



**National  
Consumer Law  
Center**

*Fighting Together  
for Economic Justice*

NATIONAL HEADQUARTERS  
7 Winthrop Square, Boston, MA 02110  
(617) 542-8010

WASHINGTON OFFICE  
Spanogle Institute for Consumer Advocacy  
1001 Connecticut Avenue, NW, Suite 510  
Washington, DC 20036  
(202) 452-6252

**NCLC.ORG**

February 4, 2025

Committee on Consumer Protection & Business  
House of Representatives  
Olympia, WA 98504

Re: Opposition to HB 1599 – Consumer Debt Adjusters

Dear Committee Members:

My name is Andrew Pizor, and I am a Senior Staff Attorney at the National Consumer Law Center (NCLC), a non-profit organization that focuses on protecting low-income and elderly consumers. Thank you for the opportunity to submit this letter.

We urge you to oppose HB 1599. This bill addresses the practice currently known under Washington law as “debt adjustment.”<sup>1</sup> Debt adjustment is also known as “debt settlement.”<sup>2</sup> The bill renames for-profit debt adjustment as “debt resolution” and eliminates Washington’s long-standing 15% cap on fees charged for the practice. This 15% cap has long protected Washingtonians by deterring dishonest service providers from doing business in the state. But HB 1599 would replace the cap with a weak regulatory regime that would expose financially distressed Washingtonians to predatory business practices.

For-profit debt adjustment is bad for consumers and hurts honest businesses. Bankruptcy, non-profit credit counseling, and self-help are much better alternatives. The debt adjustment industry leads consumers to believe that it can negotiate reduced payoffs on unsecured debts. But the truth is, those are hollow promises made to

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<sup>1</sup> RCW 18.28.010(1), (2).

<sup>2</sup> RCW 18.28.010(2).

desperate consumers. Debt adjusters often leave consumers worse-off than where they started.

### The Debt Adjustment Model

Lots of fees: Consumers agree to pay a fee calculated as a percentage of the debt enrolled with the debt adjuster, charged upon settlement. Washington currently caps that fee at 15%. Consumers must make years of monthly payments into a special third-party bank account until they accumulate enough to pay the debt adjuster's fees and anticipated settlements. The company managing the bank account charges an additional fee. All these fees come out of the consumer's savings and make achieving a settlement harder.

Adjusters encourage consumers to stop paying their debts: Debt adjusters encourage consumers to default on any debt they are still paying. Their rationale is that creditors will not settle debts that are current, but this is not necessarily true: some creditors will make concessions if a borrower shows that they are in financial distress. Defaulting on a debt damages the consumer's credit and can make it harder for the consumer to rent an apartment, get a job, or get new credit.

Years of debt collection calls: Saving for debt settlement takes several years. During that time, debt collectors will continue to call and may even sue. The consumer's wages may even be garnished. And even after enduring all this harassment, there is no guarantee that creditors will settle.

### How the Debt Adjustment Model Hurts Consumers and Creditors

No incentive to negotiate a good deal for consumers: Because the debt adjuster's fee is based on the *original* amount of debt, the adjuster gets paid the same regardless of the quality of the settlement. Whether the adjuster saves the consumer \$1 or \$1000, the fee is the same. So there is little incentive to negotiate a good deal for the consumer.

Using an adjuster actually *makes it harder to settle debts*: The adjuster's fee and the monthly fee charged for having the required special savings account come out of the consumer's available funds, so the consumer has less to offer creditors, making settlements harder to achieve. Creditors want the most money they can get for a debt.

The debt adjuster and account manager are middlemen that syphon off money that would otherwise be available to fund a settlement.

Following the adjuster's advice does more harm than good: Encouraging consumers to default on their debts hurts honest creditors,<sup>3</sup> adds black marks to the consumer's credit report, adds to the number of collections calls the consumer will receive, and increases the risk that the consumer will be sued.<sup>4</sup> Adjusters also discourage communication with creditors. This prevents creditors from offering help directly to their customers, such as payment plans and referrals to impartial credit counselors. It also prevents consumers from discovering that some creditors refuse to work with debt adjusters and those that do will offer the same deal directly to their customers—without charging a debt adjustment fee. According to the American Financial Services Association, "[d]ebt settlement companies can, ironically, work as a roadblock to a consumer settling his or her debt."<sup>5</sup>

Debt adjustment leaves consumers worse off: Few consumers who retain debt adjusters settle all their debts,<sup>6</sup> and the debts that aren't settled don't go away. Instead, unsettled debts end-up even bigger, with more interest and late charges. This reduces or even wipes out the value of any savings from settled debts, especially after paying the debt adjuster's fees, the special account manager's fees, and taxes on the forgiven debt. Many consumers drop out,<sup>7</sup> worse off than when they started.<sup>8</sup>

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<sup>3</sup> It may even be tortious intentional interference with a contractual relationship. Chase Bank has successfully sued a number of debt adjusters for telling customers to stop paying their credit card bills. *See, e.g.,* Chase Bank USA N.A. v. Consumer L. Ctr. of DeRay Beach LLC, 2015 WL 4556650, at \*4 (D. Del. July 29, 2015); Chase Bank USA, N.A. v. Allegro L., LLC, 2013 WL 3149461 (E.D.N.Y. June 19, 2013).

<sup>4</sup> Consumer Fin. Prot. Bureau, [The Consumer Credit Market](#) 166 (Aug. 2019). *See, e.g.,* Duran v. J. Hass Grp. L.L.C., 2012 WL 3233818 (E.D.N.Y. June 8, 2012) (alleging consumer was told to stop paying creditors; consumer was later sued by creditor).

<sup>5</sup> AFSA, *Debt Settlement Companies* at 2 (2019).

<sup>6</sup> According to industry statistics, only 16% had settled all their debts after 2 years; and only 29% after 5 years. Will S. Dobbie, Financial Outcomes for Debt Settlement Programs, Estimates for 2011-2020 at App'x I (Jan. 15, 2021).

<sup>7</sup> *See* Leslie Parrish, A Roll of the Dice: Debt Settlement Still a Risky Strategy for Debt-Burdened Households, 18 *Cityscape: A Journal of Policy Development and Research* 55, 58 (2016).

<sup>8</sup> *See* Nat'l Consumer Law Ctr, *Federal Deception Law* § 10.2.2.2 (collecting court decisions noting that debtor tried debt relief before filing bankruptcy).

A Center for Responsible Lending (CRL) model of the typical consumer's debt adjustment experience shows a consumer would need to settle 5 out of 6 debts to come out ahead,<sup>9</sup> but the industry's own data shows about three-quarters of customers only settled only about half of their debts.<sup>10</sup> Based on CRL's model, that means most customers would be financially harmed by enrolling in a debt adjustment program.

### The 2010 FTC Rule Has Not Solved the Problem Nor Will HB 1599

The debt adjustment industry incorrectly argues that state laws are outdated and no longer necessary because the Federal Trade Commission amended the Telemarketing Sales Rule (TSR) in 2010 to address debt relief services (including debt adjusters). That amendment prohibited debt relief services from charging consumers until they settled a debt. While this rule change was very important, it still leaves consumers exposed to abuse. The TSR and HB 1599 allow debt relief services to charge consumers as much as the market will bear. And because their customers are desperate, they are unable to protect themselves. As a result, as explained below, complaints about debt relief services are still common. Regulators have insufficient resources to help each aggrieved consumer. And the law provides little recourse for consumers to pursue violators themselves. Consumers who try to enforce their rights are often forced into secretive arbitration forums with private judges.

### Complaints Are Widespread

There are many complaints about debt adjustment. Two of the largest national companies have over two thousand complaints between them, on just one review website.<sup>11</sup> State and federal regulators have filed over sixty enforcement actions against debt relief service providers since the FTC amended the TSR in 2010.

Public consumer complaints are just the tip of the iceberg because dissatisfied consumers often complain only to the service provider or only show their displeasure by canceling their contract. And each government enforcement action typically

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<sup>9</sup> Leslie Parrish, A Roll of the Dice: Debt Settlement Still a Risky Strategy for Debt-Burdened Households, 18 Cityscape 55, 63-64 (2016).

<sup>10</sup> Will S. Dobbie, Financial Outcomes for Debt Settlement Programs: Estimates for 2011-2020 (Jan. 15, 2021).

<sup>11</sup> On ConsumerAffairs.com National Debt Relief has 1050 one- and two-star reviews. Freedom Debt Relief has 1127 (as of Feb. 3, 2025).

represents harm to multiple customers at a single provider. So the complaints and actions we have found likely indicate that thousands of consumers have been injured by debt adjuster misconduct. The misconduct described in complaints we have read includes:

- Failing to provide the promised debt relief;<sup>12</sup>
- Charging illegal fees in violation of the TSR and other laws;<sup>13</sup>
- Unlicensed debt adjustment;<sup>14</sup>
- Falsely claiming to be affiliated with a government agency;<sup>15</sup>
- Falsely claiming to be a nonprofit;<sup>16</sup>
- Other deception and aggressive sales tactics.<sup>17</sup>

Enacting HR 1599 would encourage companies like these to target Washington residents.

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<sup>12</sup> FTC v. ACRO Services LLC, Case No. 3:22-cv-00895-EJR-JSF (M.D. Tenn.); Scarlett v. Litigation Practice Group, Case No. 2:22-CV-4106 (S.D. Ohio); Briggs v. Strategic Financial Solutions, Case No. 1:22-cv-03705 (N.D. Ill.); CFPB v. Burlington Financial Group, LLC, Case No. 1:21-cv-02595 (N.D. Ga.).

<sup>13</sup> See, e.g., FTC v. Elegant Solutions, Inc. (Mission Hills Federal), Case No. SACV 19-1333JVS(KESx) (C.D. Cal.); CFPB v. Timemark Solutions, Inc., Case No. 9:20-CV-81057 (S.D. Fla.); FTC v. SLAC, Inc., Case No. 5:20-cv-00470-JFW (C.D. Cal.); FTC v. Alliance Document Preparation, LLC, Case No. CV-17-07048 SJO (KS) (C.D. Cal.)

<sup>14</sup> Pennsylvania Department of Banking and Securities v. CreditAssociates LLC, Case No. 434 MD 2023 (Commonwealth Ct. Pa).

<sup>15</sup> FTC v. Apex, Case No. 8:23-cv-01495-SB-JDE (C.D. Cal.); FTC v. Panda Benefit Services, Case No. 8:24cv01386-CAS (RAOx) (C.D. Cal.); FTC v. Start Connecting, Case No. 8:24-cv-01626-KKM-AAS (M.D. Fla.); FTC v. Superior Servicing LLC, Case No. 2:24-cv-02163-GMN-MDC (D. Nev.).

<sup>16</sup> FTC v. AmeriDebt, Case No. 8:03-cv-03317-PJM (D. Maryl.)

<sup>17</sup> Kathy, [https://www.consumeraffairs.com/debt\\_counsel/national-debt-relief.html?page=2#sort=top\\_reviews&filter=1](https://www.consumeraffairs.com/debt_counsel/national-debt-relief.html?page=2#sort=top_reviews&filter=1) (Feb. 8, 2024) ("I felt rushed and pressured. I only called to get some info, but [omitted] was very insistent and would not allow me the time I needed to make a good decision. Almost immediately, I felt regret for signing up and wish I had not done this."); Purple-Price887, [https://www.reddit.com/r/CRedit/comments/1asfv7e/national\\_debt\\_relief\\_falsely\\_told\\_me\\_i\\_was\\_being/](https://www.reddit.com/r/CRedit/comments/1asfv7e/national_debt_relief_falsely_told_me_i_was_being/) (complained company lied to convince consumer to accept inadequate settlement offer) (Jan. 2004); Mass. v. DMB Financial, Case No. 1884CV01472-BLS1 (Mass. Super. Ct. Aug. 30, 2021) (consent judgment; allegation that DMB knowingly and regularly enrolled consumers in unaffordable programs that charged substantial fees and left them in worse financial condition than before).

## Consumers Have Better Options

Debt adjusters have no real expertise: If a creditor is willing to settle a debt, it will offer its customer the same or a better deal than it would offer a debt adjuster.<sup>18</sup>

Non-profit debt management resources are available: Consumers can get a low-cost debt management plan from a non-profit credit counseling agency.

Bankruptcy is a better option for most debt adjustment customers: Bankruptcy is faster, cheaper, and more reliable. If a consumer consults with a bankruptcy attorney and decides not to file, most bankruptcy attorneys can still help settle troublesome debts, but will charge much less than debt adjusters.

The problems and abuses in the debt adjustment industry have been well-documented for decades. For more detailed information, we encourage you to read two comprehensive studies of debt adjustment.<sup>19</sup>

We urge you to protect Washington consumers by voting against HR 1599.

Respectfully submitted,

*/s/ Andrew G. Pizor*

Senior Staff Attorney  
National Consumer Law Center

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<sup>18</sup> Consumer Fin. Prot. Bureau, [The Consumer Credit Market](#) 166-167 (Aug. 2019).

<sup>19</sup> Claire Johnson Raba, Desiree Nguyen Orth, Unsettling: No relief in debt settlement (Mar. 2021), available at <https://www.lowincomeconsumers.org/>; N.Y. City Bar, Profiteering From Financial Distress: An Examination of the Debt Settlement Industry (2012), available at <https://www2.nycbar.org/pdf/report/uploads/DebtSettlementWhitePaperCivilCtConsumerAffairsReportFlnAL5.11.12.pdf>. See also NCLC's recent comments to the Wisconsin Department of Financial Institutions on proposed amendments to their debt adjustment services rule, filed on Sept. 24, 2024 and available at [https://www.nclc.org/wp-content/uploads/2024/10/2024.09.27\\_Comments\\_AARP-Wisconsin-Debt-Adjustment-Svcs-Rule.pdf](https://www.nclc.org/wp-content/uploads/2024/10/2024.09.27_Comments_AARP-Wisconsin-Debt-Adjustment-Svcs-Rule.pdf).