

Consumers Beware—Debt Elimination Scams



Many companies and services claim they can eliminate a consumer's outstanding credit card balance or other debt. The tragic result of such offers is usually destroyed credit and more financial hardship, not to mention potential legal trouble.

It's important for consumers to be aware of debt elimination scams so they can avoid becoming victims.

The Scams

There are various illegal schemes that purport to eliminate a consumer's obligation to repay a mortgage, credit card, student loan or other debt through the use of specially prepared documents. The organizers of these schemes concoct phony documents based on the consumer's debt, which are presented to the consumer's bank, mortgage company, finance company or other lending institution in an attempt to satisfy the debt.

The false documents usually question the authenticity of financial obligations and cite false claims about the Federal Reserve System, U.S. currency or other federal or state government programs as the legal justification for the debt elimination program. For example, some documents specifically refer to the elimination of debt through the use of a "Federal Reserve approved" procedure.

The scam is to ask for an upfront fee from the consumer, which will usually run from several hundred dollars to several thousand dollars. In return, the debt elimination company promises to take certain actions to get creditors to either forgive a consumer's entire debt or reduce it significantly. The documents used by the perpetrators are completely false and all of the consumer's financial responsibilities remain intact.

Notably, the Federal Reserve does not approve and is not involved in any program aimed at eliminating consumer debt obligations. Thus, debt elimination programs that claim Federal Reserve approval and the satisfaction of legitimate debts through the presentation of suspicious documents are completely false.

The Office of the Comptroller of the Currency (OCC) recently issued an alert regarding fraudulent debt elimination schemes. The alert warned that a new scam involves the fraudulent and illegal use of the OCC's customer complaint form. This form is included in the package of documents

provided to the consumer in an effort to add legitimacy to the debt elimination program. The consumer is directed to only sign the third page of the form and to leave the rest of the information blank. The information is completed by the perpetrators and filed with the OCC falsely asserting the financial institution acted improperly with regard to the victim's account. This scam does not work because the information the scammers used to initiate the investigation was not true.

The scheme is designed to defraud victims of an upfront fee for the service, which ranges from \$400 to \$7,500. In many cases, consumers who pay for this service will end up with a lower credit score and very serious legal trouble with their creditors—possibly even a legal suit. Additionally, the perpetrators of the scam may be able to steal the consumer's identity based on the information provided by the consumer.

The OCC reports the following sample variations of fraudulent processes used to fool consumers into paying money to "eliminate" debt:

- A phony arbitration award from an arbitrator not authorized under the debt agreement.
- The use of a nonexistent "trust account" supposedly held in a person's name at the United States Department of the Treasury or some other part of the federal government.
- The substitution of a debt instrument issued by a company, group, trust or person for the obligor's original note or account with the creditor.
- The substitution of a fictitious U.S. government debt instrument, which claims to be payable or authorized by the United States Department of the Treasury or a related person or entity, for the obligor's original note or account with the creditor.
- The substitution of a fictitious U.S. government financial instrument, which references an account located at the U.S. Department of the Treasury or with a related person or entity, for the obligor's original note or account at the creditor.

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- The substitution of a fictitious U.S. government debt instrument, which requires an official to authorize or refute the authenticity of the instrument, for the obligor's original note or account at the creditor.
- A notice to the creditor that the contract or note is illegal and, therefore, the borrower does not have to pay the debt and may even be entitled to a compensatory award.
- A notice to the creditor that the creditor does not have authority to "lend its credit" to the obligor and has violated the law. Therefore, the borrower does not have to pay the debt and may even be entitled to a compensatory award.

These schemes have no legal substance. No one can eliminate an obligation to pay a debt simply by paying a small fee.

These schemes, as reported by the OCC, provide inaccurate or distorted information about applicable laws and regulations. Some examples of inaccurate information from these schemes include:

- Borrowing is a con game whereby a borrower's debt is money "created" by and owed to the borrower.
- A borrower's debt is an asset of the creditor owed to the borrower.
- Secret information or laws can be used to eliminate debt.
- Banks and other creditors do not have the authority to lend money or issue credit.
- Three or more people can set up individual arbitration companies, create an arbitration award for a fraction of the debt owed, have the award certified by the two other companies, and submit the award and payment to the creditor in satisfaction of the total debt.

Avoid Being a Victim

Before completing a business transaction, contact the Chamber of Commerce, Better Business Bureau, or county or state Office of Consumer Affairs in the area where the company is located to get information on the company.

Information from the Better Business Bureau is available online at <http://www.bbb.org> and from the individual state Attorneys General Consumer Protection Divisions at <http://www.naag.org>.

Information on fraud schemes that involve the use of mail can be found at the Postal Inspection Service Web site at <http://postalinspectors.uspis.gov/>.

Information on Internet crime schemes can be found at <http://www.ic3.gov/crimeschemes.aspx>.

Remember: If a deal sounds too good to be true, it probably is!

Have You Been the Victim of a Scam?

Any information you have concerning debt elimination scams should be brought to the attention of appropriate local or federal law enforcement.

If the fraudulent scheme was presented via the Internet or e-mail, contact the Internet Crime Complaint Center (IC3). IC3 is a partnership between the Federal Bureau of Investigation, the National White Collar Crime Center and the Bureau of Justice Assistance. Please go to the IC3 Web site at <http://www.ic3.gov> and follow the instructions for filing a complaint.

If the proposal was received via the U.S. Postal Service, please file a complaint with the U.S. Postal Inspector Service by telephone at (888) 877-7644; by mail at Inspection Service Support Group, 222 S. Riverside Plaza, Suite 1250, Chicago, IL 60606-6100; or by e-mail at <https://postalinspectors.uspis.gov/forms/MailFraudComplaint.aspx>.

Other sources, such as individual contacts or seminars, should be reported to the local office of the FBI or local financial fraud law enforcement organization.

The ACA International Education Foundation is committed to promoting consumer financial literacy. The mission of the ACA International Education Foundation is to increase financial literacy through research, education, job training and public relations.

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