February 19, 2020

The Honorable Manuel P. Alvarez
Commissioner
Department of Financial Protection and Innovation
300 S. Spring Street, Suite 15513
Los Angeles, CA 90013

SENT VIA ELECTRONIC MAIL TO regulations@dfpi.ca.gov.

RE: INVITATION FOR COMMENTS ON PROPOSED RULEMAKING UNDER THE CALIFORNIA CONSUMER FINANCIAL PROTECTION LAW (FILE NO: PRO 01-21)

Dear Commissioner Alvarez:

On behalf of the American Fair Credit Council ("AFCC"), the trade association representing the debt settlement industry, I am pleased to submit this response to the California Department of Financial Protection and Innovation's ("DPFI" or "the Department") invitation for comments regarding implementation of the California Consumer Financial Protection Law ("CCFPL"). As an industry that assists financially challenged consumers address their unsecured debt burdens, the AFCC supports strong, consumer-protective frameworks for debt settlement. We look forward to working with DPFI to establish a regulatory regime that will ensure that California consumers will continue to be able to access this vital service.

About Debt Settlement

AFCC members work with consumers who are no longer able to meet their ongoing unsecured debt obligations. We assist them in securing less than full balance settlements of the amounts they owe to their unsecured creditors. This service provides debt settlement clients with much-needed relief from the threat of ruinous litigation from multiple creditors or aggressive collections activity, and provides a private-sector alternative to bankruptcy, which, may persist on a consumer's credit report for up to ten years. Debt settlement is often the only meaningful opportunity for financially challenged consumers to restructure their debt obligations in a dignified and efficient manner, in all cases with the participation and consent of their creditors. Access to debt settlement services is very important in the best of times but is absolutely essential in times when consumer debt loads are expanding or when economic conditions, such as the ones we are experiencing today, threaten the stability and well-being of so many. The

economic impact of the COVID-19 pandemic coupled with historically high levels of consumer debt has left many Californians struggling to meet their financial obligations.

Unfortunately, there are precious few options available to consumers in financial distress. For those who have, for example, suffered a loss of income or incurred significant, unforeseen expenses and can no longer afford to pay their debts, personal bankruptcy is likely the only path available. The long-term social and economic consequences of bankruptcy are significant and can substantially limit the future opportunities for up to a decade. Debt settlement can be an alternative to bankruptcy for some consumers.

The debt settlement industry is regulated at the federal level by the Federal Trade Commission ("FTC") by virtue of the 2010 amendments to the Telemarketing Sales Rule ("TSR"). Under those revisions, to which the AFCC and several of its founding members actively contributed and supported, debt settlement companies are prohibited from charging any fees whatsoever until three specific conditions have been satisfied: first, a settlement on an account must be negotiated by the provider; second, the consumer must accept the settlement; and, third, the consumer must make at least one payment to the creditor.[1] Debt settlement is, therefore, one of the only products in the financial services marketplace whose providers, by federal regulation, must deliver an acceptable resolution to their customers before they are legally permitted to charge, let alone collect, a fee. Equally important, debt settlement clients have the right to reject any proposed settlement at any time, for any reason, or to withdraw from their debt settlement program whenever they choose, without any penalty or other charge of any sort. Additionally, unlike proraters, debt settlement providers are prohibited by the FTC rules from holding or exercising any control of any sort over the consumers funds that are set aside for purposes of the debt settlement program. Only the consumer may authorize and/or direct a withdrawal or payment from the consumer's account. Consumers therefore are in full control of their debt settlement program at all times.

The data clearly shows the value of debt settlement consumers: an independent study published earlier this year, and peer reviewed by a Harvard economist, found that debt settlement, on average, results in $2.64 of debt reduction for every $1 in fees paid for debt settlement services; the majority of debt settlement customers see their first account settled within four to six months of starting their debt settlement program.[22] On a more macro level, the debt settlement industry provides significant consumer benefit: in just 2019, the last full year for which industry data is

[1] 16 C.F.R. § 310.4(a)(5)(i)(A)-(B)

[2] Regan, G. J. (2021, February). Options for Consumers in Crisis: An Updated Analysis of the Debt Settlement Industry. Retrieved from https://americanfaircreditcouncil.org/wp-content/uploads/2020.12.31-AFCC-Report-v.1.19.21.pdf.

available, debt settlement was responsible for more than $1.6 billion in consumer savings across the country, with settlements of unsecured debts in California alone of more than $453 million.[3]

Potential Topics for Rulemaking

The AFCC is a strong advocate for consumer-protective regulatory frameworks for debt settlement. We therefore appreciate this opportunity to provide the industry's perspective with regard to creating a regulatory framework for debt settlement in California, one that can be built atop the consumer protections that have been in place at the federal level for more than a decade.

Definitions
The Department should unambiguously bring debt settlement within the scope of the CCFPL. To do so, the Department should promulgate, through regulation, a definition of "debt relief service" that mirrors the definition provided by the FTC rules at the federal level, which has subsequently been adopted by several states, to provide harmonization between the federal and state regulatory frameworks for the service:

"Debt relief service means any program or service represented, directly or by implication, to renegotiate, settle, or in any way alter the terms of payment or other terms of the debt between a person and one or more unsecured creditors or debt collectors, including, but not limited to, a reduction in the balance, interest rate, or fees owed by a person to an unsecured creditor or debt collector."[4]

Registration and Recordkeeping Requirements
Debt relief service providers should be required to register with DFPI under a regulation, examination and enforcement framework. Registration should include surety bonding[5] and insurance requirements at levels that provide for consumer protection while recognizing that providers are not permitted under federal regulation from owning or controlling consumer funds at any point during the lifecycle of a debt settlement program. Providers should further be required to periodically furnish to the Department information pertaining to the debt settlement activity they have undertaken on behalf of California consumers and should be required to

[3] Dunham, J. (2020, October). 2020 Economic Impact of the Debt Settlement Industry. Retrieved from https://impactreport.americanfaircreditcouncil.org/assets/files/AFCC_Impact_Report2020.pdf.
[4] 16 C.F.R. § 310.2(m)
[5] Fidelity bonding is unnecessary for entities that do not receive or hold, actually or constructively, consumer funds.

maintain records related to debt settlement activity provided to California consumers for a period matching the state's statute of limitations period for contract actions.[3]

Disclosures
Debt settlement is a valuable financial product for consumers in significant financial hardship. For these consumers, there is unfortunately no silver bullet that can meaningfully address their unmanageable unsecured debt burden. Moreover, because consumers who qualify for debt settlement still maintain *some* income, they feel both a financial and a moral responsibility to pay to their creditors what they can afford, even if it does not constitute the totality of what they owe. The disclosures presented to consumers considering debt settlement should therefore clearly articulate the risks to consumers who choose to enroll in debt settlement programs without inaccurately characterizing the benefits of doing so.

Fortunately, as it considers required disclosures for debt relief service providers in California, the Department has a strong basis upon which to build. As part of its 2010 amendments to the TSR, the FTC required that, in the context of the sale of debt relief services, providers disclose all material aspects of a debt settlement program "in a clear and conspicuous manner"[4] prior to enrolling a consumer in a debt settlement program. The industry has responded to this consumer need by promulgating a comprehensive set of consumer-facing disclosures and requiring, as a prerequisite for third-party accreditation (which itself is required to be an AFCC member), that its members to utilize best-practice model disclosures that go beyond what might otherwise be required by the FTC.

We propose that the Department consider promulgating the following disclosure requirements for debt relief service providers, which represent a combination of those enshrined in the TSR and those currently set forth as third-party accreditation standards required by the AFCC:

1. That failure to make timely payments on debts will likely have a negative impact on creditworthiness.
2. That non-payment of debts may result in an increase in the amount of money the consumer owes dues to the accrual of fees and interest.
3. That the failure to make timely payments on debts increases the possibility of continuing or increased collection efforts and legal activities (including lawsuits) by creditors .
4. That creditors are not required by law to negotiate settlements on debts.

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[3] As graduation from a debt settlement program typically occurs somewhere between 36 and 48 months after enrollment, this recordkeeping requirement would, in practical terms, see debt relief service providers maintaining records for far longer than the statute of limitations.
[4] 16 CFR § 310.3(a)(1)(viii)

5. That the forgiveness of debt may have tax implications, making it important to consult a tax advisor.
6. The key costs and terms of the program.
7. That the customer has the right to terminate the program at any time with no penalty, charge or cost of any kind.
8. That at all times the customer owns and controls the dedicated account holding the client's settlement funds and is entitled to receive back any remaining funds at termination.
9. That customer approval is required for each settlement.

Unlawful, Unfair, Deceptive and Abusive Acts and Practices
The federal rules enacted in 2010 facilitated the alignment of the consumer's and the debt relief service provider's incentives by prohibiting the provider from receiving payment of settlement fees on any settlement in advance of: 1) the provider having negotiated a settlement offer for the consumer; 2) the consumer having accepted the settlement offer; and, 3) the consumer making at least one payment to the creditor towards the settlement. The AFCC suggests that the Department set forth the same standard in California. While all AFCC member companies comply with this "advance fee" ban, the jurisdiction of the FTC rule is limited, generally, to debt relief service providers utilizing an instrumentality of interstate commerce as a prerequisite of settling debts on behalf of a consumer. Formalization of the "advance fee" ban under the CCFPL would therefore both harmonize California's consumer protection regulations with those at the federal level while also establishing the same requirements for smaller debt relief service providers in the state that may not have a nexus with interstate commerce and who may arguably not be required to comply with the FTC rules.

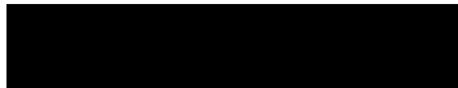
Conclusion

COVID-19 has unfortunately created financial hardship for millions of Californians. While debt settlement was a critical tool for hundreds of thousands of consumers across the state before the crisis, it will serve as a lifeline for many more over the next several years in the wake of the economic impact of the pandemic. It is absolutely critical that debt settlement continue to be an option for financially challenged consumers.

The AFCC strongly believes that a state, regulation, examination and enforcement regime is appropriate for the debt settlement industry, and supports the Department using the authority granted to it by the CCFPL to establish such a framework. We stand ready to provide DFPI with any data or perspective that might be useful as it considers the regulatory regime for debt

settlement in California, and appreciate your consideration of our input to the Department's invitation for comments.

Sincerely,



Denise Dunckel
Chief Executive Officer

Enclosure

Cc: The Honorable Tim Grayson
The Honorable Monique Limón
The Honorable Buffy Wicks

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Financial Outcomes for Debt Settlement Programs: Estimates for 2011–2020*

Will S. Dobbie
Harvard Kennedy School

January 15, 2021

*This report was commissioned by the American Fair Credit Council (AFCC), the trade association representing the debt settlement industry. The AFCC reviewed this report for accuracy and to ensure that no personally identifiable information was disclosed. The report's methodology, analysis, and results were not moderated or mediated by the AFCC. The opinions, findings, and conclusions expressed in this report are those of the author and not those of the AFCC or any other organization. Information on the author and his qualifications is available at https://www.hks.harvard.edu/faculty/will-dobbie.

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1. Summary

Debt settlement programs are designed to facilitate the less-than-full-balance resolution of portfolios of unsecured debt owed by individuals who are experiencing significant financial difficulty and who lack the resources to satisfy, in full, their current debt obligations. This report examines the financial outcomes of individuals enrolling in a debt settlement program using detailed data for a sample population of approximately 450,000 individuals and over 3,100,000 accounts. We measure outcomes for individuals up to March 2020, just before the onset of the recent economic and health crises. We also examine the methodology, analyses, and results described in a series of reports by Hemming Morse, LLP (Greg Regan) that also examine the financial outcomes of individuals enrolling in a debt settlement program to determine whether the data support the Regan reports' analyses and conclusions.

Our analysis reveals that individuals starting a debt settlement program have, on average, almost $28,000 of unsecured debt across 6.93 accounts. Seventy-four percent of these individuals successfully settle at least one account through the debt settlement program over the first 36 months, with these individuals settling an average of 3.80 accounts and approximately 55 percent of their enrolled debt through the program during this time. Settled accounts yield an average savings of about $1,400 based on the current balance owed to the creditor at the time of settlement and after accounting for fees, with individuals in this cohort saving an average of just over $5,400 on settled accounts based on the current balance and after fees. We can also express the debt reduction in terms of the fraction of the current balance that is forgiven, which more easily facilitates comparisons with other forms of debt relief. These calculations show that individuals enrolling in debt settlement programs receive an average debt write-down of 32 percent on settled accounts after accounting for fees. All of our findings are substantively identical to those in the most recent iteration of the report by Hemming Morse, LLP (Greg Regan) and an earlier version of this report using data up to March 2017.

Reviewing the evidence from both this report and recent research, we conclude that debt settlement programs have the potential to significantly benefit many financially distressed individuals, particularly if they are not eligible for Chapter 7 bankruptcy protection or wish to avoid the negative consequences of Chapter 13 bankruptcy restructuring. We wish to emphasize, however, that we only observe outcomes for individuals starting a debt settlement program. We do not observe outcomes for otherwise similarly situated individuals who do not start a debt settlement program, meaning that we cannot estimate the causal impact of starting a debt settlement program in isolation from other factors. All of our results should be interpreted with this limitation in mind.

2. Background and Data

2.1. The Debt Settlement Industry

Debt settlement firms are for-profit organizations that negotiate with unsecured creditors on behalf of their clients. Firms typically negotiate a full discharge of an individual's unsecured debt in exchange for either a one-time lump-sum payment or a series of smaller payments. These settlements generally represent a partial write-off by the creditor of the current balance at the time of settlement. Debt settlement firms do not provide financial counseling, legal, tax, or bankruptcy advice, or help with

secured debts such as mortgages or auto loans.

The debt settlement process typically begins with a comprehensive phone screen. To be eligible for a debt settlement program, firms generally require that individuals have at least $10,000 to $15,000 in unsecured debt, a steady source of income, no recent bankruptcy filings, and live in a state where the firm operates. Following the phone screen, individuals interested in starting a debt settlement program are sent a request for financial documentation along with a contract that details the firm's services and fees, and that contains all of the required regulatory disclosures. Individuals who return the required documentation, submit the contract, and pass the firm's enrollment criteria are then enrolled in a debt settlement program and begin making monthly or semi-monthly deposits into what is known as a dedicated account, a separate bank account owned by the individual and not accessible by the debt settlement firm.[1]

Negotiations with creditors usually begin after sufficient funds have accumulated in the client's dedicated account, generally around 20 percent of any given debt. Debt settlement firms collect fees on a per-debt basis directly from clients. By Federal Trade Commission regulation, three conditions must be met before any per-debt fees can be collected from clients: (1) the firm must successfully negotiate the terms of settlement for a given debt; (2) the client must agree to the terms of the negotiated settlement for the debt; and (3) the client must make at least one payment to the relevant creditor as a result of the negotiated settlement agreement.

2.2. The Regan Report

The best available information on individuals enrolling in a debt settlement program comes from a series of reports by Hemming Morse, LLP (authored by Greg Regan, a partner in the firm), that have been commissioned by the AFCC. The most recent version of the "Regan report," completed in 2020, includes information on individuals enrolling in a debt settlement program between January 1, 2011 and March 31, 2020. The 2020 report includes detailed breakdowns of the post-enrollment outcomes of these individuals, as well as a comparison of these post-enrollment outcomes with the hypothetical outcomes that would have occurred if these individuals had only made the minimum payments on their unsecured debt and not enrolled in a debt settlement program. The most recent version of the Regan report also examines the evolution of FICO scores for individuals receiving a debt settlement consolidation loan.

We were commissioned by the AFCC to update our original report using data up to 2017 and conduct an independent examination of the 2020 iteration of the Regan report to determine whether the available data supported the report's analyses and conclusions. We were provided with the account-level data used in the Regan report, as well as detailed notes on the sample restrictions and analyses used in the report and full access to the author to discuss the report's methodology, scope, and outcomes. Per the disclaimer on the first page, the AFCC reviewed this report for accuracy and to ensure that no personally identifiable information was disclosed but did not moderate or mediate our methodology, analysis, or results. We focus on the analysis of debt settlement outcomes and hypothetical outcomes that would have occurred if these individuals had only made the minimum payment on their unsecured debt, leaving the analysis of debt settlement consolidation loans for future work.

[1]Debt settlement deposits are used only for payments to creditors and the debt settlement firm's fees. The payment processors who administer these dedicated accounts commonly charge $5-$10 per month to maintain the account over the program life (usually up to 48 months). We focus exclusively on the much larger per-debt fees when calculating program outcomes below.

2.3. Data

The debt settlement records used in our analysis come from the AFCC. The data contain the account experience of all accounts enrolled in debt settlement programs between January 1, 2011 and March 31, 2020 for ten of the largest debt settlement firms in the industry. We observe information on the starting balance for each account, the current balance for each account, the settlement amount for each settled account, and any charged fees for each settled account. We focus on the per-debt fees throughout this analysis, ignoring the $5-$10 monthly cost of maintaining the dedicated debt settlement account.

We use these data to calculate account- and individual-level statistics for outcomes after individuals enter a debt settlement program over a range of time horizons. Shorter time horizons allow us to include more individuals in our sample population, while longer time horizons allow us to examine outcomes that occur further in the future. Our preferred sample population examines outcomes in the first 36 months after individuals enter a debt settlement program, ignoring outcomes that occur after the first 36 months even though there are likely to be additional settlements in subsequent months (particularly for larger debts). This 36-month window balances the need for a larger sample with the need for a longer time horizon. Appendix Table 1 and Appendix Figures 1 and 2 provide results at both shorter and longer time horizons and are discussed throughout.

At the account level, we calculate the debt reduction for each settled account before accounting for per-debt fees, the debt reduction for each settled account after accounting for per-debt fees, and the fraction of debt that is forgiven for each settled account. We also aggregate these variables across all of an individual's accounts, yielding individual-level measures of the number and fraction of settled accounts, the total debt reduction for all settled accounts before accounting for per-debt fees, the total debt reduction for all settled accounts after accounting for per-debt fees, and the average fraction of debt that is forgiven for all settled accounts. All individual-level statistics are weighted by the starting balance in each account, such that larger accounts matter more for these individual-level averages.

We impose three sample restrictions to arrive at our preferred sample population. First, we drop 1,062,148 individuals (7,693,866 accounts) enrolling in a debt settlement program after March 31, 2017 to ensure that we observe all individuals for at least 36 months after entering a debt settlement program and before the onset of the recent economic and health crises. Second, we drop 30,812 individuals (48,099 accounts) that failed to make their first draft deposit, as these individuals never functionally enrolled in a debt settlement program. Finally, we drop 102,115 individuals (692,706 accounts) where at least one account has missing or conflicting information. None of our results substantively change if we relax these sample restrictions. The final dataset for our preferred sample population includes 453,085 individuals and 3,139,226 accounts.

3. Results

3.1. Descriptive Statistics

Table 1 provides descriptive statistics for our preferred sample population at both the account and individual levels. Panel A shows that individuals enrolling in a debt settlement program are in considerable financial distress at the beginning of the program. Individuals enroll an average of 6.93 accounts, with the average account balance equaling $4,006. Individuals therefore enroll an average

of \$27,756 of unsecured debt across all accounts ($\approx 6.93 \times$ \$4,006). We find nearly identical results for sample populations where we measure outcomes over both shorter and longer time horizons, as reported in Appendix Table 1. By comparison, the average not-for-profit debt management plan includes about \$20,000 in unsecured debt (Dobbie and Song, 2020), while the average Chapter 7 or Chapter 13 consumer bankruptcy filing includes more than \$90,000 in unsecured debt (Auclert, Dobbie, and Goldsmith-Pinkham, 2019).

Panel B shows that 55 percent of enrolled accounts are settled during our 36-month sample window, with 74 percent of individuals settling at least one account during this period. Individuals settle an average of 3.80 accounts and approximately 55 percent of their enrolled debt during this period. Fifty-nine percent of individuals settle over 50 percent of their enrolled debt during this period, 43 percent settle over 75 percent of their enrolled debt, and 23 percent settle all of their enrolled debt. We find similar results for sample populations where we measure outcomes over both shorter and longer time horizons, as reported in Appendix Table 1.

Panel C further shows that these settlements are reached, on average, about 14.3 months after the start of the debt settlement program, with the first settlement usually occurring four to five months after the start of the program. Starting account balances on these settled accounts average \$3,984, very similar to the average starting balance on all accounts. Current balances at the time of the settlement average \$4,478, meaning the average settled account increases by \$494, or 12.4 percent, from enrollment to settlement due to interest and late fees. The average settlement amount is \$2,199, substantially lower than both the average starting and current balances (\$3,984 and \$4,478, respectively). Gross fees average \$848 for these settled accounts, or approximately 21.2 percent of the enrolled balance and 18.9 percent of the balance at the time of settlement. Individuals therefore have an average starting balance of \$15,154 on settled accounts ($\approx 3.80 \times$ \$3,984), an average current balance of \$17,032 ($\approx 3.80 \times$ \$4,478), an average settlement amount of \$8,365 ($\approx 3.80 \times$ \$2,199), and average fees of \$3,325 ($\approx 3.80 \times$ \$848). We again find similar results for sample populations where we measure outcomes over both shorter and longer time horizons, as reported in Appendix Table 1.

Putting these results together, Panel D shows that the average settlement during our 36-month sample window results in \$2,278 in debt reduction before accounting for fees, and \$1,430 in net savings after accounting for fees. Individuals therefore see an average debt reduction of \$8,666 on settled accounts before accounting for fees ($\approx 3.80 \times$ \$2,278), and \$5,440 in net savings after accounting for fees ($\approx 3.80 \times$ \$1,430). We, once again, find similar results for sample populations where we measure outcomes over both shorter and longer time horizons, as reported in Appendix Table 1.

We can also express the debt reduction in terms of the fraction of the current balance that is forgiven, which more easily facilitates comparisons with other forms of debt relief. These calculations show that individuals enrolling in debt settlement programs receive an average debt write-down of 32 percent on settled accounts after accounting for fees. By comparison, individuals enrolling in not-for-profit debt management plans generally do not receive a write-down on the original principal, though interest payments and late fees are significantly reduced (Dobbie and Song, 2020). Individuals filing for bankruptcy protection receive an average debt-write down of more than 90 percent for unsecured debt included in a Chapter 7 discharge and 60 to 70 percent for unsecured debt included in a Chapter 13 discharge (Dobbie, Goldsmith-Pinkham, and Yang, 2017).

All of the statistics reported here are substantively identical to those reported in the 2020 Regan report and an earlier version of this report using data up to March 2017.

3.2. Relationship with Baseline Characteristics

Figures 1 and 2 present estimates of the relationship between post-enrollment financial outcomes and baseline characteristics measured at the time of program enrollment. To construct each plot, we first split each baseline characteristic into 20 equally-sized bins. We then create indicator variables for each of these bins, omitting the smallest value. We finally regress each post-enrollment outcome on these indicator variables, along with the other baseline controls, and plot the results. These plots therefore represent the non-parametric relationship between each post-enrollment outcome and the baseline characteristics. Following Table 1, we measure all outcomes for the first 36 months after individuals enter a debt settlement program and report results over both shorter and longer time horizons in Appendix Figures 1 and 2.

We find that post-enrollment outcomes are generally more positive for individuals with higher levels of debt and, perhaps, for individuals with more accounts. Figure 1 shows that the probability that an account is settled in the first 36 months increases sharply with the starting account balance amount until just before $5,000, leveling off after this threshold. The probability that an account is settled also generally increases with the total number of enrolled accounts. Debt reduction on settled accounts, both before and after accounting for fees, is mechanically increasing with the starting balance but unrelated to the total number of enrolled accounts. Figure 2 shows that there is a similar pattern of results at the individual level, with the probability that any account is settled increasing with the total starting balance amount until about $40,000 and leveling off after this threshold. Debt reduction on settled accounts, both before and after accounting for fees, is again mechanically increasing with the starting balance but unrelated to the total number of enrolled accounts. We again find nearly identical results when measuring outcomes over both shorter and longer time horizons, as reported in Appendix Figures 1 and 2.

3.3. Accretion of Accounts in Debt Settlement Programs

The 2020 Regan report also calculates the amount of debt that individuals would have accumulated had they only made the minimum payment on their credit cards and not enrolled in a debt settlement program. We successfully replicated these calculations, which we only briefly describe here for completeness. The annualized accretion rate for enrolled debt falls from more than 25 percent in the first few months after program enrollment to less than 10 percent after one and a half years. By comparison, the expected annualized accretion rate for credit card debt remains at or above 15 percent after one and a half years when making the minimum required payment on a credit card. Individuals are therefore expected to have lower debt levels, even accounting for accretion, after enrolling in a debt settlement program compared to making the minimum required payment on a credit card.

These calculations assume that individuals enrolled in debt settlement programs cannot afford the minimum required payment on their credit cards. This assumption is consistent with one of the criterions for participation in a debt settlement programs, as well as prior work suggesting that financially distressed individuals are often caught in a debt trap where their outcomes are already deteriorating. Dobbie and Song (2015) and Dobbie, Goldsmith-Pinkham, and Yang (2017) document, for example, that individuals filing for Chapter 13 bankruptcy protection start to see a deterioration of their outcomes about one to two years before filing. We therefore believe that the assumption that financially distressed individuals likely cannot afford the minimum required payment on their credit

cards is reasonable, as are the conclusions based on this assumption.

4. Conclusion

The results from our updated analysis show that 74 percent of individuals successfully settle at least one account in the first 36 months after enrolling in a debt settlement program, with settled accounts yielding an average debt write-down of 32 percent after accounting for fees. By comparison, individuals enrolling in not-for-profit debt management plans generally do not receive a write-down on the original principal and individuals filing for bankruptcy protection receive an average debt-write down of more than 90 percent for unsecured debt included in a Chapter 7 discharge and about 60 to 70 percent for unsecured debt included in a Chapter 13 discharge. Based on these findings, we can reasonably conclude that debt settlement programs have the potential to benefit many financially distressed individuals, particularly if they are not eligible for or interested in Chapter 7 or Chapter 13 bankruptcy protection.

As mentioned above, an important limitation of our analysis is that we only observe outcomes for individuals starting a debt settlement program. Our estimates based on these data may not represent the causal impact of starting a debt settlement program, as the outcomes for these individuals may have changed over time even if they had not started a debt settlement program. Obtaining the causal impact of starting a debt settlement program requires that we compare the outcomes of individuals who start a debt settlement program to the outcomes of otherwise similarly situated individuals who did not start a debt settlement program, as would be the case in a randomized control trial or a quasi-experimental design. Estimating such a causal effect is an important area for future work as it will allow us to improve on the hypothetical calculations in the Regan report.

References

[1] Auclert, Adrien, Will Dobbie, and Paul Goldsmith-Pinkham. 2019. “Macroeconomic Effects of Debt Relief: Consumer Bankruptcy Protections in the Great Recession.” NBER Working Paper No. 25685.

[2] Dobbie, Will, Paul Goldsmith-Pinkham, and Crystal Yang. 2017. “Consumer Bankruptcy and Financial Health.” *Review of Economics and Statistics*.

[3] Dobbie, Will, and Jae Song. 2015. “Debt Relief and Debtor Outcomes: Measuring the Effects of Consumer Bankruptcy Protection.” *American Economic Review*.

[4] Dobbie, Will, and Jae Song. 2020. “Targeted Debt Relief and the Origins of Financial Distress: Experimental Evidence from Distressed Credit Card Borrowers.” *American Economic Review*.

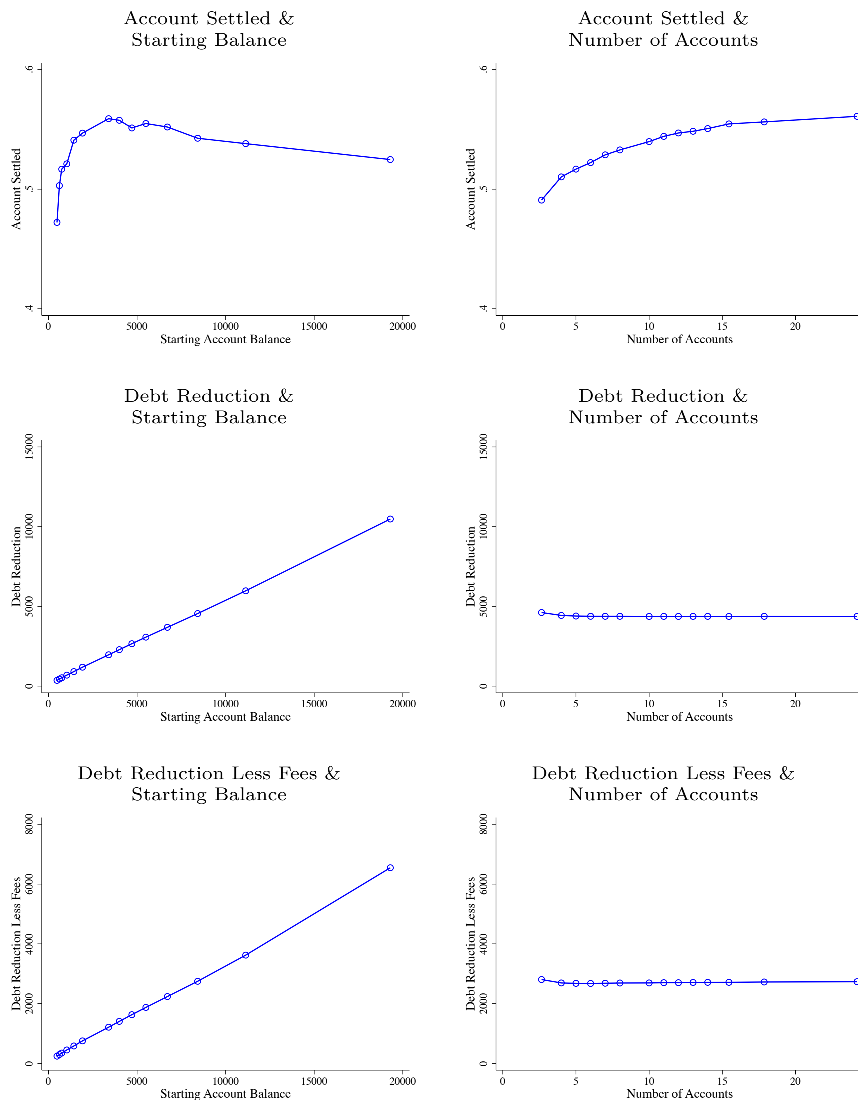
[5] Regan, Greg. 2020. “Options for Consumers in Crisis: An Updated Economic Analysis of The Debt Settlement Industry.” American Fair Credit Council Report.

Table 1: Descriptive Statistics

	Accounts Statistics	Individual Statistics
Panel A: Enrollment Variables	(1)	(2)
Number of Accounts	–	6.93
Starting Balance	4,006.06	27,756.20
Panel B: Outcome Variables for All Accounts		
Any Account Settled	0.55	0.74
Number of Accounts Settled	–	3.80
Fraction of Accounts Settled	–	0.55
50 Percent of Accounts Settled	–	0.59
75 Percent of Accounts Settled	–	0.43
100 Percent of Accounts Settled	–	0.23
Panel C: Outcomes for Settled Accounts		
Avg. Months to Settlement	14.37	12.99
Starting Balance	3,984.52	15,154.50
Current Balance	4,478.24	17,032.26
Settlement Amount	2,199.46	8,365.31
Gross Fees	848.20	3,225.98
Panel D: Normalized Outcomes for Settled Accounts		
Debt Reduction	2,278.77	8,666.95
Debt Reduction Less Fees	1,430.58	5,440.98
Debt Reduction Less Fees Over Balance	0.32	0.32
Observations	3,139,226	453,085

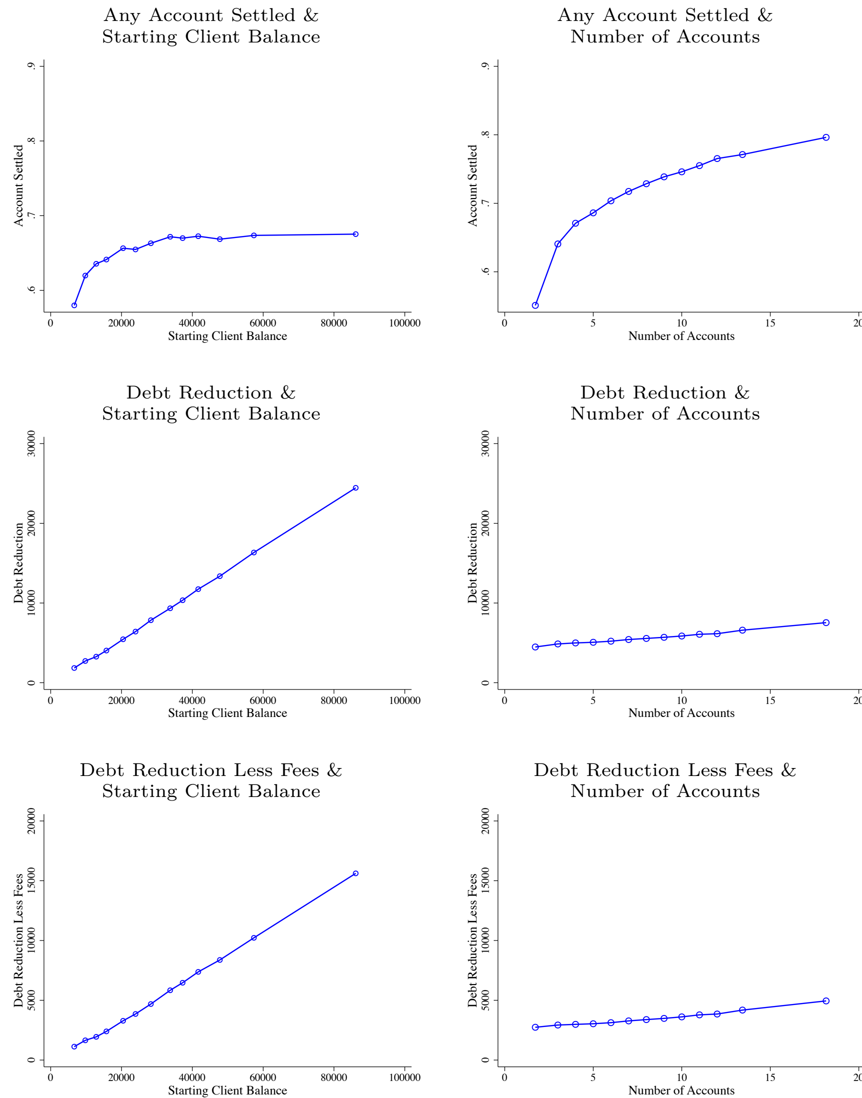
Notes. This table reports descriptive statistics at the account and individual levels. The sample includes both accounts and individuals enrolled in a debt settlement program between January 1, 2011 and March 31, 2017 meeting the sample criteria described in the text. Baseline characteristics are measured at program enrollment and outcomes are measured for the first 36 months after program enrollment. Column 1 reports accounts statistics. Column 2 reports individual statistics weighted by the starting balance in each account. Debt reduction is the current balance less the settlement amount. Debt reduction less fees is the current balance less the settlement amount less the gross fees. Debt reduction less fees over balance is the current balance less the settlement amount less the gross fees, all divided by the gross fees.

Figure 1: Account Outcomes and Baseline Characteristics



Notes. This figure reports the relationship between post-enrollment account outcomes and baseline characteristics. The sample includes both accounts and individuals enrolled in a debt settlement program between January 1, 2011 and March 31, 2017 meeting the sample criteria described in the text. Baseline characteristics are measured at program enrollment and outcomes are measured for the first 36 months after program enrollment. We construct each plot by first splitting each characteristic into 20 equally-sized bins. We then create indicator variables for each of these bins, omitting the smallest value. We finally regress each post-enrollment outcome on these indicator variables. The blue line in each figure represents the relationship between the listed account outcome and characteristic with no additional controls. The red line in each figure represents the relationship between the listed account outcome and characteristic controlling for the other listed characteristics and monthly income. Account settled is an indicator for the account being settled. Debt reduction is the current balance less the settlement amount. Debt reduction less fees is the current balance less the settlement amount less the gross fees.

Figure 2: Individual Outcomes and Baseline Characteristics



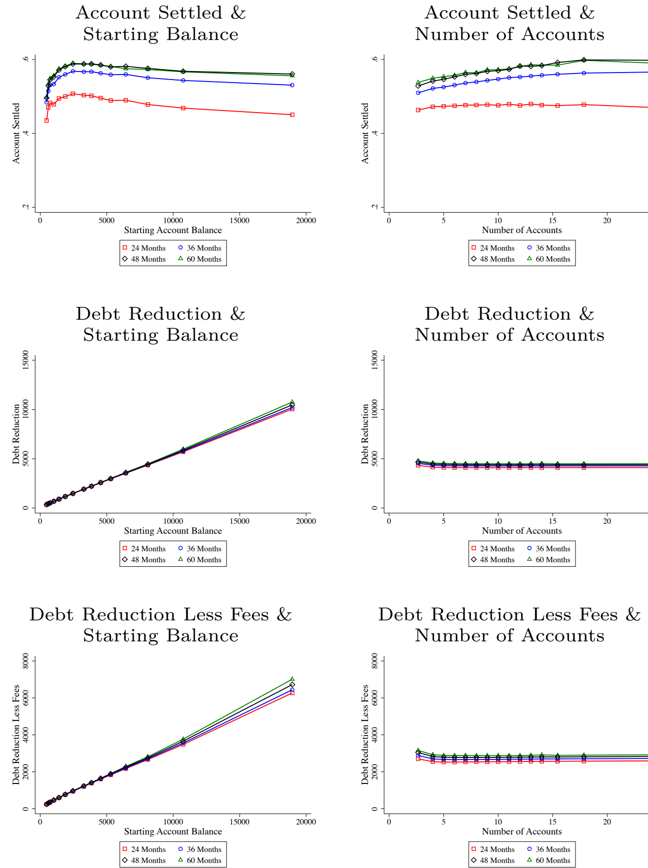
Notes. This figure reports the relationship between post-enrollment individual outcomes and baseline characteristics. The sample includes both accounts and individuals enrolled in a debt settlement program between January 1, 2011 and March 31, 2017 meeting the sample criteria described in the text. Baseline characteristics are measured at program enrollment and outcomes are measured for the first 36 months after program enrollment. We construct each plot by first splitting each characteristic into 20 equally-sized bins. We then create indicator variables for each of these bins, omitting the smallest value. We finally regress each post-enrollment outcome on these indicator variables. The blue line in each figure represents the relationship between the listed program outcome and characteristic with no additional controls. The red line in each figure represents the relationship between the listed program outcome and characteristic controlling for the other listed characteristics and monthly income. Account settled is an indicator for any account being settled. Debt reduction is the current balance less the settlement amount. Debt reduction less fees is the current balance less the settlement less the gross fees.

Appendix Table 1: Descriptive Statistics at Different Time Horizons

	Accounts Statistics				Client Statistics			
	24 Months	36 Months	48 Months	60 Months	24 Months	36 Months	48 Months	60 Months
Panel A: Enrollment Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Number of Accounts	–	–	–	–	7.07	6.93	6.72	6.58
Starting Balance	3,924.28	4,006.06	4,084.72	4,196.82	27,748.89	27,756.20	27,459.40	27,635.80
Panel B: Outcome Variables for All Accounts								
Any Account Settled	0.49	0.55	0.56	0.57	0.75	0.74	0.74	0.75
Number of Accounts Settled	–	–	–	–	3.49	3.80	3.80	3.73
Fraction of Accounts Settled	–	–	–	–	0.49	0.55	0.57	0.57
50 Percent of Accounts Settled	–	–	–	–	0.54	0.59	0.59	0.60
75 Percent of Accounts Settled	–	–	–	–	0.30	0.43	0.48	0.48
100 Percent of Accounts Settled	–	–	–	–	0.16	0.23	0.28	0.29
Panel C: Outcomes for Settled Accounts								
Avg. Months to Settlement	13.44	14.37	14.95	15.18	12.33	12.99	13.34	13.38
Starting Balance	3,872.23	3,984.52	4,075.54	4,173.18	13,508.79	15,154.50	15,478.56	15,571.55
Current Balance	4,362.52	4,478.24	4,569.29	4,671.96	15,219.22	17,032.26	17,353.81	17,432.69
Settlement Amount	2,160.24	2,199.46	2,218.84	2,239.69	7,536.27	8,365.31	8,426.99	8,357.07
Gross Fees	830.06	848.20	857.57	875.43	2,895.78	3,225.98	3,256.98	3,266.54
Panel D: Normalized Outcomes for Settled Accounts								
Debt Reduction	2,202.28	2,278.77	2,350.45	2,432.27	7,682.95	8,666.95	8,926.82	9,075.62
Debt Reduction Less Fees	1,372.22	1,430.58	1,492.88	1,556.83	4,787.17	5,440.98	5,669.84	5,809.08
Debt Reduction Less Fees Over Balance	0.32	0.32	0.32	0.33	0.31	0.32	0.32	0.33
Observations	4,985,248	3,139,226	1,874,001	1,154,668	705,019	453,085	278,767	175,350

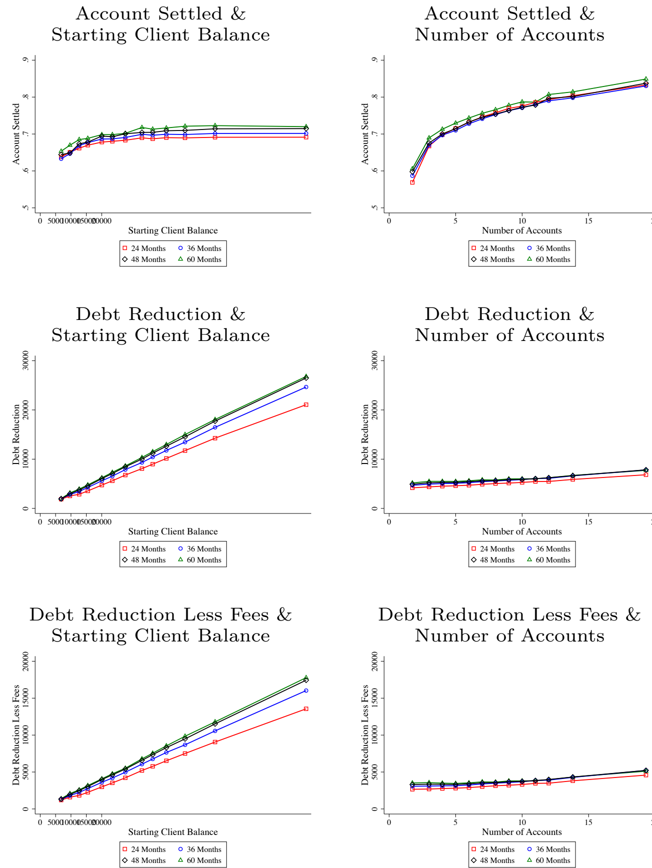
Notes. This table reports descriptive statistics at different time horizons. The sample includes both accounts and individuals enrolled in a debt settlement program between January 1, 2011 and March 31, 2017 over the indicated time horizon. Columns 1-4 reports accounts statistics. Columns 5-8 reports client statistics weighted by the starting balance in each account. Debt reduction is the current balance minus the settlement amount. Debt reduction less fees is the current balance minus the settlement amount minus the gross fees. Debt reduction less fees over balance is the current balance less the settlement amount less the gross fees, all divided by the gross fees.

Appendix Figure 1: Account Outcomes and Baseline Characteristics at Different Time Horizons



Notes. This figure reports the relationship between post-enrollment account outcomes and baseline characteristics at different time horizons. The sample includes both accounts and individuals enrolled in a debt settlement program between January 1, 2011 and March 31, 2017 over the indicated time horizon. We construct each plot by first splitting each characteristic into 20 equally-sized bins. We then create indicator variables for each of these bins, omitting the smallest value. We finally regress each post-enrollment outcome on these indicator variables and the other baseline controls. Account settled is an indicator for the account being settled. Debt reduction is the current balance less the settlement amount. Debt reduction less fees is the current balance less the settlement amount less the gross fees.

Appendix Figure 2: Client Outcomes and Baseline Characteristics at Different Time Horizons



Notes. This figure reports the relationship between post-enrollment client outcomes and baseline characteristics at different time horizons. The sample includes both accounts and individuals enrolled in a debt settlement program between January 1, 2011 and March 31, 2017 over the indicated time horizon. We construct each plot by first splitting each characteristic into 20 equally-sized bins. We then create indicator variables for each of these bins, omitting the smallest value. We finally regress each post-enrollment outcome on these indicator variables and the other baseline controls. Account settled is an indicator for the account being settled. Debt reduction is the current balance less the settlement amount. Debt reduction less fees is the current balance less the settlement amount less the gross fees.