Starting at page 5 of my statement, the Commissioners feel this type of business involves the marshalling of assets and, more important, under these circumstances the debt adjustment client may need advice as to the legality of the various claims against him, the legal remedies governing debtor-credit relationships, and the applicability of the Bankruptcy Act. This means that in virtually every debt-adjusting transaction there is need for careful scrutiny of the underlying contracts which gave rise to the debts which have been accumulated by the debtor. But this does not seem to be done in the debt adjustment business.

On page 7 of the pamphlet that you have included in the record (the articles written by Miss Miriam Ottenberg), it seems that the debt adjusters ask four questions of their clients: (1) How much they owed; (2) how much they used for living expenses; (3) how much money they could give them that night; and (4) how much they could pay weekly. Where is the determination as to whether the creditor has a valid claim against him? For example, he himself might consider he owed a debt to the Scrooge Finance Company, but the contract may be an invalid contract that the debtor just presumes is valid. The debt adjuster makes no determination thereon. So here there is every opportunity for the debt to be increased needlessly and, as I point out in my statement the debt adjuster has a vested interest in maximizing the debt because his fee is a portion of the debt. Obviously, determinations as to the legal rights of the debtor with respect to the claims against him are within the province of a lawyer, who has an interest in minimizing the debt. I go on to say that these legal determinations by non-lawyers are in fact the unauthorized practice of law.

According to testimony given in the other body the average employee in the business of debt adjustment has two years of college education, and it would hardly be conceivable that employees with this level of education are qualified to advise a debtor concerning his legal rights and any defenses he may have to the claims against him. It could be said, in a situation where the debt adjuster fails to recognize that the debtor has a defense to a claim against him, that it is a case of the blind misleading the blind, because the debt adjuster doesn't know there is this defense and, moreover, he probably does not care because the higher the debt the higher the fee.

Mr. HORTON. Would you mind an interruption there? Has the District of Columbia Bar Association made any recommendation in this matter to your knowledge?

Mr. KNEIPP. I do not know.

Mr. HORTON. Has this been brought to the attention of the District of Columbia Bar Association?

Mr. KNEIPP. I cannot answer that but I will find out.

Mr. SISK. If I may interupt, the American Bar Association has a representative here who will testify, we are advised. I do not have a request from the local Bar Association to appear.

Mr. KNEIPP. Mr. Broyhill has already mentioned the fact that last July 1, a year ago, seven persons who operated two debt consolidation services headquartered in Washington and Baltimore were convicted in the United States District Court for the District of Columbia on mail faud charges. Three of them, I believe, have taken an appeal and the case is pending in the United States Court of Appeals. But the