



# Debt Relief Services & the Telemarketing Sales Rule: A Guide for Business

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Many Americans struggle to pay their credit card bills. Some turn to businesses offering “debt relief services” – for-profit companies that say they can renegotiate what consumers owe or get their interest rates reduced.

The Federal Trade Commission (FTC), the nation’s consumer protection agency, has amended the [Telemarketing Sales Rule](#) (TSR) to add specific provisions to curb deceptive and abusive practices associated with debt relief services. One key change is that many more businesses will now be subject to the TSR. Debt relief companies that use telemarketing to contact potential customers or hire someone to call people on their behalf have always been covered by the TSR. The new Rule expands the scope to cover not only outbound calls – calls **you** place to potential customers – but in-bound calls as well – calls **they** place to you in response to advertisements and other solicitations. If your business is involved in debt relief services, here are three key principles of the new Rule:

- **It’s illegal to charge upfront fees.** You can’t collect any fees from a customer before you have settled or otherwise resolved the consumer’s debts. If you renegotiate a customer’s debts one after the other, you can collect a fee for each debt you’ve renegotiated, but you can’t front-load payments. You can require customers to set aside money in a dedicated account for your fees and for payments to creditors and debt collectors, but the new Rule places restrictions on those accounts to make sure customers are protected.
- **You have to disclose certain information before signing people up for your services.** Before people sign up, you must disclose fundamental aspects of your services, including how long it will take for them to get results, how much it will cost, the




negative consequences that could result from using debt relief services, and key information about dedicated accounts, if you use them.

- **You can't misrepresent your services.** The new Rule prohibits you from making false or unsubstantiated claims about your services.

Is your business covered by the new Rule? Are you certain of your legal obligations? This Guide tells you how to comply with the new Rule and is designed to supplement the FTC's publication, [Complying with the Telemarketing Sales Rule](#). The Guide represents the views of FTC staff and is not binding on the Commission.

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## Who's Covered by the New Rule

The new Rule applies to for-profit sellers of debt relief services and telemarketers for debt relief companies. The new Rule defines a "debt relief service" as a program that claims directly, or implies, that it can renegotiate, settle, or in some way change the terms of a person's debt to an unsecured creditor or debt collector. That includes reducing the balance, interest rates or fees a person owes. The TSR defines "telemarketing" as a "plan, program, or campaign . . . to induce the purchase of goods or services" involving more than one interstate telephone call. Most of the provisions of the TSR apply to sellers and telemarketers, so the terms "company" and "provider" in this Guide refer to both. In addition, certain parts of the Rule apply to those who provide substantial assistance or support to sellers or telemarketers. 

I operate a non-profit organization. Does the new Rule apply to us?

Bona fide non-profit organizations aren't covered because the TSR applies only to for-profit companies. However, the Rule covers companies that falsely claim nonprofit status.

Some examples of debt relief services include:

- **Debt settlement** – Companies that say they can settle customers' debts for less than the full balance.

Example 1: Company A advertises a program to help people settle their credit card debts for less than what they owe. It requires customers to set aside monthly payments as savings. Company A waits until there is enough money in the account to make an offer to the creditor or debt collector. It negotiates an offer from the creditor or debt collector to settle the debt and gets the customer's approval. The customer pays the reduced amount to settle the debt. Company A is covered by the new Rule.

- **Debt negotiation** – Companies that say they can reduce their customers' monthly payments by getting creditors to reduce interest rates or agree to other concessions.

Example 2: Company B says it can reduce customers' credit card debt or monthly payments by negotiating with credit card companies to get a lower interest rate. After a person signs up for the program, Company B calls the credit card company – sometimes with the customer on the line – and asks for concessions. Company B is covered by the new Rule.



Example 3: Company C says it can reduce customers' credit card debt or monthly payments by negotiating with credit card companies to get a lower interest rate. When people sign up for the program, Company C gives them a payment schedule with accelerated payments, claiming it only promised to "show" customers how they could save money. Company C is covered by the new Rule.

- **Credit counseling** – Companies that work as a liaison between customers and their creditors to negotiate and administer a monthly payment plan (often called a "debt management plan") that makes it more manageable for a customer to repay the debt – for example, by lowering interest rates or forgiving late fees.

Example 4: Company D says it can consolidate customers' multiple credit card payments into a lower single monthly payment. When a person signs up for the program, Company D works with creditors and secures an agreement to a debt management plan on behalf of the customer. As part of that plan, the customer agrees to make monthly payments to each creditor, and the creditors agree to reduce the customer's interest rates or make other concessions so that the payment is more manageable. Company D administers the customer's monthly payments. The customer sends the payment to Company D, which then sends the payments to each of the customer's credit card companies. Company D is covered by the new Rule.



Even if you don't directly sell or provide debt relief services, you may have obligations under the new Rule. Specifically, it's illegal to provide "substantial assistance" to another company if you know they're violating the Rule or if you remain deliberately ignorant of their actions. What amounts to substantial assistance depends on the facts. In the context of debt relief services, substantial assistance may include:

- obtaining and selling leads – the contact information of potential customers – to other companies;
- helping a debt relief company with its back-room operations, for example, by reviewing customer files, processing customers' payments or contacting customers' creditors once they've signed up; or
- offering [dedicated accounts](#) to customers where they set aside the debt relief provider's fees and funds for payments to creditors or debt collectors.

If you work with debt relief companies, review their policies, procedures and operations to make sure they're complying with the Rule. Willful ignorance isn't a defense.

I'm an attorney and I provide debt relief services. Am I covered by the new Rule?

There's no general exemption from the TSR for attorneys who engage in telemarketing. However, most attorneys are likely to fall outside the Rule for at least two reasons. First, the TSR applies only to providers who use interstate tele-marketing. Second, providers – including attorneys – who meet face-to-face with their customers before signing them up are likely exempt from most of the Rule's provisions. Read [Complying with the Telemarketing Sales Rule](#) to see if the face-to-face exemption applies to you.

## Types of Telemarketing Calls Covered by the New Rule

The Telemarketing Sales Rule has covered a wide variety of telemarketing transactions since it was enacted in 1995, including the sale of credit repair services, products with a negative option feature, prize promotions and advance fee loans. Debt relief companies that initiate calls to potential customers or hire others to call people for them have always been covered by the TSR. The new Rule expands the scope of the TSR to cover many debt relief services in-bound calls (calls potential customers place to you or someone working on your behalf), in addition to outbound calls (calls you or someone



who works for you place to potential customers). Here are some examples of the kinds of calls covered by the new Rule:

- **Calls to you in response to advertising** – consumer calls in response to TV or radio commercials; infomercials; home shopping programs; ads in magazines, newspapers or the phone book; online ads; billboards; or ads in other media .
- **Calls to you in response to most direct mail promotions** – consumer calls in response to postcards, flyers, door hangers, brochures, “certificates,” letters, email, faxes, etc., urging people to call about debt relief services.

Example 5: Company E runs ads on TV, radio, websites and billboards to market its program to settle consumers’ credit card debt for less than what they owe. The ads feature a number to call for more information. The new Rule covers those calls and any transactions resulting from them.

Example 6: Company F mails a letter saying it can get people lower interest rates from their credit card companies. The letter encourages recipients to call to learn more about the service. The new Rule covers those calls and any transactions resulting from them.

Companies selling debt relief services and people working on their behalf are subject to all of the existing restrictions of the TSR – including, for example, the Do Not Call provisions of the Rule. Additionally, all of the existing exemptions from the TSR apply. For example, businesses – including debt relief service companies – that meet with their customers face-to-face before signing them up for their services are exempt from the TSR. Read [Complying with the Telemarketing Sales Rule](#) to find out more.

My company helps customers settle debts that aren’t necessarily credit card debts. Does the new Rule apply to us?



The definition of “debt relief service” covers all types of unsecured debts. If the other debts you settle are unsecured – for example, medical debts – you’re covered by the new Rule. Services promising relief from mortgage debt are not covered under the TSR. They’re the subject of a separate FTC Rulemaking on Mortgage Assistance Relief Services (MARS).

## Information You Must Disclose to Customers

If you provide debt relief services, the new Rule lays out several key pieces of information you must disclose both truthfully and clearly and conspicuously – either orally or in writing – before people sign up for your services. The “clear and conspicuous” standard means that information must be presented in a way that average consumers would notice and understand. Burying required disclosures in a lengthy fine-print contract, disclosing them in a hard-to-read block of text, or including them in a rapid-fire oral presentation isn’t sufficient to meet the standard. The Rule isn’t specific about type sizes, and it gives some flexibility on how to convey the information, but it’s very clear that you must communicate certain disclosures as effectively as you communicate your sales message. Read [Complying with the Telemarketing Sales Rule](#) for more on how to make your disclosures clear and conspicuous.

Under the existing disclosure requirements of the TSR – which now apply to your in-bound calls – and a new provision of the Rule, you must disclose key facts to consumers, including:

1. **How much your service costs and other important terms.** Before someone signs up for your service, you must disclose all fees. If you charge a specific dollar amount, you must disclose that amount. If you charge a percentage of the amount a customer would save as a result of your program, you have to disclose both the percentage and the estimated dollar amount it represents for that customer. In addition, before someone signs up, you must disclose any material restrictions, limitations or conditions on your services. If the sales presentation includes a statement about your company’s refund policy, you must also include a clear and conspicuous disclosure of all terms and conditions of the policy. If you don’t give refunds, the Rule requires you to tell people that before they sign up for your service.

Example 7: A debt settlement company, Company G, charges a service fee of 10% of any debt reduction it gets for its customers. Adam signs up for the program



with a single credit card debt of \$5,000. Based on its experience with that credit card company, Company G estimates it can settle Adam's debt for \$3,000 – a reduction of \$2,000. Under the new Rule, before Adam signs up for the program, Company G must disclose that it will charge him 10% of the amount of debt reduction, or an estimated \$200 (10% of \$2,000).

2. **How long it will take to get the advertised results.** You must tell your customers how long it will take for them to get the results you represent. For example, if your service includes debt settlement, you must give a good faith estimate of how many months or years the customer will have to wait before you'll make an offer to each creditor that's likely to result in a settlement. You have to have a reasonable basis for any statements you make – for example, you can base your estimates on your experience with previous customers. Be precise: If you have experience with certain creditors, your estimate must reflect that experience. Your estimate should take into account the circumstances of each customer, and the results achieved by customers in similar circumstances.
3. **How much money a customer must save before you'll make a settlement offer to creditors.** You must tell potential customers how much money or what percentage of each outstanding debt they must accumulate before you'll make an offer to each creditor that's likely to result in a settlement. If you're estimating, you must have a reasonable basis for your estimate. For example, if someone owes \$10,000 to a creditor and your data shows that this creditor is likely to settle the debt for \$6,000, you must tell the potential customer before he or she signs for your program that he or she will have to save about \$6,000 to settle the debt.
4. **The consequences if the customer fails to make timely payments.** If you ask your customers to stop making timely payments to their creditors – or if your program relies on that practice – you must tell them about the possible consequences of doing so, including:
  - damage to their credit report and credit score;
  - that creditors may sue them or continue with the collections process; and
  - that they may accrue new fees and interest, which will increase the amount they owe.





5. **The customer's rights regarding dedicated accounts.** If you ask or require your customers to set aside funds, first you must make sure the funds are in an account at an insured financial institution. Next, you must disclose that:
- the customer owns the funds held in the account;
  - the customer may withdraw from your service at any time without penalty; and
  - if the customer decides to withdraw from your service, he or she will get back all the money in the account other than fees you earned in compliance with the TSR.

## Making Truthful and Substantiated Claims

If you provide debt relief services, it's illegal to misrepresent any material aspect of your services, either explicitly or by implication. A material aspect of a debt relief service includes any information that is likely to affect someone's decision to sign up for your program or to choose one program over another. Some examples of claims that would be material:

- the amount of money or the percentage of the debt someone may save by using your service;
- the amount of time necessary to get the results you represent;
- the amount of money or the percentage of each outstanding debt the customer must accumulate before you'll begin your attempts to negotiate, settle or modify the terms with creditors;
- the amount of money or the percentage of each outstanding debt the customer must accumulate before you'll make a bona fide offer to negotiate, settle or modify the terms with creditors;
- the effect of your service on the customer's creditworthiness;
- the effect of your service on the collection efforts of any creditors or debt collectors;
- the percentage or number of customers who have gotten the results you represent; and
- whether your business is a bona fide nonprofit entity.

May I base my advertising claims on the experiences of some previous customers?



Yes, but your sample must be representative of the entire relevant population of your past customers. To accomplish this you must, among other things, use appropriate sampling techniques, proper statistical analysis, and safeguards for reducing bias and random error. You can't cherry-pick the most successful examples to inflate your results.

If you advertise or represent that your customers will save a certain amount of money or reduce their debt by a certain percentage – for example, “We can settle your debts for 40% to 60%” – your statements must be truthful, and you must have objective proof to back them up. Your claims must accurately reflect the results you've achieved for previous customers. It's important to consider the message your claims convey. Under the law, the FTC looks at claims from the point of view of reasonable consumers. Therefore, what matters isn't the literal accuracy of the words you use, but rather your proof to support the “net impression” your message conveys. For example, claiming that your past customers have achieved “up to 60% savings” is likely to convey to new customers that they, too, will get savings of around 60%. If you don't have solid proof to back that up, the claim is deceptive.

Here are several important requirements for making sure your savings claims are truthful and not deceptive:

1. **State the savings based on the customer's debt when he or she signs up for the program.** You may not inflate savings figures or percentages by including interest and fees the credit card company adds after a customer signs up for your program.

Example 8: Andy signs up with a debt relief service offered by Company H, owing \$10,000 on his credit card. One year later, following negotiations with the credit card company, Company H negotiates a settlement allowing Andy to pay \$6,000 to resolve the debt. However, since Andy enrolled, the credit card company has charged him interest and late fees totaling \$2,000, so that Andy now owes \$12,000. By getting a settlement for \$6,000, Company H has saved Andy \$4,000 (\$10,000 minus \$6,000) or 40% of the debt at the



time of enrollment. It would be deceptive for Company H to claim to have saved Andy \$6,000 (\$12,000 minus \$6,000) or 50% of his debt.

2. **Include the impact of your fees on the claimed savings.** You may not inflate your savings claims by excluding the fees your customers paid you.

Example 9: Betty owes \$10,000 on her credit card, and signs up with Company J's debt relief service. Company J gets a settlement allowing Betty to pay \$5,000 to resolve the debt. However, at the time of settlement, Company J charges Betty a \$1,000 fee for its work. It would be deceptive for Company J to claim to have saved Betty \$5,000 – or 50% of her debt – because Betty also had to pay \$1,000 in fees. Instead, Company J may truthfully state Betty's savings as \$4,000 (\$5,000 minus \$1,000) or 40% of Betty's debt.

3. **In calculating the results you've achieved over time, you must include customers who dropped out or otherwise failed to complete the program.** Don't base your savings claims only on customers who successfully completed your program.

Example 10: Company K had 10 customers signed up for its service. Each one had \$10,000 in unpaid credit card debt for a total of \$100,000. Five of the customers completed the program, and each saved \$5,000 – for a total savings of \$25,000. The remaining five customers dropped out of the program, each one still owing the \$10,000 they owed when they signed up with the program. Taken together, Company K has saved its



customers \$25,000 – or 25% – of the total \$100,000 debt they had when they signed up with the program. It would be deceptive for Company K to exclude the drop-outs and claim that it saved its customers 50% of their debt.

4. **Include all debts enrolled by your customers, not only those that have been settled successfully.** In calculating your savings claim, you may not exclude accounts you failed to settle, even if the failure was due to customers dropping out of your service.

Example 11: Company L has 10 customers, and each of them enrolls two \$1,000 debts in the program – totaling 20 debts or \$20,000. Company L is able to settle 10 of the 20 debts, each for \$500. However, it was unable to settle the remaining 10 debts before those customers either completed or dropped out of the program. Thus, Company L has saved its 10 customers \$5,000 or 25% of their debts in the program. It would be deceptive for Company L to exclude the 10 accounts that weren't settled and claim a savings rate of 50%.

## Collecting Fees

If you provide debt relief services, the new Rule says you can't collect any fee from a customer until you meet these three requirements:

1. **You must have reached a successful result for your customer.** You must have renegotiated, settled, reduced or otherwise changed the terms of at least one of the customer's debts.
2. **There must be an agreement between your customer and the creditor.** Your customer must agree to the settlement agreement, debt management plan, or other result reached with the creditor due to your service. According to the Rule, the agreement



from the creditor must be in writing, although your customer may agree to it orally. You can't take your fee in advance by getting your customer to agree to a blanket "pre-approval" of any settlement you might be able to negotiate in the future.

3. **Your customer must have made a payment to the creditor.** Your customer must have made at least one payment to the creditor or debt collector as a result of the agreement you negotiated.

It is illegal to front-load your fees. If your customer has multiple debts enrolled in your program and you've settled one of them, you may collect a portion of your full fee – as long as you also have completed the three required steps in connection with that debt. The new Rule gives you two options for calculating your fee if your customer has enrolled multiple debts:

- **Alternative 1: Proportional fee.** According to the Rule, your fee must "bear[] the same proportional relationship to the total fee for renegotiating, settling, reducing, or altering the terms of the entire debt balance as the individual debt amount bears to the entire debt amount." The "individual debt amount" and the "entire debt amount" refer to what your customer owed at the time her or she enrolled the debt in the service. So if you settle a proportion of a customer's total debt enrolled with you, you may get that same proportion of your total fee.

Example 12: Company M enters a contract with Alex to settle his debts. When Alex enrolls, he owes three separate \$1,000 debts in the program for a total of \$3,000. The contract states that Company M will charge Alex a total fee of \$600. Six months after Alex enters the program, Company M settles one of his debts. Alex signs an agreement with the creditor and pays the settlement amount. In this example, Company M now may charge Alex a \$200 fee – one-third of its total fee – because the company settled one-third of his total debt.

- **Alternative 2: Percentage of Savings.** If you base your fee on a percentage of what your customer saved as a result of your service (often called a contingency fee), the



percentage you charge must be the same for each of a customer's debts. Further, the amount saved must be based on the difference between the amount of debt enrolled in the program and the amount of money required to satisfy the debt.

Example 13: Company N enters a contract with Barbara to settle her debts. She enrolls three separate \$1,000 debts in the program for a total of \$3,000. Company N clearly and conspicuously discloses to Barbara that its fee will be 25% of the savings achieved by using its service. Six months after entering the program, Company N settles one of Barbara's debts for \$600 – saving her \$400 of the \$1,000 she owed on that account. Barbara signs an agreement with the creditor and pays the settlement amount. Company N may collect a fee of \$100 – 25% of the \$400 Barbara saved.

## Requiring A Dedicated Account

Under the new Rule, you may require your customers to set aside your fee and funds to pay debts in a dedicated account as long as:

- the account is held at an insured financial institution;
- the customer owns the funds (including any interest accrued), controls them, and can withdraw them at any time;
- you don't own or control the company administering the account or have any affiliation with it;
- you don't split fees with the company administering the account; and
- the customer can stop working with you at any time without penalty. If the customer decides to end the relationship with you, you must return the money in the account to the customer within seven business days (minus any fees you've earned from the account in compliance with the TSR).



The independent company that administers the account may charge the customer a reasonable fee, but it may not transfer any of the customer's funds to you – directly or indirectly – until you have renegotiated, settled, reduced, or otherwise changed the terms of at least one of your customer's debts and met all the related requirements in the Rule.

It's illegal to provide "substantial assistance" to another company if you know they're violating the Rule or if you remain deliberately ignorant of their actions. To avoid liability for facilitating violations of the new Rule, companies that administer dedicated accounts should review the policies, procedures, and operations of the debt relief providers to ensure they're complying with the advance fee ban provision of the Rule, including the provision relating to dedicated accounts. As they continue to administer dedicated accounts, companies also should investigate consumer complaints and disputed payments. Some companies administering dedicated accounts may not be subject to the FTC's jurisdiction, but laws enforced by other government agencies may apply to them.

## Keeping Record

Under the new Rule, any debt settlement, debt management plan or other debt resolution plan from a creditor must be in writing. You must keep these documents for at least two years. The type of documentation depends on the services you provide. Examples of acceptable documentation include:

- **For credit counseling** – a debt management plan containing the new terms binding on all applicable creditors and debt collectors, with evidence that the customer has made the first payment.
- **For debt settlement** – a letter or receipt from the creditor or debt collector stating that the debt has been satisfied and the amount of the payment received, or other documentation that contains a specific settlement offer from the creditor or debt collector and evidence of a corresponding payment to the creditor or debt collector.
- **For debt negotiation** – a written document from a creditor or debt collector stating that it has agreed to a concession – for example, a lower interest rate for a credit card – with evidence that the customer has made at least one payment under the new terms.

You have to retain documentation of all fees you collected from each customer. It's a good practice to give them copies of all paperwork as well.



Savvy businesses know that it's best to get a customer's written approval for all debt settlements. The new Rule recognizes there might be an exceptional case when a customer's oral agreement will have to suffice – for example, if a creditor offers a very favorable settlement available only for a limited time. But oral agreements should rarely be used. Indeed, members of the debt settlement industry should be careful not to pressure customers to act without taking time to think over their decision. Keep in mind that it's risky to rely solely on oral communications. If you get a customer's oral agreement, it's wise to write a note to that effect, keep it on file with the creditor's written agreement, and follow up in writing with your customer.

## Best Practices

In addition to adhering to the basic compliance requirements of the new Rule, providers of debt relief services may want to incorporate other practices to help their customers:

- **Screen prospective customers for suitability.** Debt relief programs aren't right for everyone. For example, some people may have so many debts and so few assets that filing for bankruptcy is their best option. Set up reasonable written procedures to ensure that each customer is suitable for your program. What's reasonable may depend on the type of service you offer and the results you promise. The bottom line is that you should have good reason to believe that the people you sign up are capable of making the payments associated with your program and are likely to complete it successfully, based on their situation when they sign up with you. Train and supervise your employees to make sure they're following your procedures. Particularly if you pay your sales staff a commission based on how many people they sign up for your program, monitor them carefully to make sure they don't misrepresent the service to potential customers. Review and update your procedures periodically.
- **Keep your customers in the loop.** Update your customers on the status of your negotiations and progress – including any important communications from their creditors. Tell them about any changes in their creditors' policies that may affect how long the process will take or how much money it will take to settle their debts.
- **Let customers communicate with creditors.** You should allow your customers to contact – and be contacted by – their creditors.
- **Tell customers about the tax consequences of the program.** For some people, using debt relief services could have tax consequences. Depending on the customer's financial condition, the amount of savings can be considered income. Make sure your customers are aware of the possible tax ramifications of using your services.





- **Make sure your employees are complying with the Rule.** Be sure to train and monitor them carefully to ensure they do not misrepresent your services to consumers. This is especially important if you pay your sales people on commission, based on how many customers they sign up.

## Looking For More Information on Debt Relief Services and the TSR?

- [Telemarketing Sales Rule](#)
- [Telemarketing and Consumer Fraud and Abuse Prevention Act](#)
- [Settling Your Credit Card Debts](#)
- [Credit Card Interest Rate Reduction Scams](#)
- [Complying with the Telemarketing Sales Rule](#)
- [Knee Deep in Debt](#)
- Questions about debt relief services and the TSR? Contact:

Division of Financial Practices  
Bureau of Consumer Protection  
Federal Trade Commission  
Washington, DC 20580  
(202) 326-3224

## For More Information

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a [complaint](#) or get [free information on consumer issues](#), visit [ftc.gov](http://ftc.gov) or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. Watch a new video, [How to File a Complaint](#), at [ftc.gov/video](http://ftc.gov/video) to learn more. The FTC enters consumer complaints into the [Consumer Sentinel Network](#), a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.



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