

Consumers League of New Jersey Newsletter

SPOTLIGHT ON CREDIT REPAIR AND DEBT SETTLEMENT



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THE CREDIT "REPAIR" TRAP

A look into the pitfalls of credit repair and debt settlement, with advice on who you should turn to for real help with improving your credit

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BOARD PROFILE

Get to know Gail Chester, one of Consumer League's most experienced and longest-serving Board members!



ARE YOU UNHAPPY WITH THE INFORMATION ON YOUR CREDIT REPORTS?

Join the club! Credit reporting issues make up 67% of all [complaints made to the federal Consumer Financial Protection Bureau](#), with over 1 million complaints filed in the past three years. During that period, the agency received twice as many credit report complaints than all other complaint categories combined! New Jersey residents alone submitted over 33,000 credit reporting [complaints](#).

The Credit “Repair” Trap

Whenever there is a widespread consumer problem, there will be vultures circling to take advantage of financial distress. Enter the for-profit credit repair industry. You may have seen the advertisements promising to “fix” your credit and improve your credit score. So, what do these companies actually do?



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CREDIT REPAIR = DEBT SETTLEMENT, PLUS LOTS OF FEES

First off, you should know that it is [unlawful](#) for any credit repair company to offer or promise to remove accurate information from your credit report. To be sure, there are companies who will bombard the credit reporting agencies with bad faith disputes of accurate information, and you should avoid participating in this activity.

If there are negative but accurate entries on your report, one valid option to improve your report is to try to settle your debts. There are many, many companies eager to help you settle your debts, but you must proceed with caution. Under a typical debt settlement contract, you provide the company with a list of your outstanding debts, and they offer to make settlement offers for a reduced amount to your creditors. But here’s the catch: before the company makes any offers, you need to pay their fees, including retainer fees, monthly administration fees, service costs, banking fees, and whatever else they can come up with. It can take nine months or longer before the company will make a single settlement offer.

Over time, the company may charge you fees totaling more than 20% of your total outstanding debts! Even though debt settlement contracts are often presented as “retainer agreements” with a law office, the contracts do not typically include legal representation if you are sued by a creditor during the many months it takes for the company to collect your money and begin to make settlement offers. Of course, legal representation may be available, for an additional fee. You are probably starting to understand why there are so many of these companies out there.

It is unlawful for a company to offer or promise to remove accurate information from your credit report

One sign of the explosion of credit repair/debt settlement companies is [Credit Repair Cloud](#), which offers “EVERYTHING You Need to Start a Life-Changing Credit Repair Business”! The site claims to have helped start over 11,000 new credit repair companies. Credit repair entrepreneurs are tempted with monthly profits in excess of \$20,000, and Credit Repair Cloud claims that 49 people have become millionaires by using their software!

They even provide you with advice on the laws governing credit repair in every state. For example, for New Jersey, the [website](#) says:

Q: Are there state laws for credit repair in New Jersey?

A: No

Oops! Looks like they aren't aware of New Jersey's Debt Adjustment and Credit Counseling statute, which restricts debt adjustment activities to non-profits licensed by the [Department of Banking and Insurance](#). This law limits debt settlement fees to \$15.00 per month, quite a bit less than the outrageous fees imposed by for-profit companies. While the New Jersey law does not use the words “credit repair,” the activity conducted by for-profit companies in the Credit Repair Cloud model clearly falls within the definition of “debt adjustment. Certain debt settlement activity may also run afoul of the federal [Credit Repair Organizations Act](#), bars companies offering credit repair services from demanding advance payment, requires that credit repair contracts be in writing, and gives consumers certain contract cancellation rights.



That does not mean that for-profit debt adjustment is not rampant in New Jersey. Using online advertisements, out-of-state companies can evade state law, taking thousands of dollars from financially-stressed consumers. If a consumer tries to escape their contract and enforce their rights under New Jersey law, the debt settlement company will hide behind an LLC or shell corporation, or rely on an arbitration clause to prevent the consumer from suing in court.

The New Jersey legislature is currently considering a bill, [S.2989](#), which would amend the Debt Adjustment statute to allow the licensing of for-profit debt adjusters. While the bill attempts to rein in the conduct of for-profit debt adjusters through contract requirements and fee limits, Consumers League of New Jersey believes that debt adjustment in the State should be left to non-profit organizations. Moreover, the proposed legislation does not address the rampant flouting of state law by unlicensed, for-profit debt adjusters who lure New Jersey residents with Internet and other advertising.

If you need assistance in settling your debts, you should contact a non-profit company properly licensed by the State, which can be found [here](#). If you have paid money to a for-profit debt settlement company and are in need of legal assistance, you can contact a consumer lawyer from the [National Association of Consumer Advocates](#), or contact your local [Legal Services](#) office if you cannot afford a lawyer.

CLNJ BOARD MEMBER PROFILE – ATTORNEY GAIL CHESTER

Gail Chester is a long-serving member of the Consumers League of New Jersey Board of Directors. She has worked as a Legal Services attorney in Middlesex County for over fifty years, and has mentored many consumer attorneys, including other members of the CLNJ Board. Below are some of Gail's thoughts on her time as an attorney and member of the Board.

- Where are you from originally?

Wisconsin

- What got you interested in becoming a lawyer?

I had two really good constitutional law classes at Carleton College, better than any I had in law school. I liked the logic and the reliance on reasoning (which probably wouldn't be the case if I were studying constitutional law today).

- Where did you go to law school, and when did you graduate?

Yale, 1971

- What was your first job as a lawyer?

I had a summer job working for the Attorney General of Wisconsin in the consumer unit. (It consisted of two attorneys and an investigator for the entire state.)

My first job after graduating was with Middlesex County Legal Services, starting in 1971. I spent a month in New Brunswick and then moved to Perth Amboy, where I've been ever since.

- What was your favorite or most satisfying case/experience as an attorney?

I think the most satisfying experience is saving peoples' homes from foreclosure. I've had a number of successful foreclosure defenses over the years and I can't really single out a favorite, but my first one was for a woman whose husband had stopped paying the mortgage without her knowledge.

- What do you find most challenging about working for Legal Services?

The adversaries, the courts and sometimes even the clients. You get friction and stress from all of them, but you also have enough positive experiences to keep you going.

- How did you hear about the Consumers League, and when did you join?

A fellow consumer attorney at Middlesex County Legal Services was on the Board. He recruited me and also Neil Fogarty, I believe. I don't recall exactly how long ago, but probably in the late 1970s.

- What do you see as CLNJ's most significant accomplishment/project during your time on the Board?

I can't single out just one thing, but a lot of our accomplishments have been heading off bad legislation, like the endless efforts to legalize Rent to Own. Corporations keep coming back with new ways to weaken the Consumer Fraud Act--recently there was even an attempt to exempt car dealers! Now they're trying to legalize for-profit debt adjusters. These industries have money for political donations; all we have is moral pressure and publicity, so we have to be constantly vigilant and constantly engaged.

- How have consumer protection and consumer fraud issues changed (or not) since you joined CLNJ?

Scammers are endlessly inventive--you stamp them out one place and they pop up somewhere else. They're always changing. Problems with vacuum cleaners and encyclopedia door-to-door sales have dwindled away, but one of the hottest new trends in the world of fraud is solar panel installation. This is really sad because solar energy is so good for the planet and so potentially beneficial for consumers. You want to warn people about these abusive sales practices without scaring them away from solar power.

Another new thing that really scares me is electronic document signing--I've had salesmen create contracts for my clients to open credit cards, buy cars, and even install over \$100,000 in solar panels without giving the consumer a scrap of paper. Unscrupulous salesmen do it all on tablets or computers and either sign the consumers' names themselves, or tell the consumers to sign on a screen without seeing what they're signing. I ask the clients to see their papers and they don't have any. It's an end run around every contract principle and credit disclosure law you ever learned.

- What do you see as CLNJ's role going forward?

Eternal vigilance and eternal dedication to protect the legal protections we already have. If we could get some additional laws passed, so much the better.

About the Consumers League of New Jersey

Consumers League fights for the rights of consumers.

Consumers League of New Jersey fights for the right of consumers to safe products, fair contracts and legislation which protects consumers. CLNJ opposes legislation which legalizes unfair practices such as unlimited interest in payday loans and rent to own deals.

The Consumers League of New Jersey is a nonprofit, section 501(c)(4) civic organization. The CLNJ is nonpartisan, and does not endorse political candidates. CLNJ works with all government officials who support consumer protection. Copyright by Consumers League of New Jersey.

JOIN THE CONSUMERS LEAGUE TODAY!

If you would like to assist the work of the Consumers League of New Jersey by joining, kindly send a check for \$20 to the mailing address listed on this page, and tell us your name, address, phone and email address. Contributions are not tax deductible. Thank you for your support.

Consumers League of New Jersey accepts *cy pres* awards. These grants are made to organizations which educate consumers about their rights. CLNJ has been the recipient of grants from the Consumer Federation of America, and the National Coalition for Consumer Education, Inc. The Consumers League of New Jersey was a founding member of the National Consumers League, and has been a member of the NCL for more than 100 years.

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