



Debt Management Services

Q.) What are debt management services?

A.) Debt management services are companies that help you manage your finances to pay off your debts. They usually charge a fee. In general, they collect money from you and make payments to your creditors. They may try to work with your creditors to reduce your total debt payment.

Q.) Why would I use a debt management service?

A.) Some people have so much debt, owed to so many creditors, that they feel overwhelmed. A debt management service acts like a middleman between you and your creditors. They collect one monthly payment from you and then they make payments to your various creditors. Many people want to get help paying off their debts as they don't want to file for bankruptcy.

Q.) Are there any problems I should look out for?

A.) Yes, so many people have large credit card debt and are so desperate for help that some companies take advantage of them. Some companies may charge very high fees and treat people unfairly to make a profit.

Q.) Are there any protections for consumers in Minnesota?

A.) Yes, Minnesota has a law which regulates debt management services. The law was effective January 1, 2008. The following are some of the protections offered under the law:

- Registration: requires all companies doing business with Minnesota residents as debt management services to register with the Minnesota Department of Commerce. The company must provide proof that they have accreditation as a credit counseling business. They must also tell the Department of Commerce if their application or license to do business has ever been suspended or revoked in any other state. They must post a \$5,000 bond and pay a \$1,000 registration fee. The Department of Commerce may deny, suspend or revoke a registration.
- Contract: requires the company to have a contract, called a "debt management services agreement" with you before taking any money from you or performing any services for you. The contract must contain the following terms:
 - the amount of any initial and/or monthly fees to be paid by you;
 - the total amount of fees expected to be paid during the term of the contract;
 - a detailed description of all services to be provided by the company;
 - a notice telling you when you may cancel the contract; and
 - an explanation of the company's refund policy; and
 - whether the company is registered with the Department of Commerce.
- Before having you sign a contract the debt management service must first:
 - give you debt counseling that is specific to your individual situation;
 - prepare a financial analysis of your situation and propose a debt management plan;

- decide that you would benefit from the plan based on the facts they have gathered;
 - give you with a list of creditors that they think will agree to work with them on the plan; and
 - give you their principal business address and the name and address of the person who can accept legal papers.
- Right to cancel: gives the debtor the right to cancel the contract at any time, for any reason, after giving the company a ten (10) day written notice. The company can cancel the contract after giving the debtor a thirty (30) day written notice. The company can only cancel the contract if they have “good cause,” that is, a good reason.
 - Fees: the company cannot charge you more than \$50 to set up a plan. Your monthly service fee cannot be more than 15% of your monthly payment to the company or \$75, whichever is less. The monthly service fees must be reasonable for the services the company is providing to you under your plan.

Q.) Are there any other protections under the law?

A.) Yes, the law requires the company to try to get all of your creditors to agree to the plan. They must tell you within ten (10) days if any of your creditors refuse to agree to the plan. They have fifteen (15) days to tell you that a creditor has withdrawn from the plan. The company must also hold your money in trust and make timely payments to your creditors. The law also contains sixteen (16) prohibited acts. Some examples of things the company cannot do include: lend you money or give you credit if a fee or interest is charged; sell you credit insurance; or ask for a “voluntary contribution” from you. The law also prohibits any false or misleading statements in the company’s advertising.

Q.) What can I do if a company violates the law?

A.) The Minnesota Attorney General’s office has the power to enforce the law. You also have the right to bring a private lawsuit against any company that violates the law.

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