WRITTEN TESTIMONY OF

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Summary of Testimony

Debt settlement companies do not solve the affordability challenges facing Americans. They deepen them with lasting credit damage and expensive fees.

1. The debt settlement business model is fundamentally different from every legitimate form of debt assistance because it depends on consumer default. Furthermore, the fees charged by these companies may result in consumers owing more than their original debt.
2. The harm to consumers is well documented in academic research, enforcement actions, complaint databases, and government reports. Studies show that participation in a for-profit debt settlement program: (a) does not lead to a more favorable credit outcome than filing for bankruptcy; and (b) is significantly more expensive than working with a nonprofit credit counselor. Thousands of complaints demonstrate that consumers do not understand the programs in which they are enrolling.
3. The current regulatory framework – a single FTC rule amended in 2010 for an era of telemarketing – is ill-suited to appropriately regulate how this industry operates in 2026.
4. Congress can fix this by enacting the Debt Settlement Consumer Disclosure Act, along with H.R. 5967, the Strategic Task Force on Scam Prevention Act, and continued Congressional leadership on financial literacy.

Enacting these consumer protections will put real money back in consumers' pockets. We encourage the committee to work quickly because the debt settlement industry is expanding. Using aggressive marketing strategies, the industry is increasingly targeting consumers who are current on their payments, encouraging them to stop paying; deliberately creating delinquencies.

I. Introduction

Chairman Bilirakis, Ranking Member Schakowsky, and distinguished Members of the Subcommittee: thank you for the opportunity to testify today. My name is Celia Winslow, and I am the President and CEO of the American Financial Services Association (AFSA).

Founded in 1916, AFSA is the national trade association for the consumer credit industry. Our members include traditional installment lenders, vehicle finance and other sales finance companies, consumer and commercial finance companies, mortgage lenders and servicers, payment card issuers, and national and state banks. They range from publicly traded companies to family-owned businesses that have served the same neighborhoods for generations. Whatever their size, our members share a simple economic reality: they succeed only when their customers succeed. A lender prospers when borrowers repay their loans, rebuild their finances, and come back the next time they need credit. That alignment of interests is the foundation of a healthy consumer credit market.

I am here today to discuss an industry built on the opposite premise; an industry whose product *begins* with instructing customers to stop paying their bills. For-profit debt settlement companies hold themselves out as a lifeline for Americans struggling with unsecured debt; a second-to-last resort before bankruptcy. In practice, far too many operate a business model that manufactures default, harvests fees from families in distress, and leaves consumers with damaged credit, larger debts, and – too often – no settlement at all.[1] Debt settlement companies do not solve the affordability challenges facing American households. They deepen them, converting a family's

[1] Federal Trade Commission, "Debt Relief and Credit Repair Scams", https://www.ftc.gov/news-events/topics/consumer-finance/debt-relief-credit-repair-scams.

temporary cash-flow problem into lasting damage to its credit, its ability to borrow affordably, and its bottom line.

My testimony today makes four points. First, the debt settlement business model is fundamentally different from every legitimate form of debt assistance, because it depends on deliberate consumer default. Second, the harm to consumers is not anecdotal or occasional; it is well documented in academic research, in federal and state enforcement actions, in federal and private complaint databases, and government reports. Third, the current regulatory framework – a single FTC rule written in 2010 for an era of telemarketing – is ill-suited to appropriately regulate how this industry operates in 2026. Fourth, Congress can fix this, which is why AFSA strongly supports the discussion draft of the Debt Settlement Consumer Disclosure Act, along with H.R. 5967, the Strategic Task Force on Scam Prevention Act, and continued Congressional leadership on financial literacy. Enacting these consumer protections will put real money back in consumers' pockets.

II. In Their Own Words

To understand what is at stake, do not take my word for it. Listen to the consumers themselves – as they described their experiences to the Better Business Bureau, local news reporters, and to nonprofit credit counselors who later helped them recover.

A consumer in Prior Lake, Minnesota, enrolled with a debt settlement company after a fire damaged her family's home overseas. Unexpected expenses followed, leaving her with about $37,000 of credit card debt, and sought the help of a debt settlement company. She followed their advice, made every payment the company asked of her, and only learned that none of that money was reaching her creditors until one of them called her directly. "They were telling me they were going to be making the payments and that it was normal that the credit cards will call me. That they will have everything under control, but it was not true," she told CBS News Minnesota.[2] She canceled the plan, turned to a nonprofit credit counseling agency, and is now on track to repay the debt in full at reduced interest rates.

A consumer in Westland, Michigan, hired a debt settlement company in 2018 to resolve more than $36,000 in debt her father held. The company promised that if she paid a little more than $27,000, it would help wipe out the remaining obligations. Five years later – just a few hundred dollars from completing those payments – she discovered that only $5,780 was going to her father's creditors; the rest was going to the debt settlement company. "This is totally against my contract and downright fraud," she told the Better Business Bureau.[3]

A consumer in Nottingham, Maryland, was a college student carrying $14,000 across two credit cards when a settlement company's sales representative assured him its program would wipe out his obligations. Months later, neither account had been settled and both were closed; one was in collection, and the other creditor was suing him. "Over the last few months, my credit has dropped 300 points," he reported. "The sales rep, and later manager, knowingly took advantage of the fact that I was a college student with only a few years of financial knowledge."[4]

And a Texas consumer active in the military sought help from a nonprofit credit counseling firm in 2020, after first engaging a for-profit settlement company that never explained that his accounts would default. This is a serious matter for any consumer, but for him it was potentially

[2] CBS News Minnesota, "Debt Settlement Scams," https://www.cbsnews.com/minnesota/news/debt-settlement-scams/; client account provided to AFSA by Money Management International (2026).
[3] Better Business Bureau (St. Louis), "Credit and Debt Assistance Study" (2023), https://www.bbb.org/content/dam/0734-st-louis/Credit%20and%20Debt%20Assistance%20Study.pdf.
[4] *Id*.

career-ending, because he needed to maintain a security clearance that severe delinquency could jeopardize.[5] With a counselor's help, his interest rates fell to an average of 2 percent, and he repaid roughly $30,000 in full over four years.

Four consumers, four states, one script: a promise of relief; an instruction to default – or silence about the fact that default was coming; fees flowing while debts sat unpaid; and the truth arriving by way of a creditor's phone call, a collections notice, or a lawsuit. These problems are not limited to consumers in those four states, though. Complaints come from across the country. Complaints come from South Carolina residents about exorbitant fees, from Florida about confusing disclosures and broken promises, and from California about poor management and a lack of communication.[6] These stories are worth this subcommittee's attention not because they are extraordinary, but because they are typical. The instruction to default, the diverted payments, the fees extracted before any debt is resolved – these are not bugs in the debt settlement model. They *are* the model.

III. A Business Model That Begins with Default

Here is how the model works. Debt settlement companies typically require consumers to bring a minimum of $7,500 or more in unsecured debt to enroll, and they charge fees of 15 to 25 percent of the total enrolled debt, plus additional administrative fees throughout the life of the program.[7] Once a consumer is enrolled, the company instructs her to stop paying her monthly bills

[5] Client account provided to AFSA by Money Management International (2026); the consumer's identifying details are withheld.
[6] Consumer Financial Protection Bureau, Consumer Complaint Database, product category "Debt or credit management" (introduced April 2023), accessed July 2026, https://www.consumerfinance.gov/data-research/consumer-complaints/.
[7] See, *e.g.*, National Debt Relief, "How Do You Qualify for Debt Relief?", https://www.nationaldebtrelief.com/blog/debt-guide/debt-relief/how-do-you-qualify-for-debt-relief/.

and to cease all contact with her creditors. She is directed instead to pay into a special "designated account," from which the company promises to negotiate settlements with each creditor, a process that can take years, if it happens at all.[8]

This deliberate manufacturing of delinquency – strategic default – is well documented by financial regulators and is the trademark of the industry.[9] Debt settlement is the only industry in the American economy that instructs its customers to stop paying their bills. The consequences follow are ones you might expect: accounts fall into default, balances swell with accrued interest and late fees, credit scores collapse, collection activity intensifies, and consumers face lawsuits from creditors – all before a single settlement is reached, and whether or not one ever is.[10]

More troubling still, the industry has widened its net beyond consumers who are already in distress. Some debt settlement companies now market aggressively to consumers who are *current* on their payments and encourage them to stop paying; deliberately creating delinquencies to pressure lenders into settlements. Some AFSA members estimate that half of their customers who enroll in a settlement program are current on their accounts at the time of enrollment. These are not consumers drowning in default; they are consumers a sales operation persuaded to jump into the debt pool.

Independent credit bureau data now confirm what our members are seeing. In a 2026 study, TransUnion matched consumer-level debt settlement enrollment records provided by participating lenders against its national credit database. It found that 53 percent of debt settlement enrollees

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[8] Federal Trade Commission, "How to Get Out of Debt" (Debt Settlement), https://consumer.ftc.gov/articles/how-get-out-debt#Settlement.
[9] *Id*.
[10] National Foundation for Credit Counseling, "The Short- and Long-Term Effects of Debt Settlement," https://www.nfcc.org/blog/the-short-and-long-term-effects-of-debt-settlement/.

were current on their obligations at the time of enrollment, confirming what TransUnion describes as a shift away from the historical pattern in which most enrollees were already severely delinquent.[11] Enrollments grew 41 percent over the twelve months TransUnion examined. And the average card balance of these still-current enrollees roughly doubled in the two years before enrollment as they opened new cards and personal loans – balance-building that TransUnion observed occurring "without a clear signal to lenders." This is not the profile of an industry passively receiving desperate consumers. It is the signature of an industry actively recruiting solvent ones.

IV. The Harm, Measured

The debt settlement industry describes itself in the language of rescue. The data tell a different story, including data drawn from the industry's own programs.

A 2021 analysis conducted at the Harvard Kennedy School examined roughly 450,000 people who enrolled in debt settlement programs between 2011 and 2020, covering more than three million enrolled accounts.[12] Even in this data (supplied by the settlement industry itself) the findings are sobering. The average settlement is not reached until more than 14 months after enrollment. In the interim, enrolled balances grow by an average of roughly 12 percent as interest and late fees accumulate. In short, consumers' debts get larger before they get smaller. Consumers paid approximately $848 in fees per settled account, about 21 percent of the enrolled balance. And

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[11] TransUnion, Understanding Third-Party Debt Settlement (2026) (study presented by TransUnion U.S. Research matching consumer-level third-party debt settlement enrollment records provided by participating lenders to TransUnion credit data; on file with AFSA).

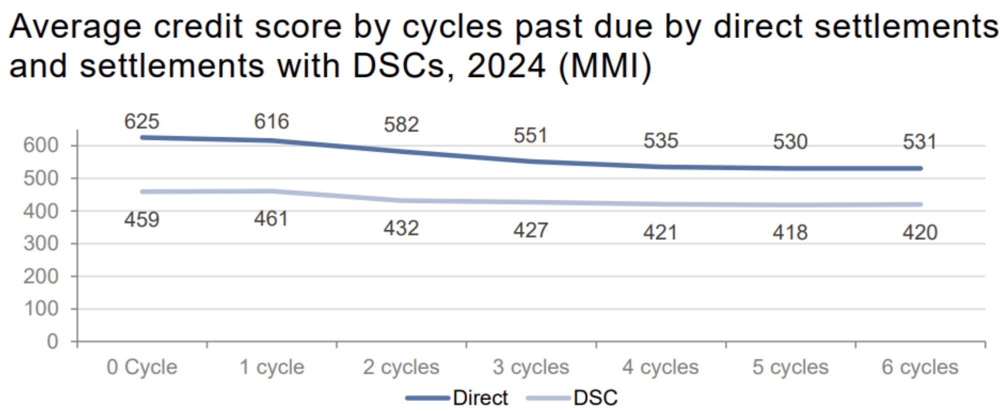
[12] Will Dobbie, "Financial Outcomes for Debt Settlement Programs: Estimates for 2011–2020" (Jan. 2021), https://www.hks.harvard.edu/centers/mrcbg/programs/growthpolicy/financial-outcomes-debt-settlement-programs-estimates-2011-2020. The study analyzed program-level data covering approximately 450,000 individuals and more than 3.1 million enrolled accounts.

roughly one in four enrollees went *three full years* without settling a single account – three years of missed payments, collection calls, lawsuits, and credit damage, with nothing to show for it.

The CFPB's complaint data corroborate the pattern. Since the Bureau introduced its "debt or credit management" complaint category in April 2023, consumers have filed more than 5,000 complaints about debt settlement services alone. The two most common issues consumers report in that category are, verbatim, "didn't provide services promised" and "confusing or missing disclosures."[13] In other words, when consumers who have used these services describe what went wrong, they describe precisely the two failures the draft legislation before this subcommittee is designed to address: broken promises and hidden terms. The Federal Trade Commission (FTC)'s complaint database, the Consumer Sentinel Network, tells a similar story.

The CFPB's most recent report on the consumer credit card market adds two further data points. First, the industry is growing quickly: settlements negotiated through debt settlement companies tripled as a share of pre-charge-off receivables in recent years and more than doubled for post-charge-off accounts, while the share of settlements consumers negotiated directly with their creditors barely changed. Second, the consumers in these programs fare worse: accounts settled through debt settlement companies belonged to consumers with average credit scores around 420 – more than 100 points below comparable consumers who settled directly with their lenders, as the chart below illustrates.[14]

[13] Consumer Financial Protection Bureau, Consumer Complaint Database, product category "Debt or credit management" (introduced April 2023), accessed July 2026, https://www.consumerfinance.gov/data-research/consumer-complaints/.
[14] Consumer Financial Protection Bureau, "The Consumer Credit Card Market" (2025), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2025.pdf.



Source: CFPB, The Consumer Credit Card Market (2025) – average credit score by cycles past due, for accounts settled directly with creditors versus through debt settlement companies).

The TransUnion analysis provides the most sobering comparison of all. It tested the debt settlement company's central promise – that settlement is a better path than bankruptcy – against the actual credit records of enrollees and bankruptcy filers. Participation in a third-party debt settlement program, TransUnion concluded, "does not lead to a more favorable credit outcome than filing for bankruptcy."[15] Consumers who were current when they enrolled saw their median credit scores fall 96 points (from 645 to 549)[16] between six months before enrollment and six months after – nearly five times the 20-point decline experienced by bankruptcy filers over the same timeframe. These consumers also showed the slowest score recovery of any group reviewed, lagging two full years later. Within six months of enrollment, roughly half of enrollees' credit cards were closed. In short: the product marketed to millions of Americans as the responsible alternative to bankruptcy performs *worse* than bankruptcy on the very measure – the consumer's credit standing – it claims to protect.

[15] TransUnion, *supra note* 10.

[16] The CFPB and TransUnion figures are consistent rather than conflicting: they capture different points in the same decline, among different populations, using different scoring models. TransUnion reports median VantageScore 4.0 scores for all enrollees at enrollment and six months afterward; the CFPB figures reflect average scores at the time an account is actually settled through a debt settlement company – typically a year or more into delinquency, after the full credit damage of strategic default has accumulated. TransUnion, *supra note* 10; Consumer Financial Protection Bureau, *supra note* 13.

The National Foundation for Credit Counseling, whose member agencies counsel the consumers who emerge from these programs, documents both the short-term wreckage (defaulted accounts, damaged credit, lawsuits) and the long-term costs: years of diminished access to affordable credit, precisely when families most need to rebuild.[17] The Financial Counseling Association of American (FCAA) warns its clients, that debt settlement "can be dangerous because reaching a debt settlement requires that monthly payments stop being made to creditors before you have an agreement."[18]

V. What the Enforcement Record Reveals

When federal and state authorities have looked closely at this industry, they have found harm at extraordinary scale. A brief tour of the recent enforcement record is instructive.

The largest case: a $100 million "attorney model" enterprise. In 2024, the CFPB and seven state attorneys general (from Colorado, Delaware, Illinois, Minnesota, New York, North Carolina, and Wisconsin) sued Strategic Financial Solutions, alleging the enterprise collected more than $100 million in illegal advance fees from financially struggling families, in many instances without ever settling a debt.[19] The complaint describes a network of shell companies and façade "law firms" designed to exploit exemptions meant for genuine legal representation. The law firms presented themselves as the consumer's negotiators, while non-lawyer employees did the actual

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[17] National Foundation for Credit Counseling, *supra note* 9.
[18] Financial Counseling Association of America, "Find your path to financial freedom" https://fcaa.org/debt-counseling/.
[19] Consumer Financial Protection Bureau, "CFPB and Seven State Attorneys General Sue Debt-Relief Enterprise, Strategic Financial Solutions, for Illegally Swindling More Than $100 Million from Financially Struggling Families" (Jan. 2024), https://www.consumerfinance.gov/about-us/newsroom/cfpb-and-seven-state-attorneys-general-sue-debt-relief-enterprise-strategic-financial-solutions-for-illegally-swindling-more-than-100-million-from-financially-struggling-families/; First Amended Complaint, https://files.consumerfinance.gov/f/documents/cfpb_first-amended-complaint-stratfs_2024-03.pdf.

work – and the fees flowed regardless of results. This "attorney model" is the industry's signature regulatory workaround, and it is spreading.[20]

The states: illegal upfront fees, one settlement at a time. Pennsylvania Attorney General David Sunday recently reached a settlement with Accelerated Debt Settlement, Inc. and its affiliates after alleging the businesses misled consumers into believing their debts could be shrunk or erased while taking illegal upfront payments ranging from $1,200 to $17,500. The companies agreed to pay $550,000, with $500,000 returned to harmed consumers. As one Pennsylvania consumer put it, the company "took complete advantage of me and my situation."[21]

The FTC: a steady drumbeat of fraud. The FTC maintains an entire enforcement docket devoted to debt relief and credit repair scams, and it regularly returns money to victims, including more than $5 million to consumers harmed by a single bogus debt relief operation in January 2025.[22] Since 2020 alone, the Commission has brought 27 cases against bogus credit-related services and returned roughly $60 million to consumers, and since the early 2000s more than 400 companies and individuals have been banned from the industry.[23] The Commission repeatedly warns consumers, through its website and consumer alerts, about the risks of these entities and the advance-fee schemes they run.[24] Its most recent alert, issued this month, warns that debt relief scammers are now specifically targeting servicemembers and veterans – impersonating military

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[20] Bankrate, "The 'Attorney Model' Loophole: How Debt Relief Companies Scam People Seeking Help" (Mar. 22, 2026), https://www.bankrate.com/personal-finance/attorney-model-debt-settlement/.
[21] Pennsylvania Office of Attorney General, "AG Sunday Secures More Than $500K in Refunds for Consumers from Debt Settlement Businesses That Allegedly Operated Illegally in PA," https://www.attorneygeneral.gov/taking-action/ag-sunday-secures-more-than-500k-in-refunds-for-consumers-from-debt-settlement-businesses-that-allegedly-operated-illegally-in-pa/.
[22] Federal Trade Commission, *supra note* 1.
[23] Federal Trade Commission, *supra note* 1.
[24] Federal Trade Commission, "Spot Scams While Getting Out of Debt" (July 2025), https://consumer.ftc.gov/consumer-alerts/2025/07/spot-scams-while-getting-out-debt.

financial institutions, charging illegal upfront fees, and putting security clearances at risk through the credit damage they cause.[25]

The advertising watchdogs: even the market leaders overpromise. Last October, the Better Business Bureau National Programs' National Advertising Division recommended that National Debt Relief, which is one of the largest companies in the industry, discontinue certain advertising claims, including the claim that consumers can expect to become "debt-free within 24–48 months" and claims exaggerating how much consumers save.[26] When the industry's most prominent brand cannot substantiate its core marketing promises, the problem is less than a few bad apples. It is more like the entire orchard.

Perhaps the clearest sign of how serious this problem has become is who aligned on addressing it. Lenders and consumer advocates sit on opposite sides of nearly every policy debate – but not this one. For example, AFSA and the National Consumer Law Center jointly opposed Oregon House Bill 4141, warning together that loosening the rules around debt settlement would enable the rapid proliferation of debt resolution services that do "more harm than good."[27] When the people who extend credit and the groups bringing lawsuits against creditors both tell you an industry is hurting consumers, it is worth listening.

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[25] Federal Trade Commission, "Can You Spot Debt Relief Scams That Target the Military?" (July 6, 2026), https://consumer.ftc.gov/consumer-alerts/2026/07/can-you-spot-debt-relief-scams-target-military.
[26] BBB National Programs, "National Advertising Division Recommends National Debt Relief Modify Certain Debt Settlement Services Claims" (Oct. 2025), https://bbbprograms.org/media/newsroom/decisions/national-debt-relief.
[27] Joint letter of the National Consumer Law Center and the American Financial Services Association in opposition to Oregon House Bill 4141 (on file with AFSA).

VI. Why the Current Rules Cannot Address the Problem

Consider the regulatory imbalance. The consumer credit industry that AFSA represents operates under more than 20 federal laws and hundreds of state statutes and regulations – a framework our members embrace, because clear rules are what make consumer trust possible. The debt settlement industry, by its own trade association's account, answers to exactly one federal regulation – a single rule, not even a statute – even as it handles billions of dollars of consumers' money in accounts it controls. That lone rule was built for a different era, and the industry has learned to work around it.[28]

Since 2010, the FTC's Telemarketing Sales Rule (TSR) has been the sole federal regulation governing debt settlement companies.[29] The TSR's core protection is sound: it generally bars for-profit debt relief providers from charging fees before they settle or reduce a consumer's debt, and it requires certain disclosures. But the rule's reach is defined by its name. It governs *telemarketing* – sales conducted by telephone. Today's debt settlement industry enrolls consumers through social media advertising and influencer content on sites like TikTok, search engines, text messages, and slick web funnels that may never involve a phone call covered by the rule. A regulation written for the call centers of 2010, while critical, simply cannot prevent all the harm that occurs today.

The industry's second workaround is structural. In the "attorney model," a settlement operation drapes itself in a law firm's name to exploit exemptions meant for genuine legal

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[28] See Association for Consumer Debt Relief (ACDR), ACDR Accreditation, https://acdr.org/acdr-accreditation ("Members must fully comply with FTC regulations, Telemarketing Sales Rule (TSR) provisions, and all applicable state laws."); ACDR, Myths vs. Facts, https://acdr.org/myths-vs-facts (identifying the TSR as the federal rule governing the industry). The website of the former American Fair Credit Council (later the American Association for Debt Resolution) now redirects to ACDR.

[29] Federal Trade Commission, "Debt Relief Services & the Telemarketing Sales Rule: A Guide for Business" (2010), https://www.ftc.gov/business-guidance/resources/debt-relief-services-telemarketing-sales-rule-guide-business.

representation and then collects fees before delivering anything.[30] Enforcement against operations shielded by a law license is difficult and slow, and state law treatment varies widely.

Finally, enforcement is by its nature reactive. It punishes harm after the fact rather than preventing it, depending on federal and state agency resources that are stretched thin. Moreover, as with so many consumer scams, when one workaround closes, another opens. The consumers who fall through these cracks are, by definition, those least able to absorb another loss. A consumer protection regime that depends on suing bad actors one at a time, years after the fees are collected, is not protection. It is cleanup.

VII. Consumers in Distress Already Have Better Options

None of this would matter as much if debt settlement were the only path available to a family that cannot pay its bills. It is not. Consumers in financial distress have real alternatives, and every one of them works without manufacturing a default.

First, lenders themselves. AFSA members work directly with customers experiencing financial difficulty by offering short- and long-term hardship programs, such as payment deferrals, modified schedules, waived fees, or reduced rates. These are designed to bridge a rough patch without major disruption to the customer's finances or credit. Creditors would far rather restructure a loan than lose a customer to charge-off. No enrollment fee is charged for calling your lender.

Second, nonprofit credit counseling. The FTC itself recommends that consumers struggling with debt turn to nonprofit credit counselors to build a repayment plan.[31] The results achieved by this sector deserve this subcommittee's attention because they show what consumer-

[30] Bankrate, *supra note* 19.
[31] Federal Trade Commission, "How to Get Out of Debt," *supra note* 7.

first debt assistance looks like in practice. Nonprofit credit counselors work closely with their customers and should be exempt from federal legislation.

Consider the outcomes reported by Money Management International (MMI), one of the nation's largest nonprofit credit counseling agencies.[32] In the year following counseling alone, MMI clients increase their credit scores by an average of 30 points and reduce monthly debt obligations by 18 percent. Clients who enroll in a Debt Management Plan (DMP) – a structured plan through which consumers repay 100 percent of their balances while creditors grant concessions such as reduced interest rates and waived fees – see interest rates cut by an average of 14 percentage points, monthly payments reduced by an average of $256, and credit score improvements averaging 46 points in the first year and 82 points by the end of the plan. The average DMP client repays more than $24,000 in debt. Note the contrast: where the settlement model destroys credit as a matter of design, the counseling model rebuilds it as a matter of course.

For consumers who genuinely cannot repay in full – those who are delinquent or facing unavoidable delinquency – the nonprofit sector has developed Debt Resolution Plans (DRPs): settlement-style relief wrapped in consumer protections the for-profit industry refuses to adopt. Under MMI's DRP, for example, full financial counseling is required before enrollment; the plan is offered only after full-repayment options have been exhausted; and settlement fees are never collected before creditors are paid.[33] The economics for the consumer are dramatically different. In MMI's illustrative comparison: a consumer with $40,000 of debt settling at 50 percent over a 36-month program – the nonprofit DRP costs $3,704 in fees, while the typical for-profit settlement

[32] Money Management International, Debt Resolution Plans: A Responsible Nonprofit Alternative in a Changing Landscape (2026). MMI is a 501(c)(3) nonprofit financial counseling organization formed in 1997, with roots dating to 1958, serving all 50 states and five U.S. territories.
[33] *Id.*

program costs $12,720. The consumer keeps an additional **$9,016** simply by using the nonprofit alternative. And creditors do better, too. MMI reports that for every dollar invested in the DRP, creditors recover an average of $13.29, with reduced litigation and recovery costs.

MMI's data also illuminate what happens when distressed consumers do not find their way to these alternatives. Among counseled clients who did not enroll in a structured plan but nonetheless reduced their debt, 47 percent did so through for-profit debt settlement. Among that broader non-enrolled population, charged-off accounts increased 235 percent within ten months.[34] The lesson for policymakers is straightforward. When well-regulated, transparent options are not visible to consumers at the moment of distress, the for-profit settlement industry is standing by to fill the gap – on its own terms.

VIII. The Debt Settlement Consumer Disclosure Act

Congress can close these gaps, and it does not need to build a new agency or launch a new rulemaking regime to do it. It must modernize the core protections that already exist so they apply to the industry as it operates today – across every channel, under every corporate costume. That is what the discussion draft of the Debt Settlement Consumer Disclosure Act does, and AFSA strongly supports it. As drafted, the Act would:

1. **Define the industry as it actually exists.** The Act defines debt settlement entities and services to cover not just the settlement companies themselves but their affiliates, lead generators, marketers, and other third-party providers – the full enrollment supply chain, including the structures used to evade the TSR today.

[34] *Id.*

2. **Ensures clear disclosures**. The Act mandates that debt settlement firms provide clear, prominent disclosures that their services can damage a consumer's credit and limit future access to credit. It requires firms to transparently disclose the risks and consequences of advising consumers to stop making payments.

3. **Require a monthly statement for every enrolled debt.** Consumers would receive a monthly statement showing the current balance of each enrolled debt, changes since the prior statement, and any administrative fees charged. Had the Minnesota consumer received such a statement, she would have seen, month after month, that her payments were not reaching her creditors. Had the Michigan consumer received one, she would have seen where her $27,000 was actually going. Each would have had the information to walk away years earlier.

4. **Prohibit the deceptive claims that fill the industry's advertising.** The Act would strengthen advertising standards by banning exaggerated savings claims, prohibiting companies from labeling a settlement program "debt consolidation" when it is nothing of the kind, and barring promises of improved credit scores or guaranteed outcomes – the very claims the National Advertising Division found the industry's largest player could not substantiate.[35]

These are not radical interventions. They are the same transparency obligations – honest advertising, clear disclosures, periodic statements – that apply to virtually every other consumer financial product, including the loans that AFSA members make every day. Given that a single regulation implemented in 2011 remains the only federal rule covering this industry, and that the

[35] BBB National Programs, *supra note* 25.

industry's modern enrollment practices fall largely outside it, we encourage Congress to pass the Debt Settlement Consumer Disclosure Act as soon as possible.[36]

IX. AFSA Supports Combating Financial Scams and Fraud

The abuses in debt settlement are one symptom of a broader epidemic of financial fraud, and I commend the Subcommittee for treating the disease and not just this one symptom. AFSA supports H.R. 5967, the bipartisan Strategic Task Force on Scam Prevention Act, which would create an interagency task force charged with developing and implementing a national scam prevention strategy in coordination with public- and private-sector stakeholders.

AFSA members have seen a significant rise in financial scams originating on social media, including so-called "credit hacks" content that coaches consumers into credit washing and other frauds.[37] We support efforts to reduce and eliminate fraud across consumer lending, including credit repair scams, credit washing, false identity theft claims, auto purchase fraud, and misleading debt settlement schemes. These frauds harm the consumers they ensnare, and they raise the cost and risk of lending for everyone else – while providing no benefit to any legitimate participant in the market. Notably, the same fraud ecosystem that sells "credit hacks" on social media is the ecosystem that markets debt settlement to consumers who are current on their bills: both monetize financial anxiety, and both flourish in the regulatory seams between agencies and jurisdictions.

A coordinated federal, state, and private-sector task force is an important first step toward closing those seams and protecting Americans from fraud that costs families billions each year.

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[36] Nonprofit credit counselors, members of NFCC and FCAA, should be exempt from the legislation.
[37] Automotive News, "#CreditHacks: How Social Media and AI Fuel Auto Finance Fraud in 2026" (Feb. 2026), https://www.autonews.com/retail/finance-insurance/an-credit-washing-dealer-fraud-prevention-0227/.

X. AFSA Supports Financial Literacy

Finally, the most durable consumer protection is a consumer who understands their options. Financial well-being and financial literacy are undoubtedly linked – and nearly every harm described in this testimony begins at a moment when a consumer facing distress does not know what her alternatives are. The debt settlement industry's business model depends on that knowledge gap. Closing it is both good policy and, for our members, good business.

In 2002, the AFSA Education Foundation developed MoneySKILL, one of the first free online personal finance courses for middle school, high school, and college students. To date, MoneySKILL has enrolled more than one million students in coursework covering the full range of financial management fundamentals. As financial institutions located in neighborhoods and towns across the country, our members consider it their responsibility to help improve consumers' financial knowledge from childhood through adulthood, so that Americans can make informed financial decisions at every stage of life.

The road to upward financial mobility is different for everyone, and AFSA appreciates Congressional efforts – including the work of the Financial Literacy and Wealth Creation Caucus – to promote financial education.

XI. Conclusion

Millions of Americans carry unsecured debt, and many of them will, at some point, hit the kind of rough patch that affected the consumers whose stories I shared today – a house fire, a family member's debts, a first credit card, an unexpected bill. When that happens, they deserve a set of resources that offer them a genuine lifeline: a hardship program from their lender, a repayment plan from a nonprofit counselor, honest information about every option – including, where appropriate, well-guarded settlement through a nonprofit that puts counseling first and collects nothing until creditors are paid.

What they should not find – and what too many find today – is an industry that responds to a request for assistance with an instruction to default; that charges fees measured in the tens of percent of a family's debt; that hides behind rented law-firm letterhead; and that advertises certainty it cannot deliver. A market only works when its rules are clear, consistent, and enforced. Today, the for-profit debt settlement industry has none of those things, and tens of thousands of consumers across America are absorbing the cost.

One consumer who eventually found her way to a nonprofit counselor put the challenge before this subcommittee better than I can, "I only wish that more people that are in my situation knew that there are options out there."[38] Congress can ensure they do.

Congress should act to ensure the next person seeking a lifeline gets one – and not just another loss chalked up as a lesson learned. AFSA stands ready to work with this Subcommittee to pass the Debt Settlement Consumer Disclosure Act and H.R. 5967, and to advance financial education for every American.

Thank you, and I look forward to your questions.

[38] Money Management International, *supra note* 31.