

Debt Vultures

Credit repair

The promise

Debt management firms offering **credit repair** claim they can “fix” or “clean” or “wash away” a bad credit report and “improve” a poor credit score.

The reality

- They may charge very high fees, often thousands of dollars, for services that can often be accessed for free.
- They may offer false hope to customers desperate to get a loan. Some credit listings can't be removed, and there may be other reasons affecting the person's ability to obtain credit, such as insecure work.
- They may charge “success” fees for the removal of each default listing.
- Industry and ombudsman schemes have concerns about the significant costs incurred dealing with firms pursuing complaints that may not be meritorious or in the interests of the people they claim to represent.
- They exist in a regulatory gap. They do not have to be licensed or meet even basic professional standards.
- There is no requirement to provide external dispute resolution to resolve customer complaints when things go wrong.

Chris's story

Chris called a credit repair company after seeing an ad on TV promising to wash his credit history clean. Chris had some business debt from running a dairy farm in Gippsland, and was concerned about his creditworthiness.

The salesperson called back with good news: they would be able to fix his credit history! They promised to send him a booklet, forms to return, and to assign him a case manager to help fix his credit history. The salesperson said that he needed to pay over \$1000 immediately, otherwise they'd have to start the process all over again.

But as Chris discovered, **“they were more than happy to take the money, but they did not provide the service”**. In fact, Chris didn't have any defaults or incorrect listings to “fix”. The credit repairer hadn't bothered to check his credit report.

Chris's repeated requests for a refund were ignored until Consumer Action got involved.

Chris described the credit repair industry as “vultures” that are “preying on people in the community that can least afford to be parting with money”.

our vision: a just marketplace, where people have power and business plays fair

Contact: Cat Newton
Phone (03) 9670 5088

cat@consumeraction.org.au
consumeraction.org.au



Debt Vultures

Debt negotiation

The promise

Debt Negotiation is a negotiation between a person (the debtor) and their creditors to settle a debt on terms beneficial to both parties. Commercial debt management firms offering debt negotiation sell it as something they do as experienced “professionals”.

The reality

- Debt negotiators may suggest high risk strategies that can have serious consequences for their clients.
- Some may ask their clients to get their hands on a lump sum and use this amount to offer in negotiations. They may not have the skills, experience or professional knowledge to use this money to their client's best advantage.
- They exist in a regulatory gap. Debt negotiators do not have to be licensed or meet even basic professional standards.
- There is no requirement to provide external dispute resolution to resolve customer complaints when things go wrong.

Katrina and Joe

When a Victorian family from Keilor East found themselves in mortgage arrears in 2015, the bank started legal action to repossess their home. A debt management firm found out and sent Katrina, an IT professional, and Joe, a small businessperson, a personalised letter warning that the bank was “one step away” from taking their home. Katrina called the company for help.

The salesperson offered to arrange refinancing and urged Katrina to contact a debt negotiator to buy more time. Now extremely stressed, Katrina and Joe signed an agreement for the debt negotiator to provide a 60-day stay on the repossession, at a cost of nearly \$4000.

Three days before an important conciliation conference with the bank, the debt negotiator told Katrina and Joe that they would have to sign another agreement that evening, for a fee of \$4400, for the debt negotiator to attend the conciliation.

Thankfully, the dispute with the bank resolved at the conciliation (with Katrina doing most of the negotiation) by a payment arrangement for the home loan. A week later, the debt negotiator sent Katrina and Joe a bill for more than \$8000, which was significantly more than the mortgage arrears, and then lodged a caveat over their home.

As Katrina says, “they don't come any lower – taking advantage of those in dire situations willing to do anything to stop repossession of their homes.”

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Debt agreements

The promise

Debt agreements are heavily advertised as an "alternative to bankruptcy" with "one easy payment" that "stops the debt collectors" and "freezes interest." They're often advertised near debt consolidation.

The reality

- A formal debt agreement is a form of insolvency with serious consequences.
- Debt management firms may recommend that a person enter a debt agreement (and then refer them to a Debt Agreement Administrator) but there is no requirement to act in their client's best interest or properly advise on the pros and cons.
- People report that the debt agreement prepared by the company was unsuitable for their needs.
- Set-up fees can run into the thousands, and the Debt Agreement Administrator takes a cut of every repayment made to creditors.
- Other than Debt Agreement Administrators, these firms exist in a regulatory gap. They do not have to be licensed or meet even basic professional standards.
- There is no requirement for debt management firms or even Debt Agreement Administrators to provide external dispute resolution to resolve complaints when things go wrong.

Noelene's story

Approaching retirement and worried about nearly \$31,000 of debt, Noelene called a debt management firm for help after seeing its ad on TV promising to stop all interest and make it easier to pay. Noelene was supporting her adult kids and earning about \$700 per week working in aged care.

Hours later, a salesperson was knocking on the door of her caravan in Moolap, near Geelong. He said that for \$1800, the company would negotiate with her two creditors to stop the interest and the debt collectors' calls. The company started deducting \$300 per fortnight towards its fees, putting her budget into deficit before she even made any repayments on the debt. But even after she'd paid \$900, **"they had done absolutely nothing."** The calls didn't stop and the interest kept accruing.

When the debt agreement proposal finally arrived, she saw nearly \$8000 extra in administration fees. "Shocked" and "angry," Noelene refused to sign. If Noelene had proceeded, she would have paid *more* under the proposed debt agreement than her total debt. Instead, she saw her local Financial Counsellor, who helped Noelene to arrange an affordable repayment plan.

"I just think they're under-handed," said Noelene. "You see the ads: 'Stop the interest, low payments' but there's nothing about the behind-the-scenes charges."

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Debt Vultures

Personal budgeting

The promise

Debt management firms offering **money management, personal budgeting** or **debt payment** services offer to manage their customers' income, bills and debts, while providing the customer with an allowance for daily expenses. Some also claim to negotiate future repayment arrangements with your creditors. They charge periodic maintenance or management fees, usually in addition to an up-front establishment fee.

The reality

- If the person doesn't have enough income, paying someone to manage their money may make their financial situation worse.
- Many people misunderstand the level to which the budget management service will actually "manage" their debts. This may leave them open to legal action and a bad credit report if bills go unpaid.
- They hold and manage client money without regulatory oversight.
- Customers complain that they are left without enough money to live on from the allowance.
- They may take no responsibility for any defaults or missed payments reported on the client's credit file if bills go unpaid.
- They exist in a regulatory gap. They do not have to be licensed or meet even basic professional standards.
- There is no requirement to provide external dispute resolution to resolve customer complaints when things go wrong.

Matt's story

Matt* contacted a debt management firm for help managing his money. The company promised to create a workable budget, that it would have everything under control and that he'd even develop some savings over 12 months.

But, as Matt found out, their budget just didn't work.

He started receiving stressful text messages from the company stating that his account had insufficient funds.

Matt was paying the company to manage his money but was falling even further behind. The company, meanwhile, prioritised the payment of its own monthly administration fees from Matt's limited money.

Thankfully, Matt was referred to a free, qualified and professional Financial Counsellor who sorted out his budget in no time.

Matt is still trying to get a refund from the so-called "debt management" firm.

** Name changed*

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