

Options for Consumers in Crisis:
An Updated Economic Analysis of
The Debt Settlement Industry
(Data as of March 31, 2020)

February 2021

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1. Executive Summary

Please refer to §2 for a Glossary of capitalized terms used in this report.

In 2012 the American Fair Credit Council commissioned the 2012 Report, the original study upon which this report is based, with the objective of performing the first-ever comprehensive analysis of the economic outcomes following participation by financially challenged consumers in debt settlement programs. The 2012 Report examined the outcomes of more than 1.0 million Accounts associated with approximately 170,000 individual Clients enrolled in debt settlement programs from January 1, 2006 through December 31, 2012.¹

The 2012 Report analyzed consumer outcomes from what were, essentially, two completely different business models: the “advance fee model,” which was virtually universal prior to October 27, 2010, and the “no-advance fee model,” which became the only legitimate operating model for debt settlement companies operating on and after October 27, 2010. Because “no advance fee” program enrollments comprised only 26 months of the original 84-month study period, for purposes of the 2012 Report, “no advance fee” programs were not only underrepresented in all segments of the Account population but not truly predictive due to insufficient volume of program completion.

An update to the 2012 Report was issued in 2015 (the “2015 Report”) and a further update was issued in 2017 (the “2017 Report”). The key attributes of the data sets used in each of the 2012 Report, the 2015 Report and the 2017 Report are presented in Table 4.1, below. As to be expected, with each successive report the number of “no advance fee” Clients and Accounts grew significantly, while the number of “advance fee” Clients and Account continuously declined (no “advance fee” Clients have been enrolled since October 2010). Since all “advance fee” Clients have, by now, aged out of their programs, the “advance fee” model is no longer a consideration in these studies. Accordingly, the 2017 Report focused exclusively on “no advance fee” Clients and Accounts, as does this updated report.

The analysis presented in this report addresses the outcomes of 11.7 million individual Accounts associated with approximately 1.6 million individual Clients. As described in greater detail below, the analysis has yielded the following conclusions:

- Across all Client types (including all Active, Completed and Terminated Clients), Debt Reduction is \$2.64 for each \$1.00 of Fees, which is consistent with the 2017 Study,

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- Clients across all vintages are achieving substantial reductions to their debt burdens (*see* Charts 5.1, 5.5, and 5.6).
- After approximately ten months (*see* Charts 6.1 and 6.2), accretion experienced by Clients on Enrolled Debt due to interest, fees and penalties falls below accretion that would otherwise occur if Accounts were to amortize at normal credit card rates of interest and, thereafter, continues to decline relative to the accretion experienced in credit card amortizations.
- Clients generally realize Savings on the first settlement, which commonly occurs within the first four to six months of program tenure (*see* Chart 5.2). All segments of Clients have experienced Savings, included Terminated Clients (*see* Section 5.1 and Chart 5.1).
 - Because Clients only pay for settlements actually achieved, economic benefit may be measured on an Account-by-Account basis, not just on a total-debt basis (in other words, Clients receive economic benefit from each settlement, irrespective of whether or not additional debts are settled). *See* §6 below, including Charts 6.3, 6.4, and 6.5.
- At the time of the 2017 Report, approximately six years of data on “no advance fee” Accounts was available. This 2020 report now considers more than nine years of data on such Accounts. The expanded data set supports the following conclusions:
 - The likelihood that a Client will obtain at least one settlement has increased: 70% of all Clients that are no longer Active (*i.e.*, Completed **and** Terminated Clients) settled at least one Account (compared to 61% in the 2017 Study).
 - When the data set is expanded to include Active Clients, 75% of all Clients have settled at least one Account (compared to 67% in the 2017 Study).
 - Amongst Terminated Clients, 53% settled at least one Account (compared to 42% in the 2017 Study).
 - The probability that a Client will achieve multiple settlements continues to increase (*see* Chart 5.3). 56% of all Clients that are no longer Active (*i.e.*, Completed and Terminated) settled two or more Accounts (compared to 50% in the 2017 Study). This equates to a similar increase in the probability that a given client will complete his or her debt settlement program (*see* § 4.e).
 - Clients can reject any offered settlement for any reason or no reason at all. As a result, more than 98% of settlements result in Debt Reduction that is greater

than the related Fees (*i.e.*, realized Savings).² This rate compares to 96% in the 2017 Study.

- The completion rate for Clients that participate in a settlement program for at least eight months exceeds 40%, for at least twenty-four months exceeds 50% and for at least 36 months exceeds 60% (*see* Chart 4.7 below).³

These findings support the conclusion that debt settlement results in a significant economic benefit for financially challenged consumers as measured by a cross-section of outcomes including Debt Reduction, Debt Reduction per dollar of Fees, and ultimately, Savings.

2. Glossary of Terms Used in this Report

As used in this report, unless the context otherwise requires, the following terms have the meanings given below.

2012 Report (Report 1), **2015 Report** (Report 2), and **2017 Report** (Report 3). The previous studies of debt settlement programs described in the Executive Summary.

Account. A record of an obligation owed by a Client to a creditor. An Account may have one of three different statuses: an "**Active Account**" is an Account that is currently enrolled in an active debt settlement program; a "**Settled Account**" is an Account that has been successfully settled; and a "**Terminated Account**" is an Account that has been withdrawn prior to settlement by a Client from a debt settlement program.

AFCC. The American Fair Credit Council. The American Fair Credit Council (formerly known as "TASC," the acronym for The Association of Settlement Companies), is the industry trade association representing virtually all of the national debt settlement companies operating in compliance with the FTC Rule.

Client. A consumer who has enrolled in a debt settlement program. A Client may be in one of three different statuses: an "**Active Client**" is a Client that is currently enrolled in a debt settlement program; a "**Completed Client**" is a Client who has settled 80% or more of the total amount of Enrolled Debt (*see* §4.c below); and a "**Terminated Client**" is a Client who has withdrawn from a debt settlement program prior to achieving "completed" status.

² In unusual cases, almost always associated with collections lawsuits, a settlement will occur that, when fees are included, aggregates more than 100% of the enrolled amount. While there is significant anecdotal evidence to the effect that these "100%+" settlements are subsequently renegotiated and settled for significantly less, we have assumed in the data that these settlements stand as originally accepted by the client.

³ As described in §4.c, an analysis of completion rates for Clients that do not participate for at least seven months is not relevant because insufficient time has transpired for completion to be a practical outcome. Approximately 48% of Terminated Clients did not complete seven months in the debt settlement program (all of these Clients are included in this analysis).

Debt. An unsecured obligation, represented by an Account, owed by a Client to a creditor. An “**Enrolled Debt**” is a Debt that has been enrolled by a Client in a debt settlement program. Debts eligible for enrollment in a debt settlement program are predominately credit card obligations and other forms of unsecured indebtedness (including medical debt and non-federally guaranteed student loan obligations); secured indebtedness is not eligible for debt settlement.

Debt Reduction. The difference between the amount owed by a Client to a creditor at the time of settlement and the amount for which that Debt is actually settled. By way of example, if a Client owes \$10,000 at the time of settlement and the Debt is settled for \$4,000, the Debt Reduction would be \$6,000.⁴

Fees. The compensation charged by a debt settlement services provider. For purposes of this report, Fees for all settlements were determined as a percentage of each Enrolled Debt.

FTC Rule. The Amended Telemarketing Sales Rule (16 C.F.R. Part 310 et seq.), as adopted by the Federal Trade Commission on July 29, 2010, which rule implemented a ban on “advance fee” debt settlement programs, effective as of October 27, 2010.

Savings. The net economic value of a settlement to a Client. “Savings” represents Debt Reduction minus Fees. By way of example, the settlement of a \$10,000 Debt for \$4,000 with a 20% Fee yields Savings of \$4,000 (\$6,000 of Debt Reduction minus the \$2,000 Fee).

3. Introduction and Background

a. Debt Settlement

Debt settlement is the process by which a debt settlement service provider, working on behalf of a Client, negotiates the discharge of the Client’s unsecured indebtedness in exchange for a payment of less than what the Client owes at the time of settlement. Debt settlement is most appropriate for those who cannot qualify for or afford other debt relief options, such as consumer credit counseling, or who are unable to satisfy the means test required as a prerequisite to personal bankruptcy.⁵

⁴ The FTC Rule mandates that, for marketing purposes, “savings” must be measured as the difference between the amount paid and the original (*i.e.*, enrolled) balance of a Debt. However, using the original balance as a baseline for calculating savings distorts the economic benefit realized by a Client because, by ignoring accretion, actual savings is understated. Accordingly, for analytic purposes, the economic analyses presented in this report use *actual* savings, meaning savings measured by subtracting from the amount owed by the consumer at time of settlement the sum of (i) the amount paid to the creditor in exchange for the discharge of the Debt and (ii) all Fees paid to the debt settlement service provider for that settlement.

⁵ Refer to §7 below for discussion regarding other debt relief options available to consumers, including the related fees.

The debt settlement process involves functioning as the intermediary between the debtor and the creditor. Debt settlement service providers do not provide legal representation, nor do they provide tax or bankruptcy advice or financial counseling services. Similarly, debt settlement service providers do not provide assistance with secured indebtedness, such as mortgages or any other type of secured indebtedness (a creditor holding secured debt has no incentive to negotiate, or reason to accept, a settlement of less than the value of the underlying security).

Although debt settlement has been available to commercial enterprises for many years, it only became widely available as an option for consumers in 2003 and became more established, as an industry, following the passage of the Bankruptcy Reform Act of 2005. The Bankruptcy Reform Act of 2005 made it more difficult and expensive for consumers to seek discharge of their debts, particularly credit card-related debts.⁶ Accordingly, debt settlement may best be characterized as a private-sector alternative to bankruptcy.

b. The American Fair Credit Council

The AFCC's predecessor, TASC, was formed in 2005 for the twin purposes of articulating clear and fair operating standards for the debt settlement industry and promoting strong regulatory frameworks that protect consumers from both real and perceived abusive practices.⁷ Following the October 2010 adoption of the FTC's advance-fee ban, TASC changed its name to the American Fair Credit Council to better reflect its expanded mission. The AFCC's standards, along with industry "best practices" and the association's mission statement, may be found on its website at www.americanfaircreditcouncil.org.

c. The Fee Structure Shifts Risk to the Debt Settlement Service Providers

The FTC Rule set in place the "no advance fee" compensation structure, a pay-for-performance model for those debt settlement service providers that are subject to FTC jurisdiction.⁸ This model places the economic risk of program success squarely on the service provider. Debt settlement service providers incur considerable costs before being able to charge a Client fees. For example, service providers engage in pre-enrollment program education, provide extensive program disclosures, perform client suitability analyses, account verification and set-up services, and conduct numerous settlement-related

⁶ Federal Reserve Bank of Boston, *Forgive and Forget: Who Gets Credit After Bankruptcy and Why?*, Working Paper No. QAU09-2, July 23, 2009, p.9.

⁷ See <http://www.americanfaircreditcouncil.org/who-we-are>

⁸ The FTC's jurisdiction extends only to certain persons who use an instrumentality of interstate commerce in the sale of a product or service. The FTC Rule does not reach those whose sales process occurs in face-to-face interactions and persons operating under the provisions of Section 501(c)(3) and 501(q) of the Internal Revenue Code.

negotiations with creditors, all of which precede the achievement of a settlement. However, before the service provider is entitled to recoup any of those costs, three contingencies must be satisfied: (1) the service provider must negotiate the terms of settlement for a debt; (2) the Client must agree to the terms of the negotiated settlement; and (3) the Client must ratify that acceptance by making at least one payment to the creditor. If the Client fails to do any of these things, the service provider will experience a financial loss because Fee revenue may only be realized when the Client satisfies all three prongs of the FTC Rule. Moreover, the Fee for the provision of services may only be charged on a per-debt basis (*i.e.*, the service provider may only collect the Fee attributable to the specific Debt being settled).⁹

4. Scope of Engagement and Data Considered

a. Analytic Approach

The objective of this report is to provide an independent and impartial analysis of the economic outcomes following participation in a debt settlement program. It is premised on data obtained from the nation’s largest debt settlement service providers, all of whom adhere to the AFCC’s Code of Conduct. More specifically, the statistical data presented herein is representative of, and consistent with, the FTC Rule that Fees may only be charged or collected at such time as the underlying Debt has actually been settled. The analysis includes Clients residing in most of the 50 states as well as the District of Columbia and Puerto Rico. Ultimately, this analysis measures whether, and to what extent, a Client is economically advantaged by participation in a debt settlement program.¹⁰

b. Summary of Data

Table 4.1 summarizes key attributes of each of the data sets analyzed for purposes of the three reports issued to date (“no advance fee” Clients and Accounts only):

Table 4.1

Report	2012	2015	2017	2020
Enrolled Clients	56,000	165,000	397,000	1.6 million

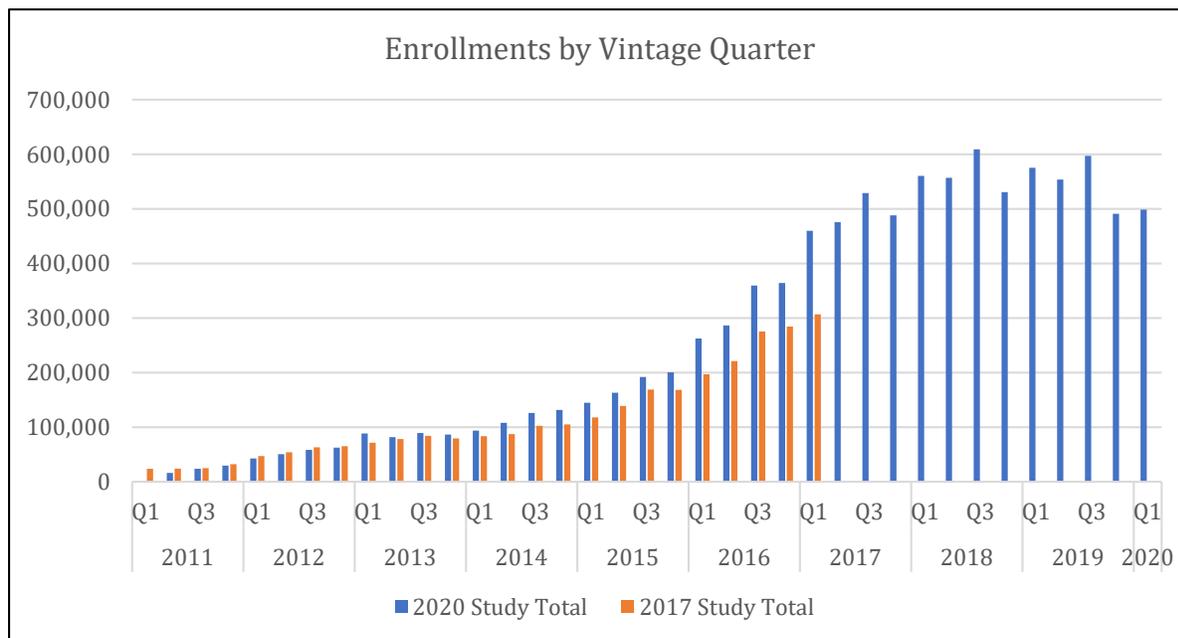
⁹ The Fee that may be collected upon settlement of a debt must bear the same relationship to the total Fee for all Enrolled Debts as the settled debt bears to the total of all Enrolled Debts (*i.e.*, “frontloading” of Fees is not allowed under the FTC Rule).

¹⁰ This report has not excluded any Clients or Accounts based on their respective outcomes (*e.g.*, whether the Client terminated within one month of enrollment or exited without having achieved a settlement) despite the fact that valid reasons exist to consider such exclusions. Further, it was deemed to be beyond the scope of this report to address or attempt to monetize either the “soft” benefits (*i.e.*, the value to a Client of improved cash flow when the Client chooses to stop making minimum monthly credit card payments and substitutes a reduced periodic deposit requirement) or the “soft” costs (the detriments of various debt relief alternatives, such as damage to one’s credit report, the social costs of bankruptcy, etc.). Finally, while relief of indebtedness may be considered taxable income under some circumstances, consumers who are insolvent at the time such debt relief occurs may not have to treat such “income” as taxable, *see* §7, below.

Report	2012	2015	2017	2020
Enrolled Accounts	354,000	1,133,000	2,904,000	11.7 million
Total Enrolled Debt	\$1.7 billion	\$5.0 billion	\$12.0 billion	\$45.2 billion.

Chart 4.2 below summarizes the Accounts included in the analysis herein based upon the date of enrollment as of March 31, 2020:¹¹

Chart 4.2



The first quarter of 2011 marked the first full quarter of enrollments following the onset of the FTC Rule. Since that time, the data indicates that service providers have experienced an increasing enrollment trend.

Absent the influence of the COVID-19 pandemic,¹² continued enrollment growth would have been expected as the economic benefits of debt settlement became more widely known to financially challenged consumers and as creditors became more accepting of debt settlement as a practical way of managing consumer defaults without the time-delay and cost associated with enhanced collection activities. It is clear, though, that consumer response to the pandemic has changed the landscape in unexpected ways, including by injecting

¹¹ The 2020 Study includes additional participants explaining new enrollments from the 2017 Study.

¹² This report speaks to consumer outcomes as they stood prior to the effect of the COVID-19 pandemic on the United States economy (the enrollment data is as of March 31, 2020), in general, and on financially challenged consumers, more specifically. Projecting the effect of the pandemic on consumers who may have already been suffering financial challenges is speculative at best; however, because demand for debt settlement services rises in times of economic hardship, it is fair to assume that the demand (and the need) for debt settlement services is likely to increase.

employment insecurity into otherwise stable occupations across all income levels. In response to the economic uncertainty, certain consumers have managed to reduce discretionary spending, pay down existing debt and/or increased their rate of savings.¹³

c. Critical Client Attributes

The Client data included in this report has been segmented into three principal categories:

- **Active:** Clients and Accounts continuing to participate as of March 31, 2020. Amongst these Clients, approximately 45% of all Accounts have been settled (compared to 30% in the 2017 Study) while 2% of Accounts have been terminated (compared to 2% in the 2017 Study). On-average, Active Clients have been in their programs for fourteen months.
- **Completed:** Clients that settled 80% or more of the amount of Enrolled Debts.¹⁴
- **Terminated:** Clients and Accounts that have withdrawn prior to becoming Completed or settled, respectively.¹⁵

This Report measures Client outcomes in numerous ways, including Client Savings and Debt Reduction. Client-level outcomes may be impacted by events outside of the debt settlement providers control, including for example, a Client's loss of employment. Thus, as

¹³ See, e.g., <https://www.cnbc.com/2020/05/29/us-savings-rate-hits-record-33percent-as-coronavirus-causes-americans-to-stockpile-cash-curb-spending.html> and <https://www.bankrate.com/finance/credit-cards/credit-card-delinquencies-take-a-nosedive-during-pandemic-according-to-report/>.

¹⁴ This definition of a Completed Client has been revised from the 2017 Study. At that time, a Completed Client was defined as a consumer who had settled 75% or more of the *number* of enrolled Accounts (*i.e.*, the definition was not sensitive to the *amount* of Enrolled Debt). The revision implemented for purposes of this study shifts the criterion from the settlement of a percentage (75%) of Enrolled Debts to the settlement of an amount (80%) of total Enrolled Debts, thereby eliminating certain inequities resulting from the prior definition. Consider: if an inactive Client had settled five of seven enrolled Accounts (71%), the Client would have been considered Terminated. This classification would have occurred even if the five settled Accounts constituted 85% of the Client's Enrolled Debts. Conversely, if the Client had settled three of four Accounts (75%), the Client would have been classified as Completed without consideration of the amount of Enrolled Debt that had been settled. We believe the revised definition of a Completed Client aligns more precisely the objectives of the Client at enrollment with the outcomes of the service provided, and responds more directly to the core question surrounding debt settlement: "does the Client substantially resolve their Enrolled Debt?"

¹⁵ The data indicates certain Clients terminate participation in a debt settlement program simultaneously with the settlement of other debts. For example, many Clients settle a 3rd debt after 12 months in the program, and at that same time, terminate all remaining enrolled Accounts. This activity suggests the Client has learned how to self-serve debt settlement; to the extent that this propensity results in Client-directed settlements for which no Fee will be earned by the service provider, this implies both enhanced economics for Clients and added pressure on service provider margins, as well as an increased need to focus on both Client service and settlement performance that is over and above what the Client could achieve on his own.

described below, an analysis of Client outcomes in a debt settlement program also should be measured at the Account level.

d. Critical Account Attributes

A Client that settles even one Account for less than the sum of the amount owed at the time of settlement plus Fees is, by definition, less in debt by virtue of participation in a debt settlement program. In other words, Savings are realized on a per-debt basis, **not** on a portfolio basis: a Client does not need to settle all enrolled debts before Savings may be realized (*see* §6). Thus, when measuring Client outcomes, it is also important to analyze Debt Reduction and Savings at the Account level.

Chart 4.3 summarizes the median outcomes for Clients of all types at the Account level:

Chart 4.3

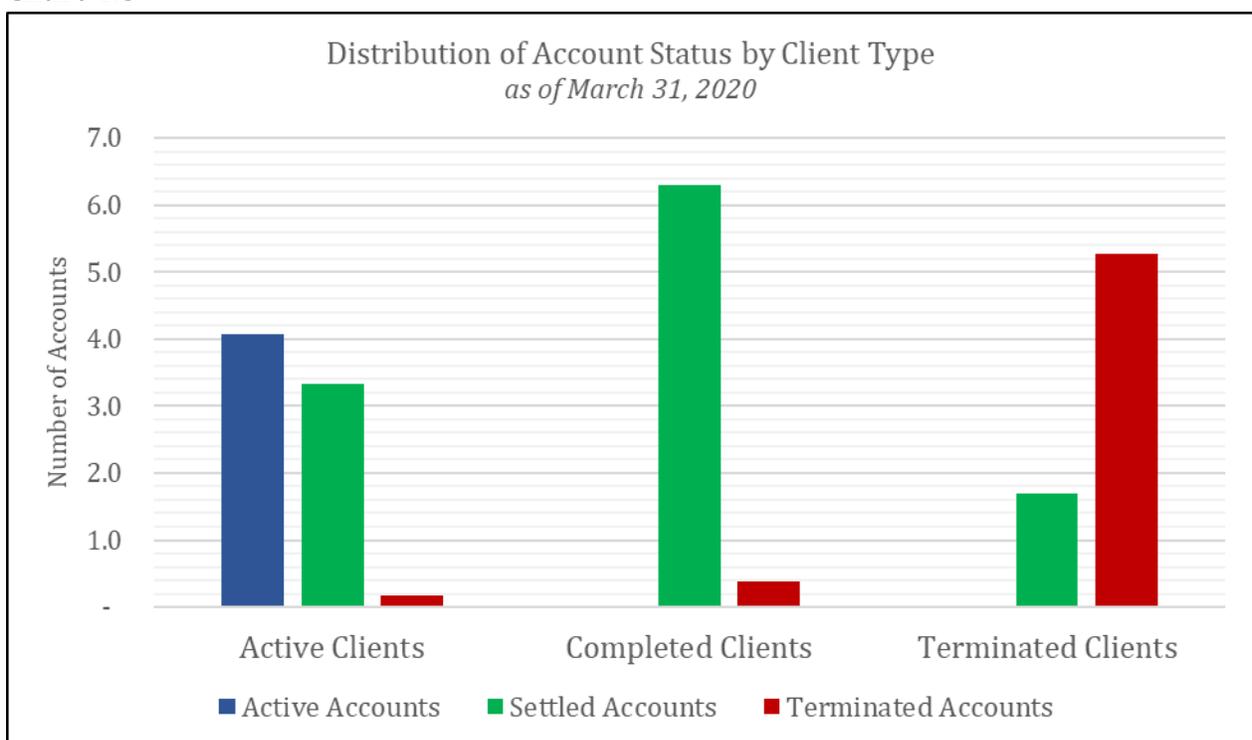


Chart 4.3 illustrates how Clients experience a benefit from debt settlement during their debt settlement program. The average Active Client has realized more than three settlements and attendant Savings while maintaining the opportunity for further Savings with the remaining Accounts. The average Completed Client settles more than 90% of their Accounts (*i.e.*, more than 6 of 7 Accounts in Chart 4.3 become settled).

We further considered the Account distribution above limited to those Clients with at least four months of program participation. Using only those Clients, the distribution for Completed Clients appears the same. For Active Clients with at least four months of

participation, the average number of Settled Accounts rises to approximately 4.5. Terminated Clients with at least four months of participation settled 2.5 Accounts (*i.e.*, one additional Settled Account than when all Terminated Clients are considered), demonstrating the strong correlation between length of program participation and increased program success.

Many Terminated Clients also generated Savings prior to exiting their program (*see* §5 below for additional analysis). Specifically, 54% of Terminated Clients settled at least one Account (compared to 42% in the 2017 Study) and 17% of Terminated Clients settled at least 50% of their enrolled Accounts (compared to 13% in the 2017 Study).

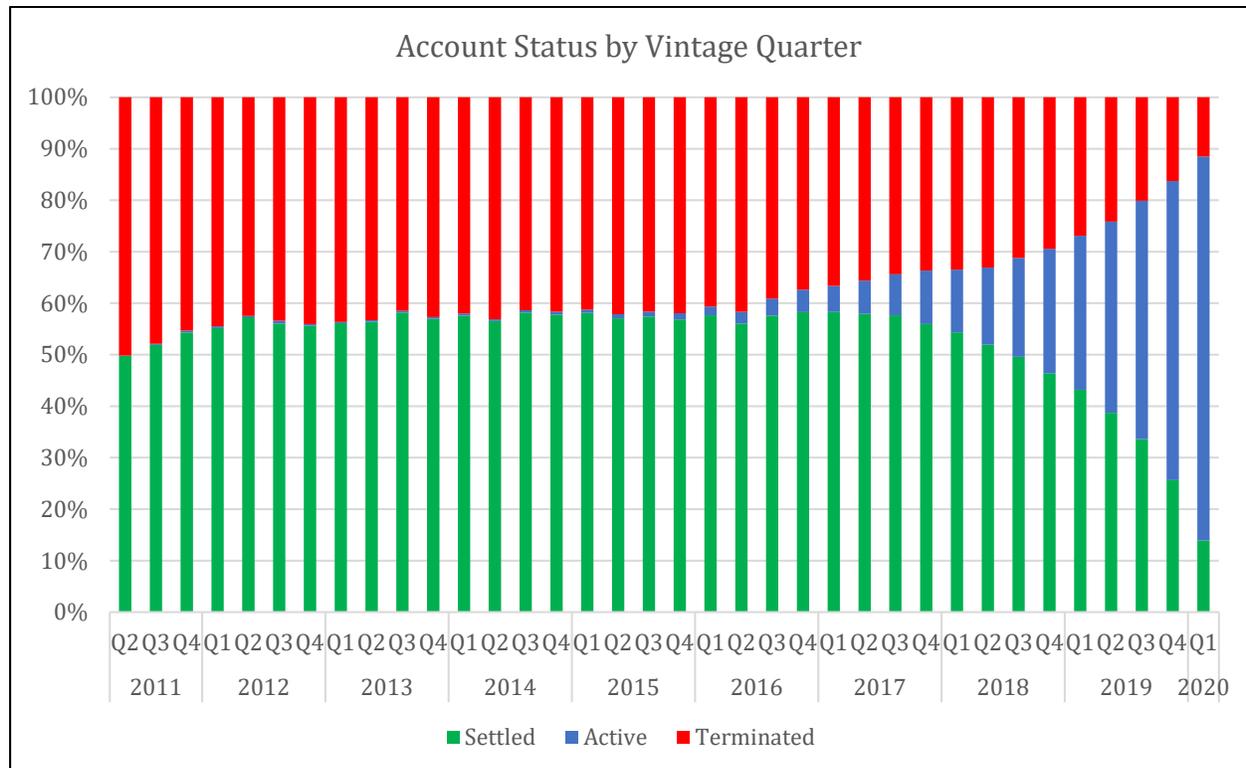
e. Vintage Analysis

The data in this report has been analyzed and is presented on a vintage basis. Vintage analyses are the most accurate way to evaluate performance when time is relevant to Client outcomes. A vintage analysis examines the performance of a group of Clients or Accounts that have been segmented by dates of enrollment. By way of illustration, colleges report graduation rates as a percentage of students eligible for graduation. The graduation percentage is typically calculated by dividing the number of graduating seniors by the number of freshmen that entered the same class four years earlier. Stated differently, the graduation rate is not computed by dividing the number of graduating seniors by the total number students at the college because most college students have not completed enough coursework to be eligible for graduation at that time.

A concept similar to a graduation rate applies in the debt settlement industry (*i.e.*, a completion rate). That is, a Client who enrolled in January 2018 is less likely to have completed the program by March 2020 than a Client who enrolled in January 2016 or earlier. This is why vintage analysis is both relevant and necessary to an accurate presentation of outcomes (*e.g.*, how much Debt Reduction was generated within 24 months of enrollment?).

In the 2015 Report, we projected that the likelihood of an Account becoming settled would stabilize slightly above 50%. That projection was validated in the 2017 Report. Chart 4.4 confirms the stability of this attainment and indicates that Account settlement rates have now approached 60%. Further, more recent vintages (*e.g.*, those from 2018 onwards), have additional Accounts that remain Active, which as described above are more likely to result in settlements than terminations and may result in continuing increases in the rate that Accounts become settled.

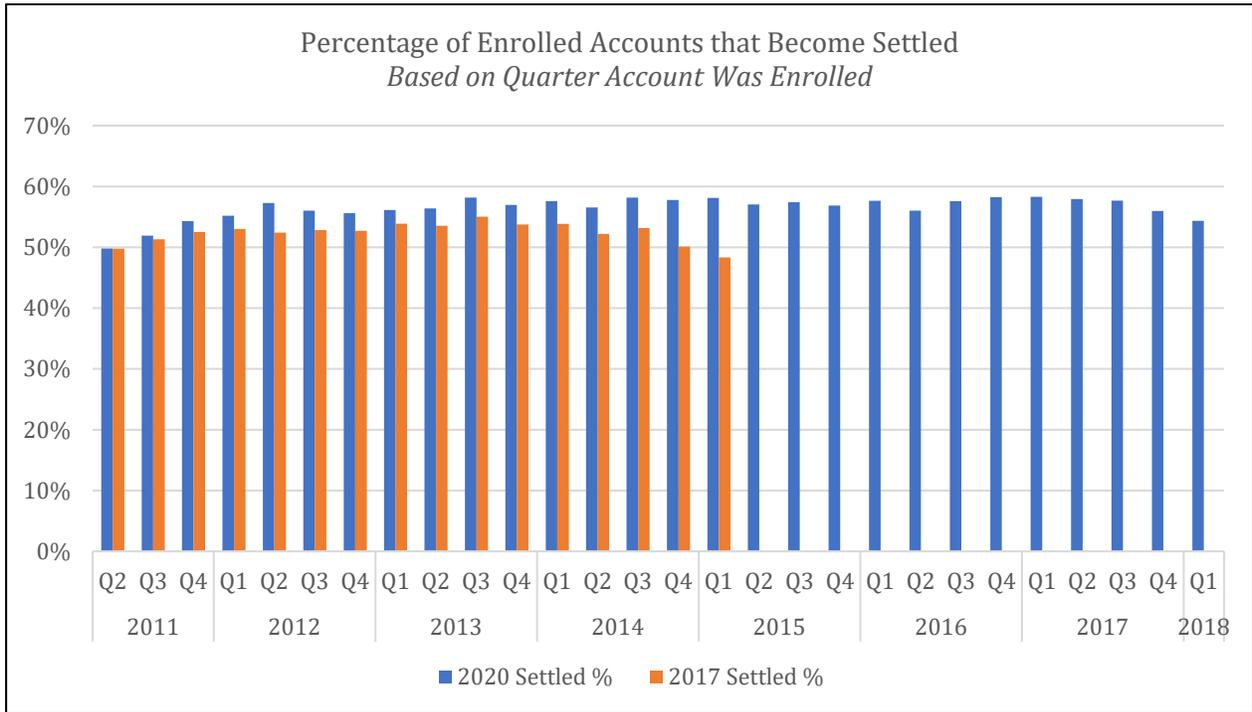
Chart 4.4



The Account Settlement Rate is also increasing. The chart below compares the Account Settlement Rate observed in this report to the 2017 Report for all Accounts that had at least twenty-four months of seasoning (*i.e.*, to enable the consumer to have a reasonable possibility of obtaining settlements). The data presented here affirms that Account Settlement Rates have improved relative to the 2017 Report and continue to improve in

more recent vintages. This trend indicates that debt settlement providers have increased program efficacy when measured by obtaining settlements for Clients:

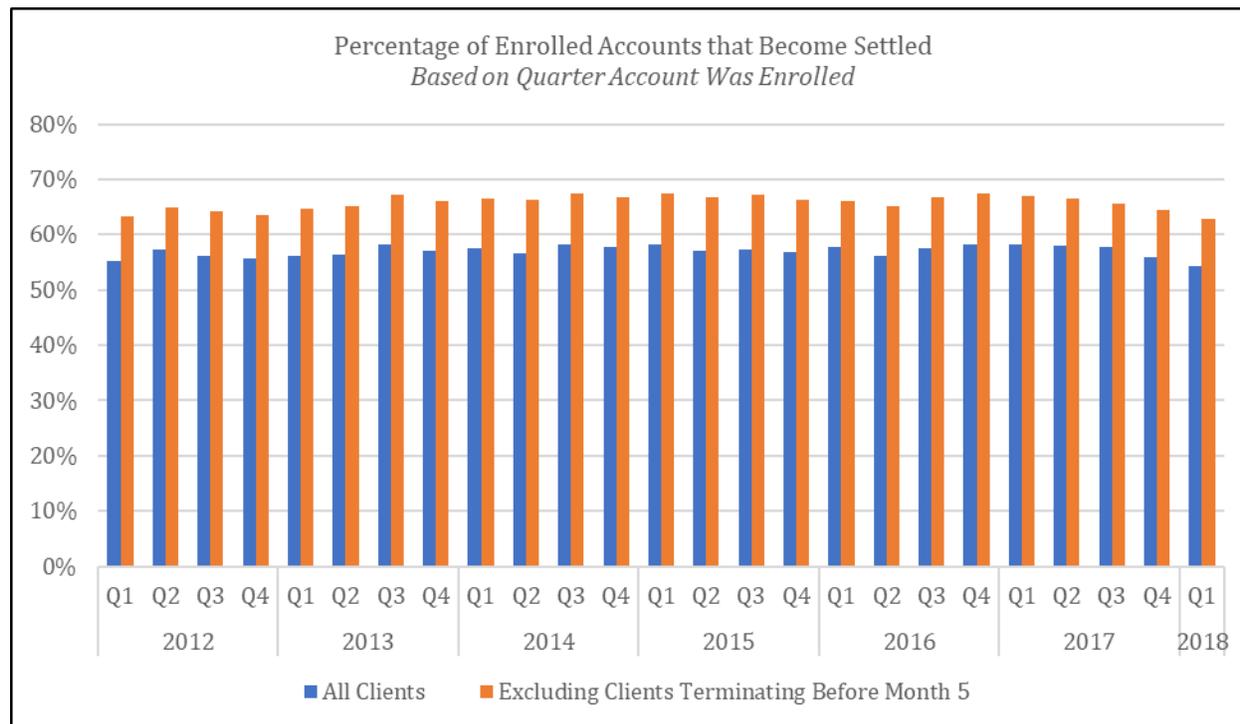
Chart 4.5



As noted above and as seen throughout this report, there is a strong correlation between the number of Accounts and amount of Enrolled Debt settled with the length of time a Client participates in the program. In particular, Clients that terminate before participating in the program for at least four months are least likely to enjoy a significant number of settlements and related Savings. This finding is evident in the Account Settlement Rate when excluding these Clients: the likelihood that an Account is settled increases approximately

10% to nearly 70% in recent vintages when the analysis is limited to all Clients with at least five months of program participation:

Chart 4.6



Finally, the completion rate may also be measured at the Client level. As expected, the data indicates that Client tenure (months in the debt settlement program) is highly correlated with the Client completion rate. For all Clients (Completed and Terminated) that participated in a debt settlement program for seven months or more, the Client completion rate is 52%. The Client completion rate exceeds 60% for Clients that participated for more than twenty-four months. Conversely, the Client completion rate is significantly lower for Clients that participated for six months or less. This is also as expected: given the constraints on a Client’s ability to make funds available for his debt settlement program and the provider to negotiate settlements, it is not reasonable to anticipate a meaningful completion rate for these Clients. Chart 4.7 illustrates the Client completion rate at each month of program tenure.

Chart 4.7

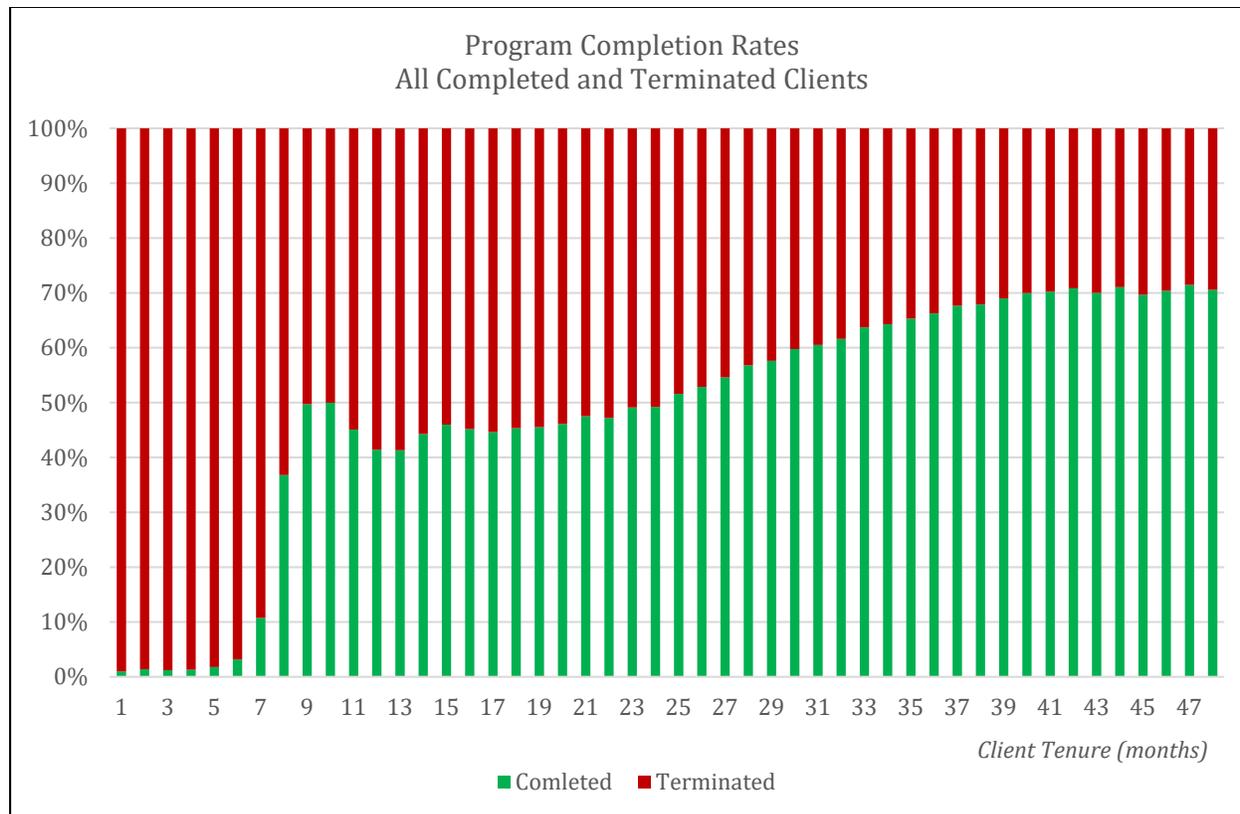
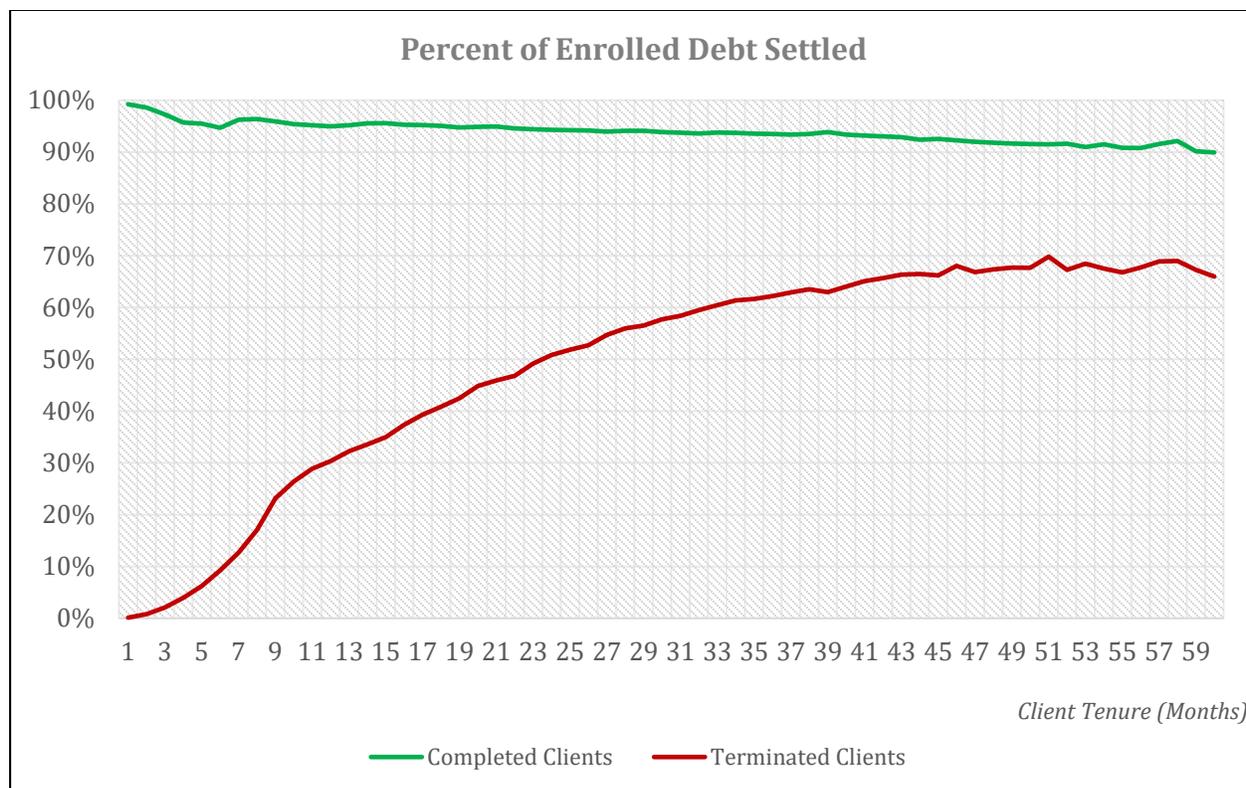


Chart 4.7 again illustrates that the longer a Client participates in a program the greater the likelihood that the Client will become a Completed Client. Chart 4.7, however, does not tell the full story. As defined above, to become a Completed Client, the Client must settle 80% or more of the dollar volume of her Enrolled Debt. Thus, while it appears that many Clients become Terminated Clients after twenty-four months in the program, these clients are typically settling at least 50% of Enrolled Debt (but less than 80%).¹⁶ This outcome data is seen in Chart 4.8:

¹⁶ This situation reinforces why Account-level analyses is significant to consideration of the effectiveness of debt settlement programs.

Chart 4.8



Moreover, because Client-level analyses generally require the Client to have exited the program, the program completion percentages in Chart 4.7 are significantly understated by the existing population of Active Clients. Specifically, more than 60% of all Active Clients have participated in their debt settlement programs for more than six months (*i.e.*, the cohort with a probability of Client completion approaching 60%). As indicated in Chart 4.3, the typical Active Client has already settled more than 33% of Enrolled Debts and may be expected to continue to receive settlements through their remaining program tenure.

5. The Benefits of Participation in Debt Settlement Programs

a. The Aggregate Economic Benefits of Debt Settlement Programs

More than 98% of settlements result in Debt Reduction that is greater than the Fees associated with the respective settlement (as compared to 96% in the 2017 Report).¹⁷ Chart 5.1 summarizes the total Debt Reduction and Fees experienced across all Client outcomes,

¹⁷ Refer to footnote 2 above.

where those outcomes have already been experienced (*i.e.*, it does not include the 2.1 million Active Accounts):

Chart 5.1

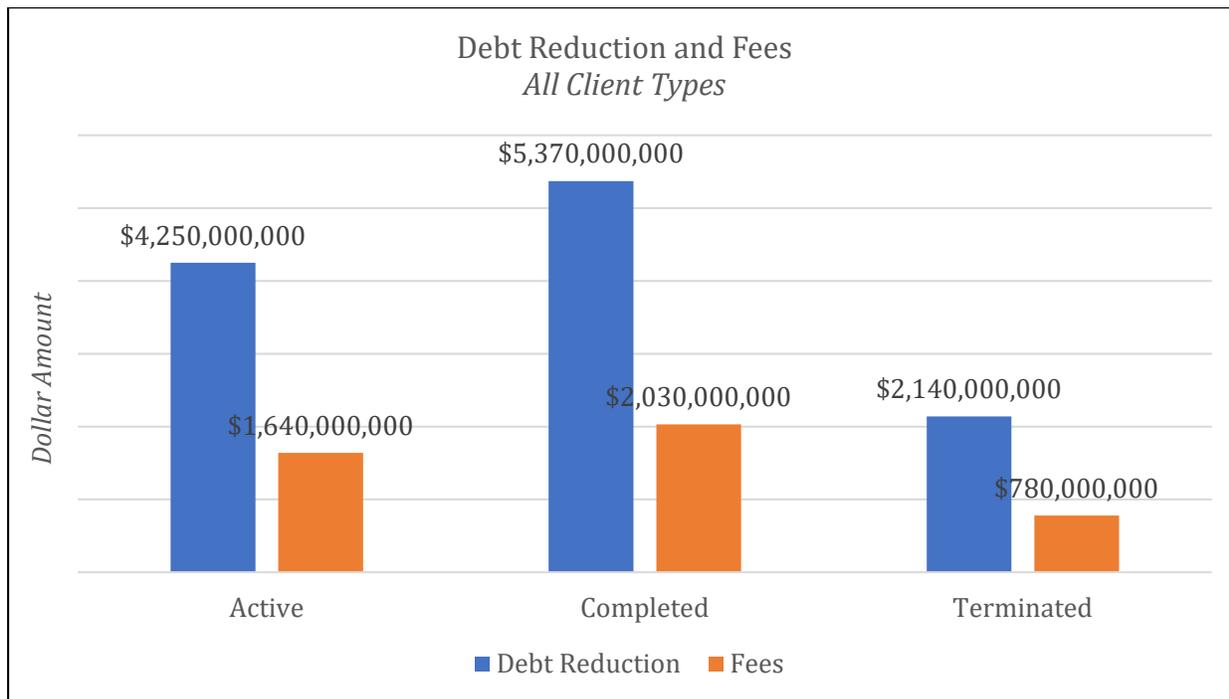
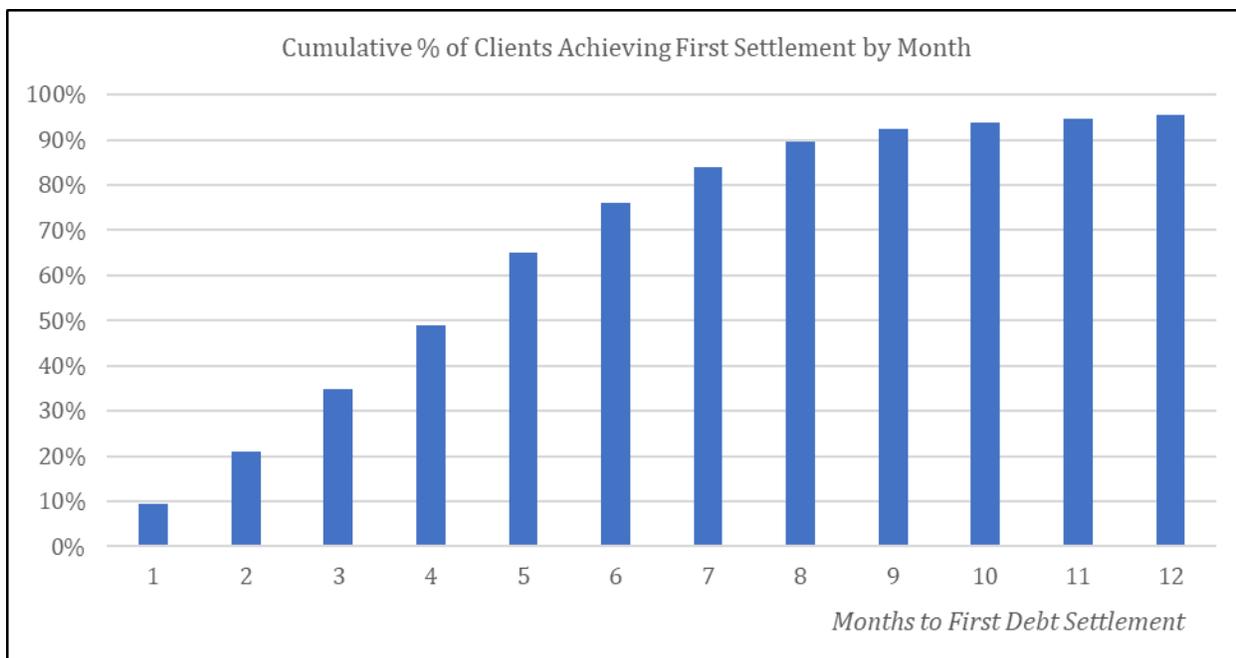


Chart 5.1 illustrates that in aggregate Clients studied for purposes of this report (including Terminated Clients) have realized \$11.8 billion in Debt Reduction (*i.e.*, the difference between the Debt at the time of settlement and the amount actually paid to settle that Debt) while incurring Fees of \$4.5 billion (*i.e.*, actual hard-dollar Savings of \$7.3 billion, or approximately \$4,700 per Client, regardless of status). Additionally, each segment of Clients (including Terminated) has experienced Savings.

In numerous ways, our analysis found a persuasive relationship between program tenure and Debt Reduction. That is, Clients realize increased Savings (*i.e.*, Debt Reduction minus Fees) as the number of months of participation in the debt settlement program increases. Since Fees are not paid by Clients until a settlement occurs, Clients experience Savings in all periods from and after the first settlement.

Chart 5.2 illustrates the cumulative percentage of Completed and Active Clients that had achieved their first settlement by each month in the debt settlement program:

Chart 5.2



This data indicates that the probability that a Client achieves a settlement is strongly correlated to the length of time that a Client participates in the debt settlement program (*i.e.*, by month four, approximately 50% of Clients have reached a settlement, and by month eight, 90% of Clients have reached a settlement).¹⁸ Having achieved a first settlement, Clients are then able to pursue subsequent settlements more rapidly, with a corresponding shortening of program term. This effect is consistent with academic research on this topic.¹⁹

Chart 5.3 expands on Chart 5.2 to include the timing of additional settlements reached by Clients of all types (*i.e.*, including Terminated Clients).

¹⁸ The availability of bank-sponsored loan programs, whereunder settlements and Fees are funded through a consolidation loan offered to certain debt settlement program participants, has contributed to a shortening of the time-to-settlement. *See* § 8, below.

¹⁹ *See* “Can Small Victories Help Win the War? Evidence from Consumer Debt Management,” *Journal of Marketing Research*, Vol. XLIX (August 2012), pp. 487–501. This research found that achieving settlements earlier in a debt settlement program increased the probability of achieving subsequent settlements.

Chart 5.3

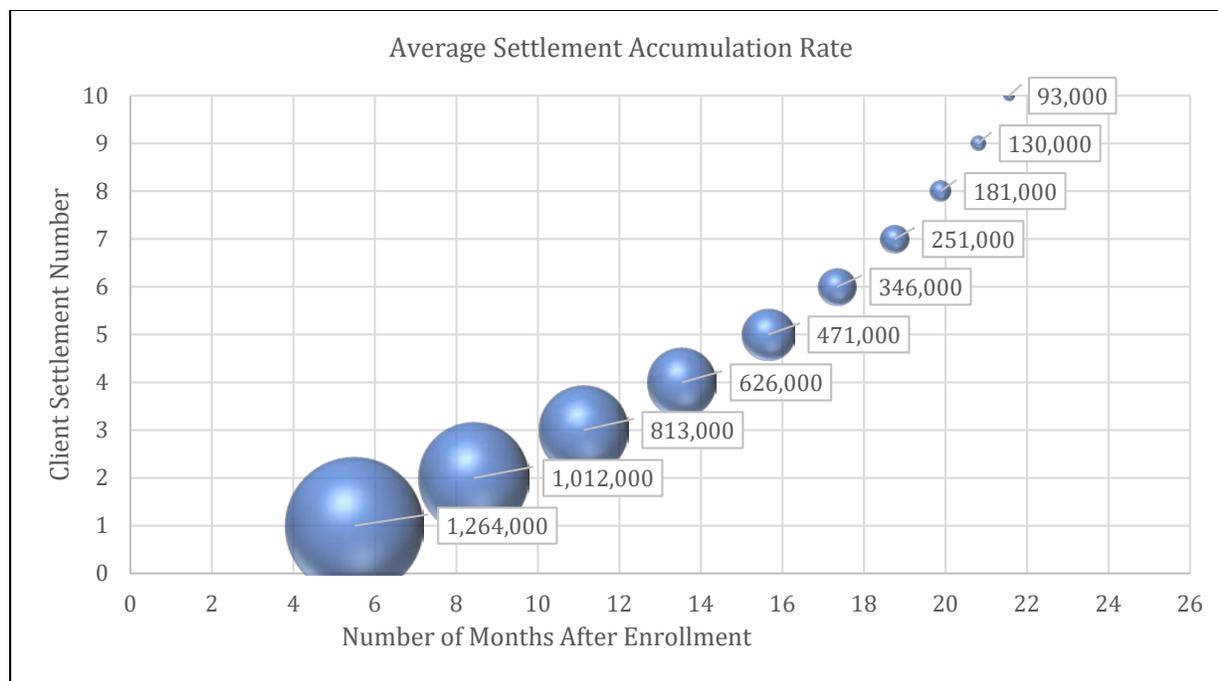
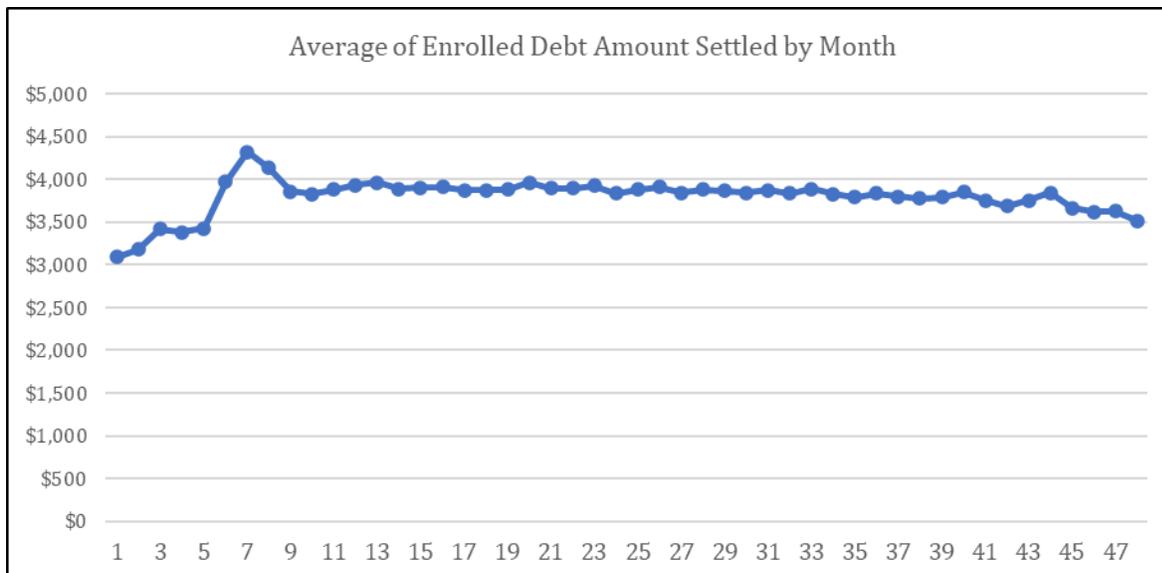


Chart 5.3 illustrates how the number of settlements increases as Clients remain in the debt settlement program. Approximately 1.3 million Clients have settled at least one Account, and on-average, the first settlement occurred 5.5 months into the debt settlement program (*i.e.*, the first data point in Chart 5.3). Approximately 1.0 million Clients settled at least two Accounts (*i.e.*, the second data point in Chart 5.3), and on-average the second settlement occurred after 8.4 months in the debt settlement program. This data can be interpreted to say that 80% of Clients that settle one account then settle a second account (*i.e.*, 1,012,000 divided by 1,264,000 Clients) and also that 80% of Clients that settle a second account then settle a third Account (*i.e.*, 813,000 divided by 1,012,000 Clients). Chart 5.3 continues this illustration to include the average timing of all Client settlements through the cohort of Clients that settle ten Accounts.

The average Enrolled Debt settled in the first five months of the Client’s participation in the program increases from \$3,100 in Month 1 to \$4,000 in Month 6 after which the typical enrolled debt amount generally remains stable:

Chart 5.4



b. Benefits as Measured at the Client and Account Levels

Possibly the most significant measure of Client success in a debt settlement program is Debt Reduction per dollar (\$) of Fees (*i.e.*, total Debt Reduction ÷ total Fees). This metric measures a Client's return-on-investment: did the Client reduce his debt in an amount greater than the Fees paid, and if so, by how much? This is the exact choice that is made by Clients at the time of each settlement.

Debt settlement programs provide the following advantages to Clients:

- (1) Ability to withdraw from a debt settlement program without any exit penalty at any time, for any reason;
- (2) Authority to reject an offered settlement for any reason or no reason at all; and
- (3) Avoidance of Fees until an offered settlement is accepted, and then only assessed a Fee for the Debt actually settled.

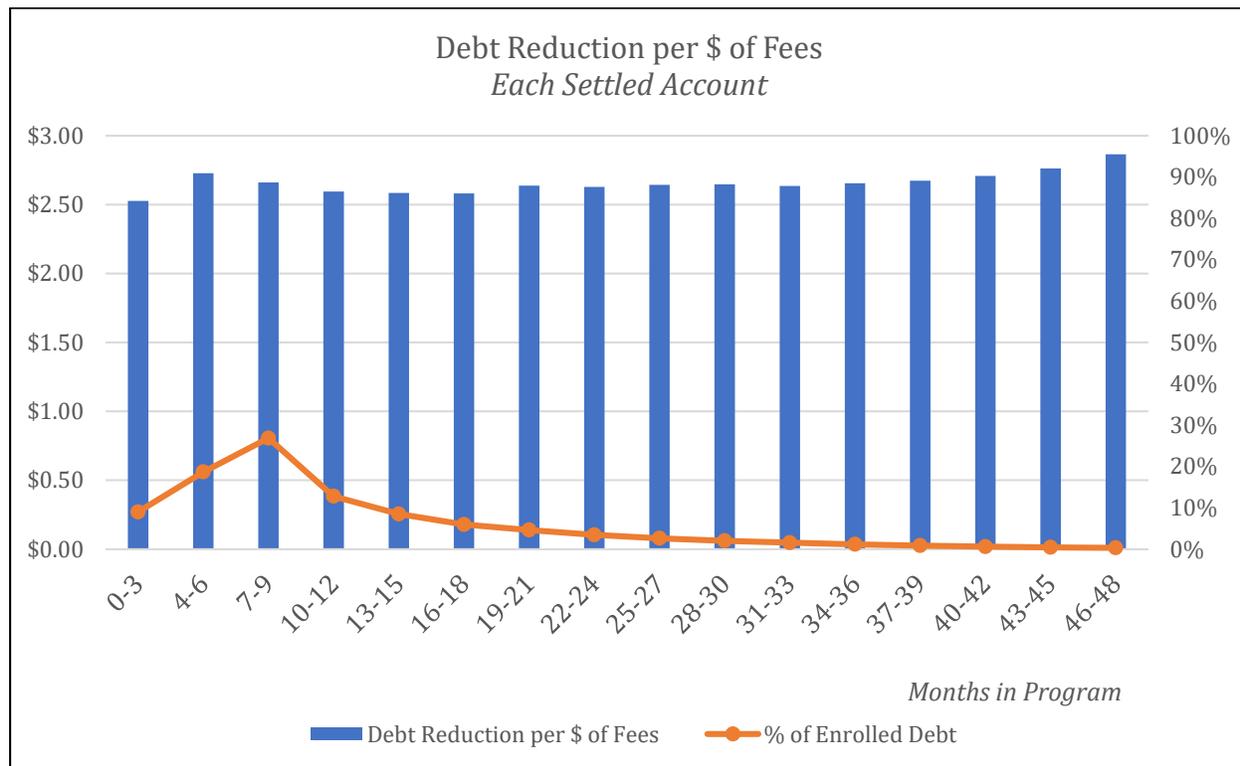
Taken together, these advantages enable a Client to evaluate each settlement offer to determine whether the offer will generate Savings (*i.e.*, a positive return in the form of Debt Reduction that is greater than Fees).

When Debt Reduction per dollar of Fees is greater than \$1.00, the Client will realize Savings, but if Debt Reduction per dollar of Fees is less than \$1.00, the client will not realize Savings. For Clients analyzed for this report, Debt Reduction per dollar of Fees is consistently

in the range of \$2.60 to \$2.70 for all Client types (Active Completed, *and* Terminated).²⁰ This data indicates Savings of \$1.60 to \$1.70.

Chart 5.5 summarizes the economic outcomes of settlements for all Client types based upon the duration of the Client’s participation in a debt settlement program, as well as the percentage of all Enrolled Debt settled in each monthly interval:

Chart 5.5



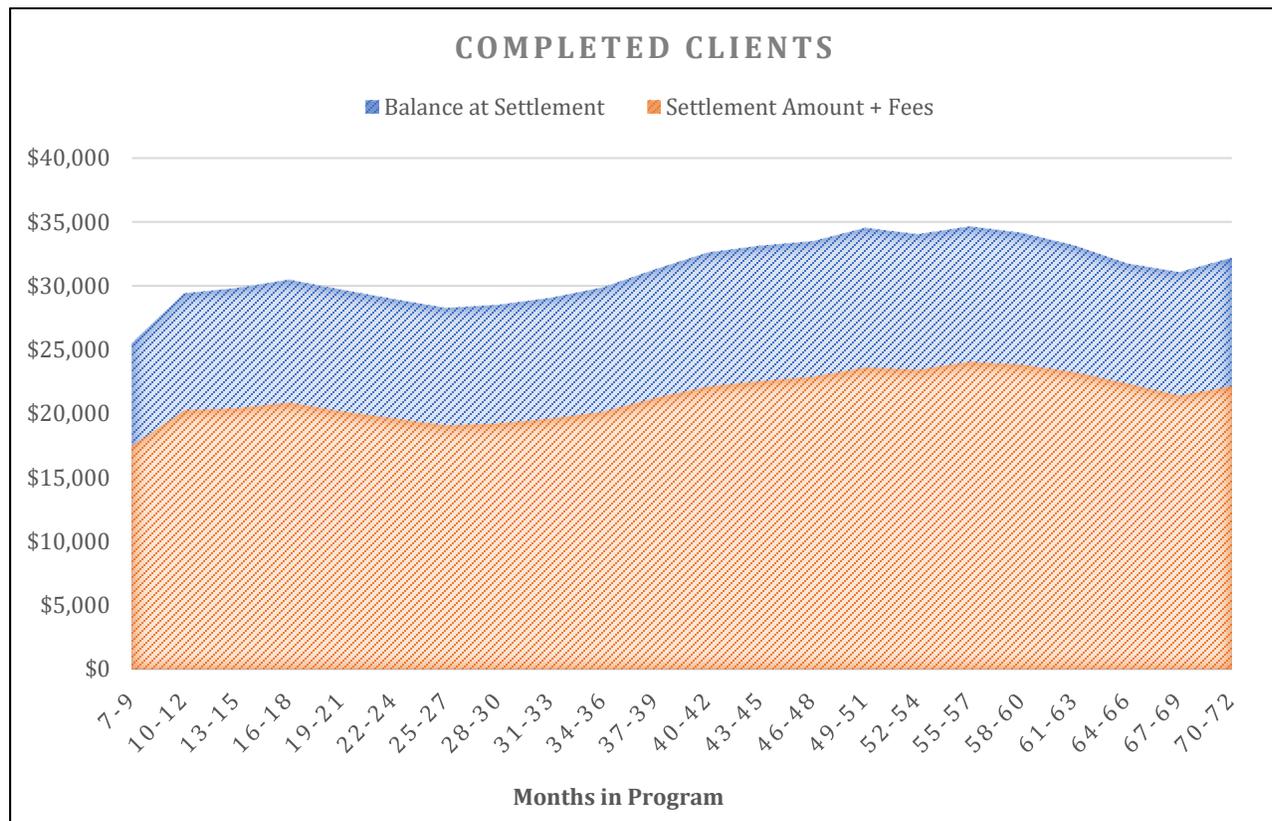
c. The Debt Reduction Experienced By the Typical Completed Client

Chart 5.6 summarizes the weighted-average outcomes for Completed Clients of all tenures included in this analysis. This data illustrates that the typical Completed Client reduces their total debt at the time of settlement of approximately \$30,000 to \$35,000 by

²⁰ A small but measurable reduction in the amount of Savings presented in earlier reports results from reduced accretion in the amount of Enrolled Debts, as settlements have tended to occur earlier.

approximately \$9,500 after deducting the amount paid to settle Debts and Fees paid to the debt settlement service provider.

Chart 5.6



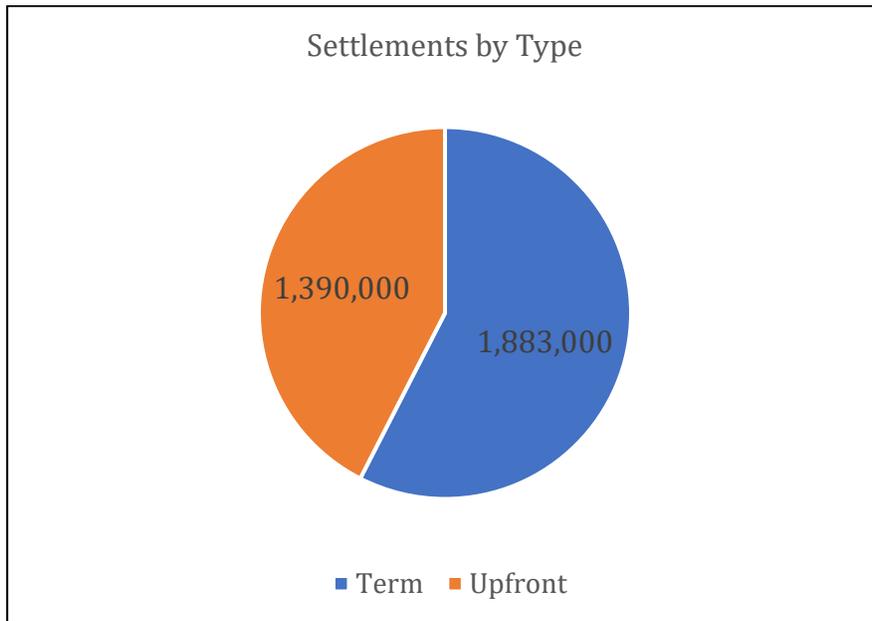
The typical Settlement Amount is approximately 50% of the balance owed at time of settlement (exclusive of Fees) whether the analysis is conducted at the Client-level or Account-level. Stated another way, Clients experience Debt Reduction equal to more than 50% of the amount owed at the time of settlement, and experience Savings of more than 30% of the amount owed at the time of settlement.

d. Types of Settlements and Settlement Outcomes

For purposes of this study, we collected additional data concerning the nature of settlements achieved. Specifically, we obtained data identifying whether the settlement involved the Client making a lump sum or upfront payment as compared to whether the settlement involved a structured or term-based payment schedule. The chart below illustrates that approximately 58% of settlements are term-based settlements:²¹

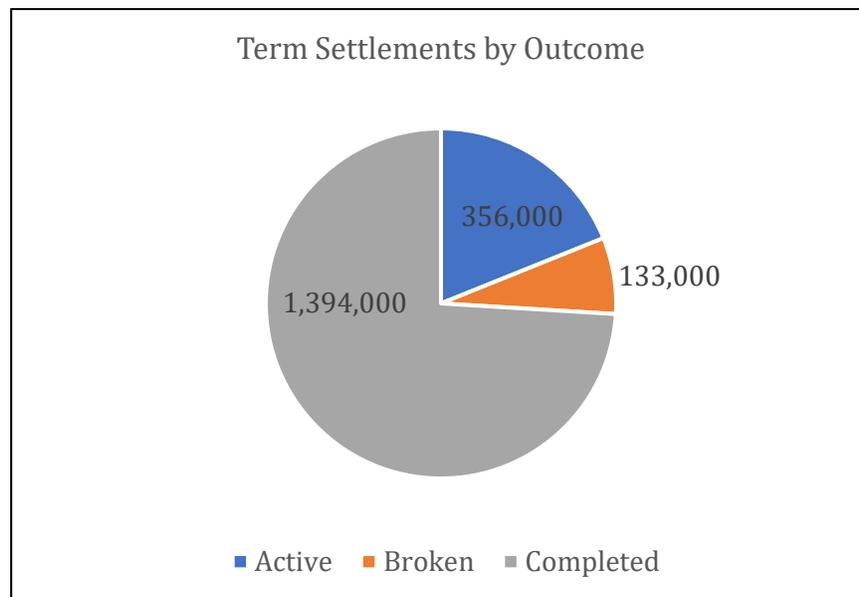
Chart 5.7

²¹ This data was obtained for 3.3 million settlements. The debt settlement providers that participated in this study did not track this data attribute for all periods relevant to this analysis (i.e., a majority of the 2.1 million settlements for which this data is not available occurred in or prior to 2017).



We also collected data regarding the performance of Clients in structured or term-based settlements. The data indicates that 91% of term-based settlements that are no longer active became completed settlements, meaning that only 9% of inactive term-based settlements were not completed.

Chart 5.8

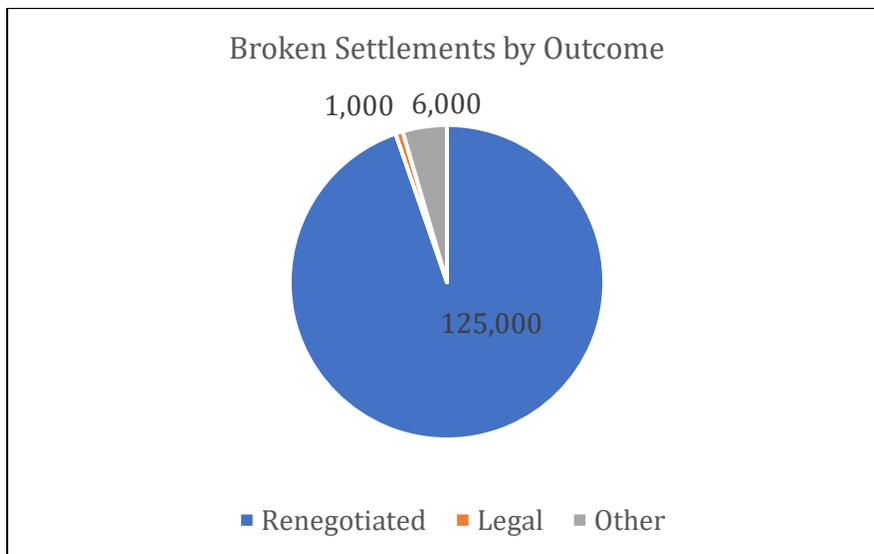


Finally, we collected data regarding the eventual settlement outcomes when a term settlement fails.²² As illustrated in Chart 5.9, approximately 95% of broken term-based

²² The three segments of Chart 5.9 sum to the same 1.9 million term-based settlements depicted in Chart 5.8.

settlements are renegotiated by the originating debt settlement service provider, resulting in either a new term-based settlement or a continuation of the original term-based settlement, in all cases with no additional Fee or other compensation paid to the debt settlement provider:

Chart 5.9



Altogether, the available data indicates that 99.7% of term settlements that are no longer active became completed settlements (*i.e.*, approximately 7,000 Accounts out of 3.3 million settlements failed to complete).

6. Accretion in Debt Settlement Is Demonstrably Lower Than for Other Alternatives

Consumers who obtain credit do so with the expectation that the borrowed amount will be repaid in full, either when due or repaid over-time, in either case with interest. The increase in the amount that a consumer owes between the initial borrowing and final repayment is referred to as accretion. The amount of accretion, which occurs periodically in the case of credit card debt, is generally a function of the length of time needed to repay the borrowed amount. For example, if a consumer borrows \$10,000, the total of all payments needed to resolve the debt will typically be less if the amount is repaid in one-year as compared with two-years. The amount of accretion is also a function of the borrower's status (*e.g.*, the borrower's credit rating at the time of initial borrowing and whether the borrower is current or delinquent). If a borrower does not make timely payments on the borrowed amount, accretion is likely to occur at a greater rate. This is because the lender typically applies a higher interest rate and/or penalty fees to the debt as the risk of default increases.

There is only one way to avoid accretion: fully repay a debt immediately. This option, however, is not feasible for many consumers, especially for the typical debt settlement Client. The participants in this study have informed me that approximately 15% of consumers seeking debt relief are accepted into a debt settlement program. Amongst those accepted,

about 50% of Clients are already delinquent on at least one, and in many cases almost all, of their debts. Virtually all Clients anticipate delinquency within the next one or two monthly billing cycles. As noted above, Clients are free to exit a debt settlement program at any time without incurring Fees.²³ Accretion, however, will not cease until such time as the debt is repaid or the Account is written off by the creditor. In other words, accretion is not a phenomenon unique to Accounts enrolled in debt settlement programs.

To understand the impact of accretion on the overall efficiency of debt settlement, it is necessary to compare 1) the accretion a Client experiences while enrolled in a debt settlement program to 2) the accretion a Client would have experienced if the Client had instead continued to make minimum monthly credit card payments. In other words, do Clients experience more accretion in the course of debt settlement as compared to other available alternatives?

a. Total Accretion

Chart 6.1 below assembles the data from the settlement of more than \$20.7 billion of Enrolled Debt addressed in this study. The lines represent the amount, in percentage terms, that Enrolled Debt had increased as of the time of the settlement. For example, after six months, the average Debt enrolled in a debt settlement program had increased by approximately 10% (the blue line). The grey line provides context for this accretion rate: it represents accretion at currently available credit card rates of interest (16.0%).²⁴ This rate is highly likely to understate the actual interest rate assessed to a delinquent borrower, which is typically in excess of 25% (the yellow line).²⁵

²³ The Fees charged by debt settlement providers are commonly based on Enrolled Debt (*i.e.*, Fees do not increase based on Accretion).

²⁴ This rate reflects current credit card interest rates for non-delinquent accounts and is used here to calculate the effective accretion on reducing monthly balances taking into account regular payments of principal. (see <https://www.bankrate.com/finance/credit-cards/current-interest-rates/>).

²⁵ For example, several of the major U.S. banks charge a penalty interest rate exceeding 29% (see <https://www.bankrate.com/finance/credit-cards/the-high-cost-of-ignoring-your-bills/>).

Chart 6.1

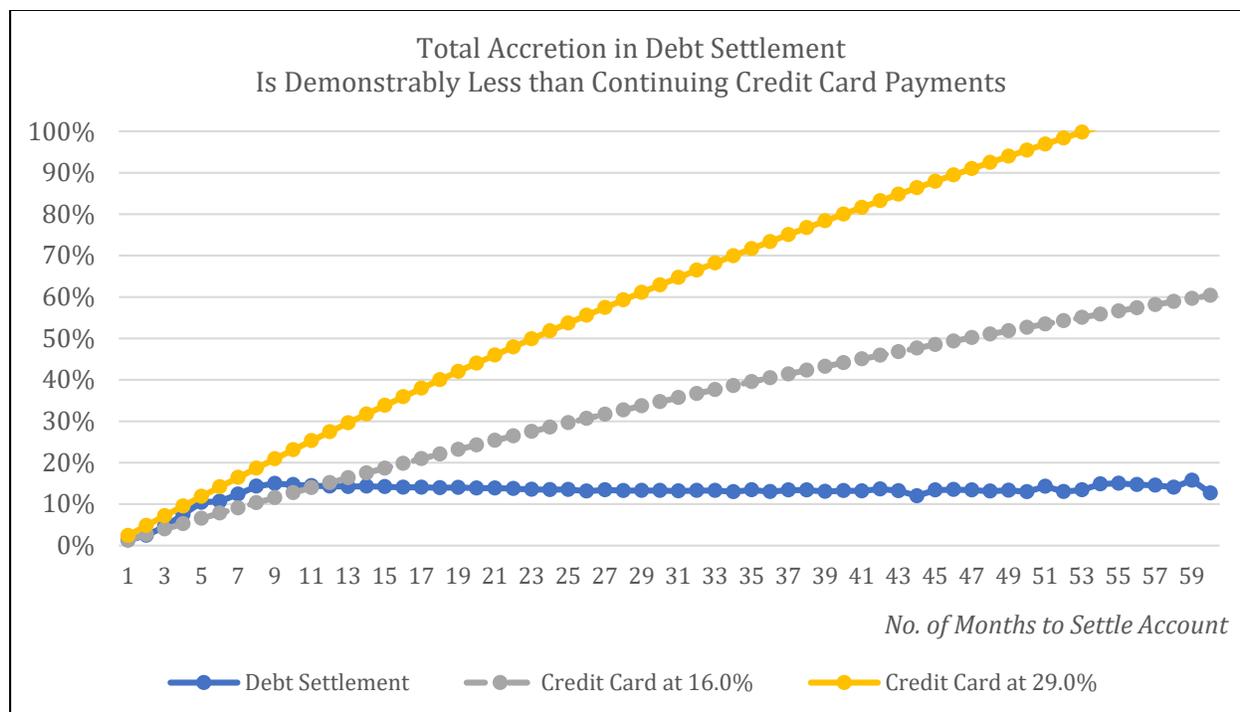
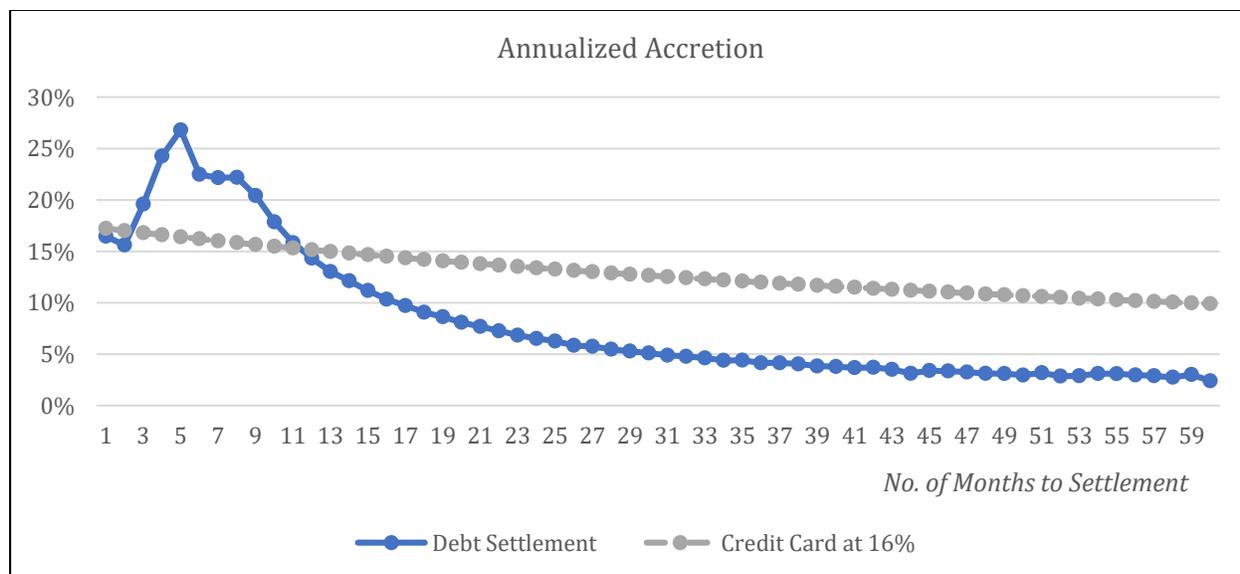


Chart 6.1 demonstrates that, in the initial year of a consumer’s participation in a debt settlement program, accretion is not significantly different than if the consumer had continued to incur credit-card-related interest (with any early imbalance attributable to the effect of penalty rates of interest typically associated with defaulted credit card debt). Over time, however, while the accretion experienced by consumers outside of debt settlement would continue to increase, the data indicates that accretion of debts within debt settlement programs stabilizes at a total rate of approximately 13% to 14%. In fact, the data indicates that, while accretion in a debt settlement program continues until approximately the tenth month of program experience, after that time accretion plateaus. A reasonable inference is that, at that point, the creditor has charged off the debt(s) and moved it or them to non-performing status, with a corresponding cessation of further accretion.

b. Annualized Accretion

Another way to analyze accretion is to illustrate its effect as if the accretion rate were annualized. This is the same tool commonly used to express the effective annual interest rate on a credit card (*i.e.*, annual percentage rate or APR). Chart 6.2 highlights that the effect of accretion is most significant within the first eight to nine months of a debt settlement program. Thereafter, the decline in annualized accretion rate is both steep and swift: after twelve months in a debt settlement program, the annual accretion rate has fallen from more than 25% to approximately 14%, and by the eighteenth month the annual accretion rate has fallen below 10%. In contrast, the decline in annualized accretion within credit card programs is far more modest, falling from approximately 16% to 13% over the same period.

Chart 6.2



Charts 6.1 and 6.2 together demonstrate that, whenever a consumer requires more than ten months to repay a debt, that consumer would experience greater accretion (and likely substantially greater accretion) by continuing to make minimum monthly credit card payments rather than by enrolling his credit card debt in a debt settlement program. At all times after this ten-month inflection point, the data indicates that total accretion within a debt settlement program is substantially less than the minimum monthly payments alternative, thereby actually benefiting, rather than disadvantaging, the consumer. For clarity, even though this benefit is both quantifiable and substantial, it is not incorporated within the analysis set forth in §5 above.

c. Comparing Accretion in Debt Settlement Versus Credit Card Payments

The comparative effect of accretion on debt settlement Clients may be illustrated as follows. For Clients, the median Enrolled Debt involves seven accounts totaling approximately \$27,000 (with each Enrolled Debt averaging approximately \$3,860). The typical Client settles her first Account in Month 5 of the Debt Settlement Program. Table 6.3 summarizes the key economic factors of that settlement:

Table 6.3

Settlement No.	1
Current Balance (All Settled Accounts)	\$4,262
Total Settlement Amount	(\$2,115)
Total Fees	(\$829)
Savings	\$1,318

Table 6.3 examines whether the Client obtains Savings from that first settlement (*i.e.*, on a single Account). However, because accretion occurs across all other debts until repayment or settlement, and because we are examining the effect of accretion on a portfolio

basis, we considered the effect of accretion on all other unsettled Debts. Table 6.4 summarizes the total accretion this Client would experience on his portfolio of unsettled Accounts at the time of the first settlement.

Table 6.4

<i>After 1st Settlement</i>	Debt Settlement	Credit Card	Difference
Remaining Balance of Enrolled Debt	\$25,632	\$24,824	\$808
Cumulative Accretion (Unsettled Accounts)	\$2,409	\$1,741	\$668

Table 6.4 compares the total accretion experienced by the Client in debt settlement to the hypothetical accretion the Client would have experienced by continuing to make minimum monthly credit card payments. Consistent with Chart 6.1, the Client would have experienced more accretion in the debt settlement program, largely due to the application of penalty interest and late and other fees on delinquent debt. Table 6.5, however, demonstrates that the Client experiences Savings even after considering accretion on an unsettled Accounts:

Table 6.5

Savings (Table 6.3)	\$1,318
Incremental Accretion (Table 6.4)	(\$668)
Savings After Total Accretion	\$650

In other words, Table 6.5 accounts for the higher rates of accretion in the early months of the debt settlement program to show the Client experienced \$650 of Savings net of portfolio accretion after the first settlement.

When the analysis above is repeated after a second settlement, Savings exceed the total accretion on all remaining unsettled accounts. Specifically, after a second settlement, the remaining balance of the Client's Debt is less in a debt settlement program than if the Client had continued to make credit card payments. This is partially attributable to the fact that accretion on all remaining Debt is less than the credit card alternative:

Table 6-6

<i>After 2nd Settlement</i>	Debt Settlement	Credit Card	Difference
Remaining Balance of Enrolled Debt	\$22,084	\$22,823	(\$739)
Cumulative Accretion (Unsettled Accounts) ²⁶	\$2,886	\$3,032	(\$146)

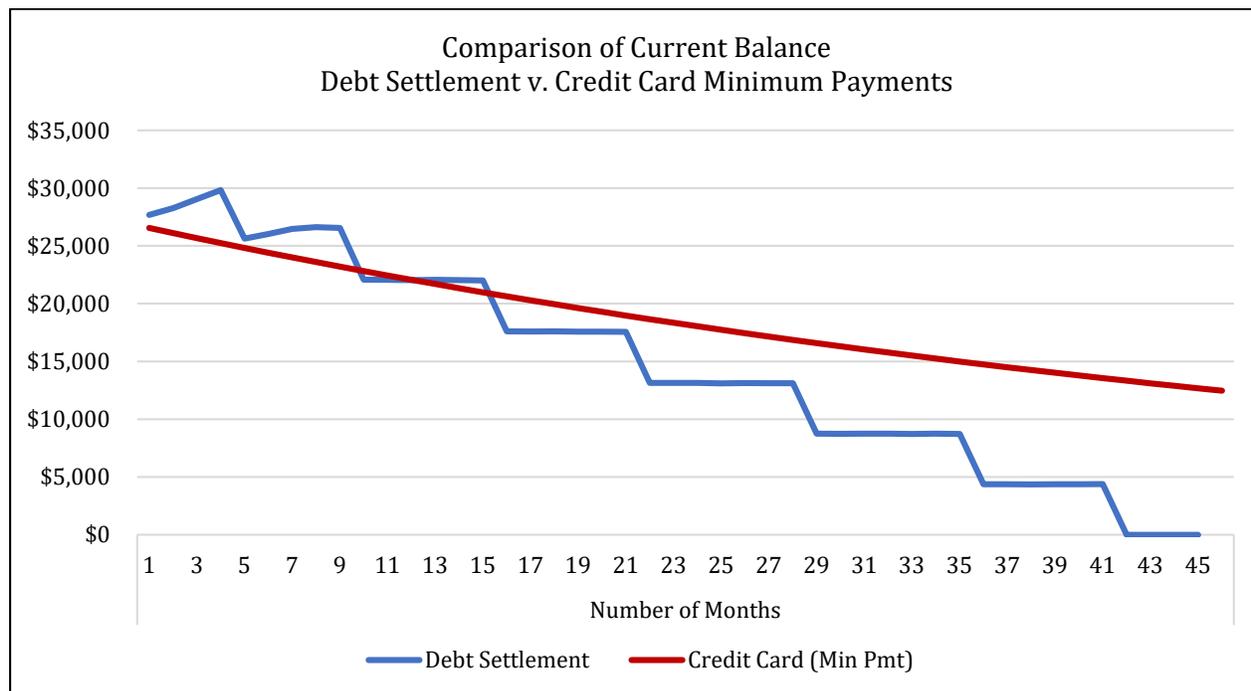
Stated differently, Table 6.6 illustrates that, at the time of a second settlement (in month 10), incremental accretion is no longer a negative factor (*i.e.*, accretion in debt

²⁶ For clarity, cumulative accretion is included in the remaining balance of enrolled debt.

settlement is the same as or less than accretion for a credit card payment). This pattern expands when subsequent settlements are realized.

Finally, Savings in a debt settlement program does not come at the expense of increased periodic cash outflow. Chart 6.7 compares the then-Current Balance of the Client’s Enrolled Debt at each month, assuming typical settlement progress, compared with the amortization of the Client’s Enrolled Debt, assuming minimum monthly payments. In debt settlement, Clients have demonstrated an ability to settle all Enrolled Debt in less than 42 months. If the Client had instead continued to make minimum monthly credit card payments, the Client would have had a remaining debt of approximately \$14,000 at the same time interval:

Chart 6.7



7. The Economic Benefits of Debt Settlement Compared With Other Alternatives

At the time of enrollment, Clients may have other alternatives for debt relief, including filing for bankruptcy, choosing a debt management plan (“DMP”) offered by a credit counselor, accessing a home equity or other debt consolidation loan or continued attempts at self-management of accounts.²⁷ Each of these alternatives has different potential risks and costs as well as different potential benefits. This section compares the likely outcomes of participation in a debt settlement program with the anticipated outcomes

²⁷ See e.g., <https://www.debt.org/settlement/>

associated with other possible alternatives (without regard for whether such alternatives are actually available to the Client).

a. Continuing Credit Card Payments

The average Client has Enrolled Debt of approximately \$27,000, substantially all of which is credit card related. I have been informed that, at the time of enrollment, most Clients were experiencing difficulty making their minimum monthly payments on all of their accounts (minimum monthly payments commonly range between 1-3% of the outstanding balance) and anticipated continuing and/or growing financial challenges.

A consumer can resolve Debt earlier by making the largest payment possible. For example, if a consumer made a payment based on 3% of the outstanding balance, the consumer's initial payment would be \$810 per month.²⁸ The next month, the consumer would have the option to pay the then-current minimum payment based on 3% of the remaining Enrolled Debt ("Declining Payment") or to continue payment of \$810 ("Initial Payment"). The table below summarizes these options:²⁹

Minimum Payment	Declining Payment	Initial Payment
Total Interest	\$21,395	\$8,943
Total Payment to Resolve Debt	\$48,395	\$35,640
Total Payments (Months)	288	44

The table demonstrates that consumers continuing to make only the required minimum monthly payments will incur an interest cost of approximately \$21,400 *over and above the principal amount owed*. Even if the consumer could sustain the Initial Payment, the consumer would pay approximately \$9,000 of interest over four years to resolve the initial debt balance. As described more fully below in the presented hypothetical, debt settlement programs compare favorably to this alternative.

²⁸ This amount has been computed using a flat percentage of the consumer's then-current statement balance, which is a method commonly used by credit card companies (e.g., <https://creditcards.usnews.com/articles/how-credit-card-issuers-calculate-your-minimum-payment>). Specifically, the initial balance of \$27,000 multiplied by 3% equates to \$810. Of this amount, \$360 is applied to accrued interest and \$450 is applied to principal. These calculations may be replicated at <http://www.bankrate.com/calculators/managing-debt/minimum-payment-calculator.aspx>.

²⁹ As the principal amount reduces over time, the minimum monthly payment will also decline. In this case, after 288 months, the consumer will have paid 100% of the original principal amount plus \$21,395 of interest. The Declining Payment amounts assume (1) a static interest rate of 16% on a declining principal balance, (2) no additional card usage and (3) no additional charges or fees, such as over-limit fees, late fees, etc. The calculations of interest set forth in § 6 above use a Declining Payment method.

b. Credit Counseling Programs

Another alternative might be a consumer credit counseling agency offering a DMP.³⁰ A DMP is available to consumers who are able to make a monthly payment comparable to the aggregate minimum monthly payment required to amortize credit card debt but in excess of the periodic deposit amount required for a debt settlement program. As a result, DMPs are generally out of reach for those in situations of serious financial hardship (there is relatively little overlap between the client constituencies of credit counseling and debt settlement).

A DMP involves only concessions on the interest rate charged on outstanding balances, not a reduction in principal. Academic research indicates that reduction in principal provides a significantly greater benefit to a consumer than does the “soft” benefit of marginally improved cash flow that occurs when monthly payments are reduced slightly through interest rate relief.³¹ As noted in §4.a, above, this “soft” benefit is available to debt settlement Clients as well, and to a greater degree than with a DMP since the periodic deposit requirement in debt settlement programs is lower than either the monthly DMP payment or the minimum monthly payments required to amortize credit card debts.

It has been reported that less than 30% of individuals that contact a CCCA qualify for a DMP and that persons who qualify for a DMP actually complete the program at a rate between 20-25%.³² However, there is very little publicly available data, with a lack of independent studies, regarding enrollment criteria, program completion rates or consumer outcomes. The absence of industry-wide data reduces the ability to compare DMPs to other consumer alternatives.

c. Consolidation Loans

Another option for consumers might be a consolidation loan, which is an unsecured loan designed to consolidate multiple unsecured debts. Additional credit, however, is rarely offered by conventional lenders to consumers who are already overextended or delinquent on existing debt. Such loans, if available to financially challenged consumers, frequently carry high interest rates.

³⁰ <https://www.consumer.ftc.gov/articles/0153-choosing-credit-counselor>

³¹ “Targeted Debt Relief and the Origins Of Financial Distress: Experimental Evidence From Distressed Credit Card Borrowers,” by Will Dobbie and Jae Song, June 2017, p.3, “Taken together, however, our results indicate that there are significant benefits of debt relief targeting long-run debt overhang in our setting. In sharp contrast, we find no positive effects of the minimum payment reductions targeting short-run liquidity constraints.”

³² “Behind the Credit Counseling Curtain,” by Fred O. Williams, February 4, 2013 (www.creditcards.com/credit-card-news/business-credit-counseling-1282.php)

d. Comparative Results

Table 7.1 compares the results of a hypothetical debt settlement client with the projected outcomes of enrolling in a DMP, continuing to amortize the existing debt on a monthly basis by making only the minimum monthly payments required by the creditors, and obtaining a consolidation loan. The comparison assumes the availability of all described options to a consumer with approximately \$27,000 of delinquent credit card debt under prevailing market conditions even though, as noted above, options other than debt settlement programs may not be available to financially challenged consumers.

The analyses presented in this report do not attempt to examine (or incorporate) the effect of all externalities, including those viewed as either positive (improved cash flow attributable to ceasing to pay the full amount currently due) or negative (impact of multiple delinquencies on one's credit report).

It is possible that a debt settlement program participant will be deemed to have received a tax benefit as a result of the settlement of debt for less than was owed (*i.e.*, a "forgiveness"); at the same time, financially challenged consumers, the constituency of debt settlement programs, are typically able to file IRS Form 982, "Reduction of Tax Attributes Due to Discharge of Indebtedness." This filing enables consumers who can demonstrate insolvency at the time of debt reduction to exclude from taxable income amounts associated with the settlement of indebtedness. An analysis of after-tax Savings that assumes taxability of Savings and ignores this option will almost certainly significantly understate Savings. It is impossible to predict at what point a given consumer will no longer be considered "insolvent," and therefor ineligible for the Form 982 exclusion.

The following table provides a description of the calculations and data used to develop Table 7.1:

Description	Debt Settlement	Credit Counseling	Monthly Credit Card Payments	Consolidation Loan
Months to Pay Off or Settle All Debts	Based on the rate the typical Client reaches settlements. <i>See</i> Chart 5.3.	Midpoint of the average program (36 and 60 months). ³³	Unless the consumer elects to pay a greater amount than the minimum monthly, a significant credit card debt cannot be resolved within 60 months. <i>See</i> §7.a above.	Generally range from 36 to 60 months depending on the amount financed. ³⁴
Monthly Payment/ Program Deposit	Total Estimated Program Cost (estimated settlements plus fees) ÷ program term (months)	The amount which, based on the program term and interest rate, will fully repay the principal, plus interest and fees.	Initial payment. Payment declines as principal is reduced (or increases if interest rates rise). ³⁵	The payment which, based on the loan term and interest rate, plus loan fees and charges, will fully repay the loan amount.
Interest Rate On Outstanding Balance	n/a	Estimate based on inquiries with credit counseling organizations. ³⁶	Assumes a static interest rate although in-practice the interest rate will vary over time.	Level payment throughout the term of the loan based on an APR of 22%. ³⁷
Total Program Interest	n/a	Interest Rate on Outstanding Balance over program term.		
Amount Needed to Discharge all Debt	Enrolled Debt * (1+15% for total accretion) * 50% (average settlement amount).	Full repayment of principal.		
Program and Bank Fees	Settlement Fees: Enrolled Debt * 21% + Bank Fees: \$480 (\$10 monthly service fee).	Midpoint of monthly fees (\$25 to \$55) multiplied by payment months plus a \$75 set-up fee.	No additional charges or fees assumed.	

³³ <https://www.consumer.ftc.gov/articles/0150-coping-debt>

³⁴ *See, e.g.,* <https://loans.usnews.com/debt-consolidation>.

³⁵ *See* §7.a above for a description of the calculation.

³⁶ *See* <https://www.debt.org/management-plans/>. *See also,* <https://www.consumercredit.com/debt-programs/debt-management-program/dmp-estimate-calculator/>.

³⁷ This APR data is as of November 2020 and applies to applicants with FICO scores in the range of 630 to 689. *See* <https://www.nerdwallet.com/article/loans/personal-loans/current-debt-consolidation-loan-interest-rates>. *See also,* <https://www.valuepenguin.com/personal-loans/average-debt-consolidation-loan-interest-rates>. These averages consider all consumer types. The average rate for debt settlement Clients would likely be higher. For example, this same data indicates the APR range for consumers with FICO scores less than 639 was 15% to 36%.

Table 7.1

<i>\$27,000 Enrolled Debt</i>	Debt Settlement	Credit Counseling	Credit Card	Consolidation Loan
Months to Pay Off or Settle All Debts	42	48	288	60
Monthly Payment/ Program Deposit	\$510	\$713	\$810	\$715
Interest Rate on Outstanding Balance	n/a	9.0%	16.0%	22.0%
Total Program Interest [a]	n/a	\$5,251	\$21,395	\$17,743
Amount Needed to Discharge all Debt [b]	\$15,227	\$27,000	\$27,000	\$27,000
Program and Bank Fees [c]	\$6,186	\$1,995	\$-	\$-
Total Amount Paid By Consumer =[a]+[b]+[c]	\$21,413	\$34,246	\$48,395	\$44,743

As shown in Table 7.1, when measured solely by the amount required to resolve a consumer’s Debts, a debt settlement program is superior to other conventional forms of debt relief.

e. Chapter 13 Bankruptcy Statistics

Some Clients may have the alternative of declaring bankruptcy. The chapter of the United States Bankruptcy Code that provides for adjustment of debts of an individual with regular income is Chapter 13.³⁸ This type of bankruptcy is similar to debt settlement programs, in that it enables individuals to establish a plan to repay part or all of their debts, and similar to credit counseling, in that it requires participants to pay a monthly amount to the bankruptcy court for distribution, after fees, to approved creditors. Table 7.2 displays statistics on the completion rates of Chapter 13 bankruptcy matters for the years (ending December 31st) comparable to the cohorts of debt settlement Clients in this report:

Table 7.2³⁹

Year	Cases Closed	Plans Completed	Completed/Cases (%)
2012	289,125	106,543	36.8%
2013	336,858	152,333	45.2%
2014	351,960	178,369	50.6%
2015	352,159	188,893	53.6%

³⁸ Chapter 13 (reorganization) was viewed to be a more plausible alternative to the Client than Chapter 7 (liquidation). Many debt settlement program participants are not eligible for Chapter 7 bankruptcy proceedings because they cannot satisfy the “income and assets” means test (*see* <https://www.justice.gov/ust/means-testing>). Further, Chapter 7 bankruptcy filings are accompanied by upfront fees and legal costs that reduce the availability of this option (*see, e.g.,* http://users.nber.org/~notom/research/Gross_Noto_Wang_Rebates.pdf at p.8). Chapter 13 filings typically are associated with higher total legal fees, but those fees may be written into the debtor’s repayment plans.

³⁹ Report of Statistics from 2016 to 2019 required by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 at www.uscourts.gov/data-table-numbers/bapcpa-6

Year	Cases Closed	Plans Completed	Completed/Cases (%)
2016	345,058	179,614	52.1%
2017	318,974	154,334	48.4%
2018	295,579	132,794	44.9%
2019	280,990	121,248	43.2%

The bankruptcy completion rates are similar to those for debt settlement clients, however, individuals typically incur substantial upfront costs to enroll in a Chapter 13 bankruptcy plan, including filing fees and attorney costs.⁴⁰ Those fees are not refundable if the individual does not ultimately complete the plan. This upfront hard cost poses a risk to the Client that is not present in debt settlement programs.

8. Debt Settlement Consolidation Loans

The past few years have seen a number of federal and state-chartered banks concluding that debt settlement program participants are likely to be better credit risks than traditional underwriting metrics might otherwise indicate. These lenders have realized that a Client's ongoing participation in a debt settlement program, which requires that the Client maintain a steady stream of deposits into his dedicated account, evidences both the Client's willingness and ability to manage a periodic repayment obligation sufficient to amortize a debt settlement consolidation loan. In response, lenders have created loan products that respond to the specific needs of debt settlement program participants.

Debt settlement consolidation loans are made for the specific purpose of enabling the settlement of the Client's entire portfolio of debts more rapidly than would otherwise be the case if the only source of funds was the gradual accumulation of settlement funds within a dedicated deposit account. Accelerating the settlement process has the benefit of eliminating collections stress (*i.e.*, eliminating creditor calls and the possibility of collections lawsuits) while providing an opportunity for the consumer to develop a positive experience on their credit report by converting multiple delinquent debts into a single performing loan.

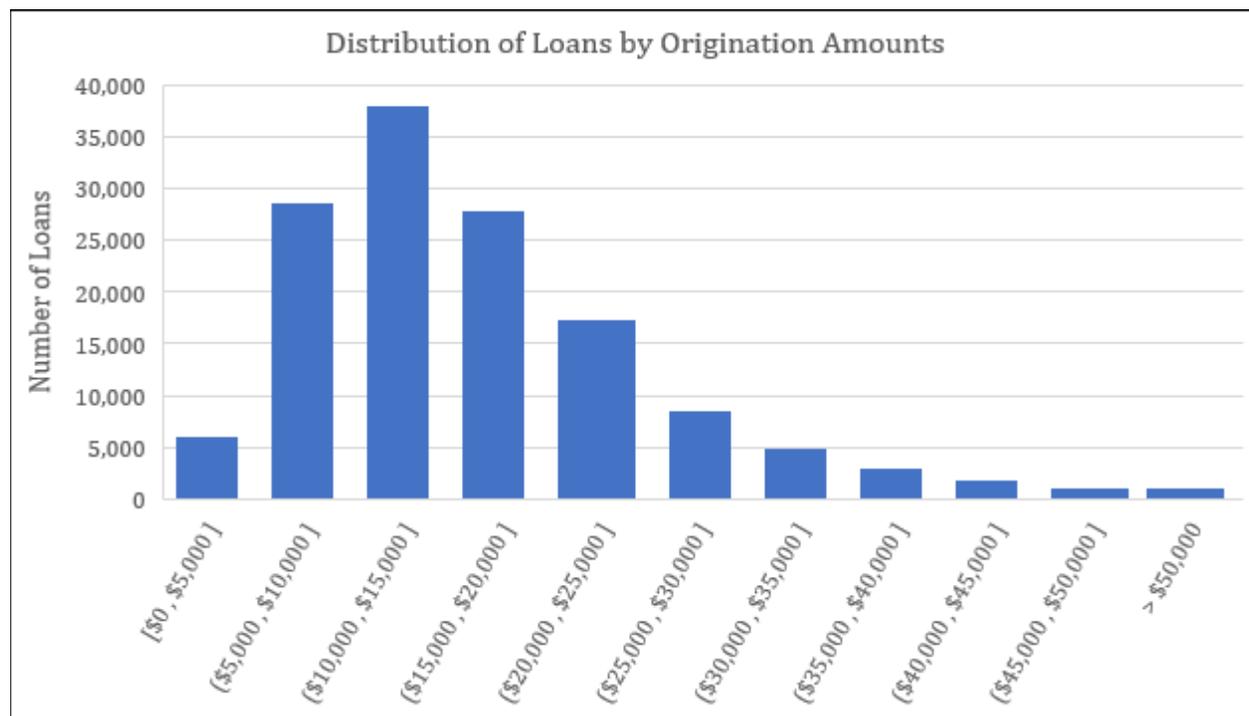
Debt settlement consolidation loans are structured as closed-end loans that disburse funds in installments, with each disbursement being equal to a settlement amount plus associated Fees. During the application process, the total cost associated with the debt consolidation loan is estimated based on the debt settlement provider's best estimates of the anticipated settlements, and consumers are provided with a comparison of the estimated total cost associated with the option of a debt settlement consolidation loan versus the estimated cost of remaining in the debt settlement program. Once approved by a lender, a debt settlement consolidation loan enables the debt settlement service provider to

⁴⁰ These costs average approximately \$3,000. See, e.g., <http://www.natlbankruptcy.com/how-much-does-it-cost-to-file-bankruptcy/> and <https://www.debt.org/bankruptcy/cost/>

immediately proceed to negotiate settlements of each Debt in the Client’s portfolio.⁴¹ The typical consolidation loan carries a fixed interest rate (between 22-25%) and generally has a five-year term. The consumer begins repayment of the loan approximately 30 days after the settlement of the last debt.⁴²

The following chart summarizes the loans that have been originated to the Clients in this study by the origination amount of the loan:

Chart 8.1



As seen in the chart above, the most frequent loan amount is between \$10,000 and \$15,000 (the weighted-average loan amount is approximately \$17,000).⁴³

In total, this study obtained data regarding approximately \$2.4 billion of debt consolidation loans. Loan origination activity begins approximately six months after a Client enrolls in the debt settlement program, with the most significant origination activity

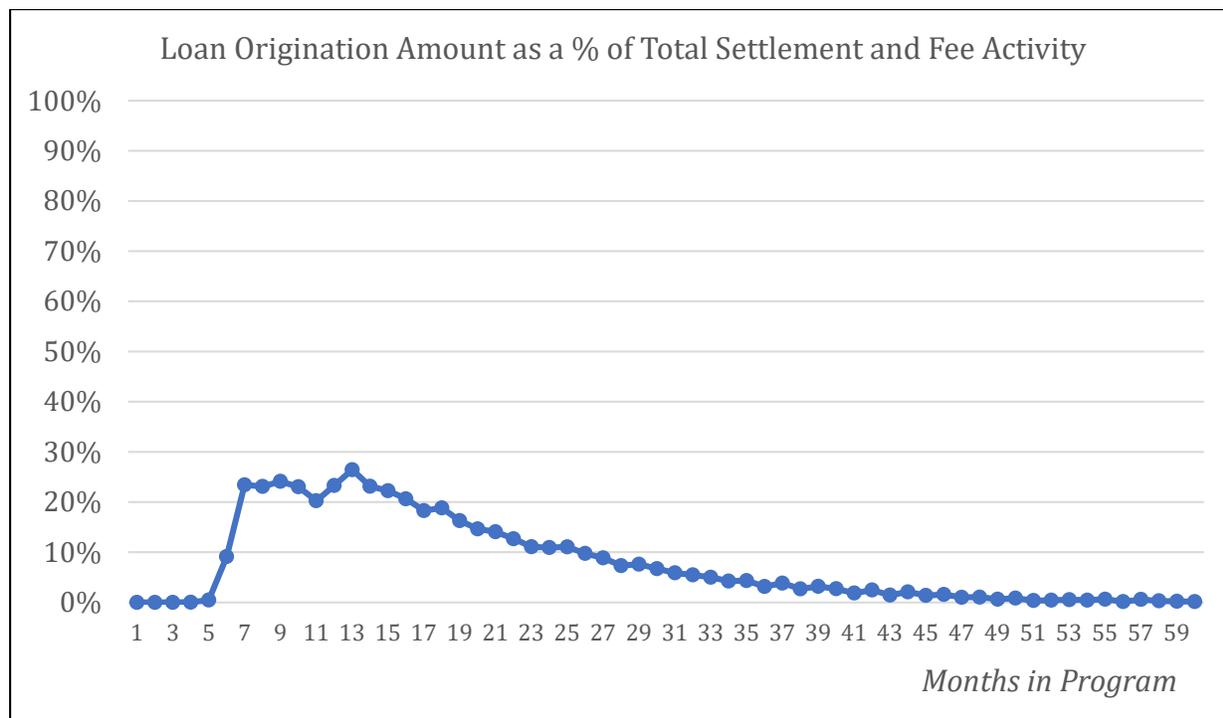
⁴¹ I understand that settlement of all Debts is generally concluded within 120-180 days of loan approval, with the loan closing upon the settlement of the last Debt in a Client’s portfolio.

⁴² Clients must participate in the debt settlement program for at least six months before a debt settlement consolidation loan becomes available. As a result, those Clients that obtain a debt consolidation have typically settled one or two Debts, thereby reducing the total amount a Client would need to borrow under the debt settlement consolidation loan.

⁴³ A debt settlement consolidation loan is funded in tranches, with each disbursement tied to a specific settlement. Interest accrues on each disbursement from the date of such disbursement, with all accrued interest rolled into principal when the loan closes.

occurring from month eight through month twelve, peaking in month ten, and decelerating thereafter. The following chart illustrates that consolidation loans enable Clients to accelerate settlement activity earlier in the program cycle:⁴⁴

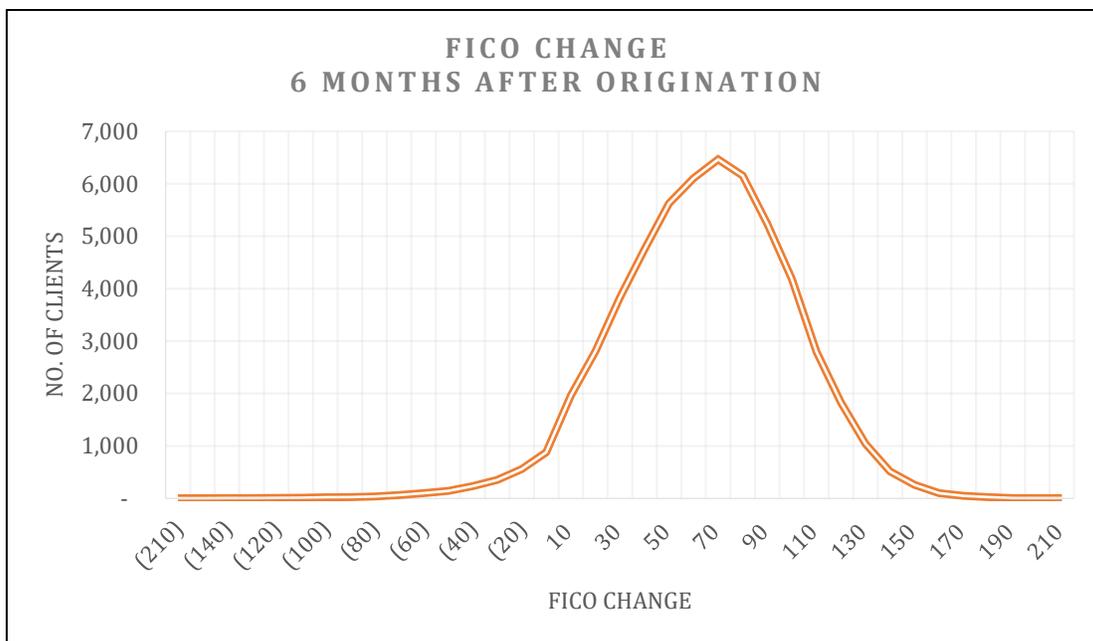
Chart 8.2



The following chart summarizes the distribution of changes in Clients' FICO scores comparing FICO at loan closing (*i.e.*, the date of the settlement of the last Debt in a Client's portfolio) to six months later. On-average, debt settlement Clients that obtain debt consolidation loans experienced a 64-point increase in their FICO scores over this period. Similar positive changes for these Clients are likely in ensuing months assuming loan performance continues:

⁴⁴ As the chart indicates, less than 30% of debt settlement activity is represented by debt settlement consolidation loans. This is due to a combination of bank underwriting standards whereby not all Clients qualify for a debt settlement consolidation loan as well as Clients that decline to pursue the debt settlement consolidation loan option.

Chart 8.3



The weighted-average FICO score of Clients obtaining a debt settlement consolidation loan is 564 at the time of loan origination. This FICO score is considered “very poor” by credit rating agencies and such consumers may be required to pay a higher rate of interest and/or extra fees, if approved for credit at all.⁴⁵ With a 60-point increase, these Clients would have elevated their FICO score to approximately 624, which is considered “fair” by credit rating agencies and within reach of “good.”⁴⁶ Clients may weigh this opportunity for rapid FICO score improvement and other “soft” benefits against the cost associated the debt settlement consolidation loan when considering whether to pursue this additional option.

9. Regulatory Observations Regarding Debt Settlement Programs

The data used to compile this report enables an analysis of certain observations that have been articulated by the federal regulators regarding consumer participation in debt settlement programs. The table below identifies these observations and summarizes the findings presented herein based on an analysis of the data:⁴⁷

⁴⁵ See, e.g., <https://www.experian.com/blogs/ask-experian/credit-education/score-basics/what-is-a-good-credit-score/>. See also, <https://www.equifax.com/personal/education/credit/score/what-is-a-good-credit-score/>.

⁴⁶ *Id.*

⁴⁷ See the CFPB publication regarding debt settlement services, presented at <https://www.consumerfinance.gov/ask-cfpb/what-are-debt-settlement-debt-relief-services-and-should-i-use-them-en-1457/>. These observations are substantially similar to those identified by the FTC (see <https://www.consumer.ftc.gov/articles/0145-settling-credit-card-debt>).

Regulatory Observations	Observations from the Data ⁴⁸
Debt settlement companies may charge excessive fees.	<p>As described in § 5.b, Clients only pay Fees when a settlement is reached and accepted. As described in § 5.c, Clients typically realize Savings exceeding 30% of the amount owed at the time of settlement after payment of Fees.</p> <p>It should be noted that pricing of a good or a service is a function of marketplace economics. As described in § 7, the market for debt relief services is competitive, with multiple options available to consumers at different overall price points.</p>
In some cases, the debt settlement company will be unable to settle all of your debts.	All types of Clients, including Terminated Clients, typically reach settlements (Chart 4.3) and realize Savings in the aggregate (Chart 5.1). Clients resolve increasing percentages of their Enrolled Debt as the length of time that a Client participates in the program increases (Chart 4.8).
The debt settlement company may tell you to put money in a dedicated bank account, which will be managed by a third party. You may be charged fees for using this account.	These fees are typically \$10 each month, or less than \$500 over a 48-month debt settlement program. The cost of bank services has been incorporated into the comparative results for debt settlement in Table 7.1 above.
Unless the debt settlement company settles all or most of your debts, the built-up penalties and fees on the unsettled debts may wipe out any savings the debt settlement company achieves on the debts it settles. ⁴⁹	I am not aware of data that supports this assertion. In fact, the accretion analysis presented in § 6 indicates the opposite: Savings generated in the typical Client’s first settlement offsets the accretion experienced through the-date of that settlement, not just on the Account settled but on all Accounts on an incremental basis (Table 6.5). Future settlements build additional Savings for Clients even after consideration of accretion.

⁴⁸ The observations are exemplary but non-exhaustive.

⁴⁹ This observation is nearly identical to a separate observation (“Debt settlement companies typically encourage you to stop paying your credit card bills. If you stop paying your bills, you will usually incur late fees, penalty interest and other charges, and creditors will likely step up their collection efforts against you.”). In both cases, it is relevant to analyze the accretion experienced in a debt settlement program as presented in § 6. While it is true that failure to pay one’s debts when due is likely to result in increased litigation risk, the applicable measurement is whether participation in a debt settlement program results in increased litigation risk compared to self-management of delinquent debt. I am not aware of data that studies this issue. Ultimately, the assertion that debt settlement companies encourage applicants to stop paying their bills is a disclosure matter, and is not one to which a study of outcomes may respond.

Regulatory Observations	Observations from the Data⁴⁸
Using debt settlement services can have a negative impact on your credit scores and your ability to get credit in the future.	Failure to pay one’s debts rather than participation in a debt settlement program, will have a negative impact on one’s credit scores. Clients experience negative credit score impacts as a result of delinquency, which was frequently a trend underway at the time of the Client’s enrollment. By reducing and resolving Debts, Clients turnaround the negative impact of prior delinquency. As described in § 8, Clients that settle their debts through debt settlement, in this case through debt settlement consolidation loans, typically improve their FICO score by 60 points within 6 months of the settlement of their last debt (Chart 8.3).

The assembly of data in this report should enable a more effective understanding of the benefits to consumers of debt settlement programs, including as compared to other debt relief alternatives. Further, the data in this report highlights how the participating debt settlement companies have performed relative to the financial risks confronted by consumers with portfolios of delinquent debt upon entry into a debt settlement program.