settlement Company Oversight Act. The model act would:

- Bring debt settlement companies under state regulatory supervision;

- Ban misleading advertising relating to debt settlement;
- Restrict debt settlement activity to delinquent debt, and prohibit debt settlement companies from instructing consumers to become delinquent on current accounts;
- Prohibit debt settlement companies from offering loans to consumers who are in their programs, and prohibit any pecuniary interest in any new loan related to settling a consumer's debt;
- Establish a study of debt settlement companies with the aim of fostering better understanding among state legislators and regulators of how debt settlement companies charge consumers for services.

Federal Involvement in the Debt Settlement Industry

The federal government's regulation of debt settlement companies has been spread out between multiple federal regulatory agencies, with the FTC and the CFPB leading the efforts to regulate the industry. AFSA has supported further regulation of the debt settlement industry to root out malicious actors and continued enforcement of existing rules by the CFPB, FTC and state agencies. AFSA also has opposed debt settlement industry efforts to roll back existing regulations at the state level. In 2024, there were 11 federal or joint federal-state efforts to investigate and enforce action against debt settlement companies,¹⁶ not including other enforcement strategies.

One such measure that is used to prevent malicious debt advising is the FTC's online database of individuals and companies who are banned from conducting any debt settlement actions. The FTC is tasked with maintaining this online database of individuals and companies as well as their relevant court orders for public review.¹⁷ These measures are enforced through federal court orders which effectively ban the individual or company's continued debt settlement services. This database shows an attempt by the commission to prevent malicious financial actions by debt settlement and debt relief companies.

The CFPB, meanwhile, has taken enforcement actions against debt settlement companies for reasons including, but not limited to, misleading consumers regarding fees, procedures and other important steps regarding debt settlement. More recently, **New York** Attorney General Letitia James and the CFPB brought a [suit](#) against the debt settlement company Strategic Financial Solutions (StratFS) in 2024 for engaging in fraudulent and deceptive practices. Among the

¹⁶ Christina L. Hennecken et al., "2024 Year in Review: Debt Collection and Debt Settlement," *Goodwin*, at <https://www.goodwinlaw.com/en/insights/publications/2025/03/insights-finance-cfs-yir-debt-collection-and-debt-settlement> (March 13, 2025).

¹⁷ Federal Trade Commission, *Companies and People Banned From Debt Relief*, at <https://www.ftc.gov/enforcement/cases-proceedings/banned-mortgage-relief-debt-relief-companies-people> (July 2020).

deceptive practices alleged¹⁸ is a claim that StratFS falsely marketed that lawyers would be providing debt relief services to negotiate lower payoff amounts. According to the suit, most negotiations were conducted by StratFS employees who are not lawyers.

With President Donald Trump's administration halting¹⁹ much of the investigative and supervisory action done by the CFPB, it remains to be seen how enforcement of debt settlement company violations will be handled.

Conclusion

Debt settlement companies and the debt settlement industry portray themselves as on the side of the consumer and helpful for those dealing with mounting debt and financial burden. However, many debt settlement companies leave consumers worse off. These companies often interfere with negotiations between creditors and consumers, resulting in decreased chances of successful outcomes with creditors, lower credit scores, and debts being collected through court action.

AFSA members work directly with distressed borrowers free of charge to find repayment solutions. It is in our members' interest to help our customers find a way to pay off or settle their debts and avoid bankruptcy where appropriate.

In recent years debt settlement companies have pulled in billions, and the debt industry is growing rapidly. Bad actors have sprouted from this intense growth, and many companies have been held liable for malicious and illegal business practices by state and federal regulatory agencies. Efforts to control these bad actors continue at both the federal and state levels, but with no comprehensive federal set of rules and a small smattering of state laws governing these companies, the door is still open for bad actors to continue malicious financial behavior against the very consumers who are most at risk of financial collapse.

AFSA is committed to ensuring, where appropriate, that our customers who are in over their heads communicate with their creditors to find solutions that work best for everyone involved.

¹⁸ New York State Attorney General's Office, *Attorney General James, CFPB, and Multistate Coalition Protect Consumers from Debt-Relief Company that Took Over \$100 Million in Illegal Fees*, January 19, 2024, <https://ag.ny.gov/press-release/2024/attorney-general-james-cfpb-and-multistate-coalition-protect-consumers-debt>.

¹⁹ Richard M. Alexander et al., "Trump Administration Seeks to Dismantle CFPB Amid Legal Challenges," *Arnold & Porter Advisories*, at <https://www.arnoldporter.com/en/perspectives/advisories/2025/02/trump-administration-seeks-to-dismantle-cfpb> (February 18, 2025).