

National Better Business Bureau, Inc., New York, N.Y.

DEBT ADJUSTERS—BOON OR BURDEN??

*Unregulated Pro-Rating Companies Are Subject of Many Complaints*

Debt adjusters are individuals or companies engaged in the business of pro-rating the income of a debtor to his creditors for a fee or service charge.

Ideally, the service they render to debt-laden members of society would include setting up a budget on a workable basis. It would allocate a definite amount of income to debt retirement purposes, including payment of the adjuster's fee as defined by contract. The adjuster would then prepare a plan for distributing the available income periodically to the various creditors on a pro-rata basis. This would usually require obtaining substantial concessions from some creditors. However, if satisfactory arrangements could be effected, the debtor would make regular payment of the total amount budgeted for debt retirement to the adjuster who would then disburse it to himself and the creditors in accordance with the agreed formula. The ultimate objective would be final emancipation of the family from its debts and the re-establishment of its credit.

COMPLAINTS ACCOMPANY GROWTH

The business is not a new one. Known variously as pro-raters, debt poolers, debt managers, credit counsellors, budget systems, funding agencies, etc., this type of company has functioned in some cities for more than two decades. Within the past year or two, however, their number has multiplied and the geographic scope of their operations has increased at a prodigious rate.

Some operators extend or transfer their activities from one city to another. In February, a Federal grand jury in Chicago indicted several companies and individuals charging fraud by radio advertisement, mail fraud and conspiracy in the operation of a debt adjustment scheme. Two of these individuals were formerly identified with a pro-rata business in Columbus, Ohio, which had been the subject of numerous complaints to the Columbus Better Business Bureau. During the past year, criminal warrants have likewise been issued in Detroit, Michigan against one "budget system" operator who had previously promoted similar businesses in a number of Eastern cities. The charges resulted from numerous complaints to the Detroit Better Business Bureau and the authorities alleging "bait" advertising and failure of this promoter to perform promised debt adjustment services after collecting his fees in advance.

There are debt adjusters who have operated in some communities for many years, free of justified criticism or complaint to the Better Business Bureau. Certainly, it would be unfair to condemn a newcomer solely on the grounds of newness. It is nevertheless true that those who have swarmed into the debt adjustment field recently have included a large proportion of unscrupulous or incompetent opportunists whose activities have spread misery throughout the land. They have used extravagant and deceptive advertising to claim far more than they were in position to deliver. They have made false promises to persons whom they knew, or should have known, were beyond redemption, credit-wise. They have withheld their own fees from the debtors' payments but have failed promptly to make agreed payments to creditors or to obtain creditors' accession to the pro-rata plan devised. The net result of their activities, in many cases, has been to leave already desperate people more hopelessly mired in debt and litigation than before.

SITUATION SERIOUS IN MANY CITIES

That these practices do not exist in isolated cases only is indicated by a survey which the National Better Business Bureau recently made of Better Business Bureau experience with pro-raters in forty cities in all sections of the United States. In seven of these cities, pro-raters have been operating, mostly on a limited scale, without serious complaint to the Bureaus. In five others, sufficient time had not elapsed to permit a significant accumulation of customer experience in Bureau files. In the remaining twenty-eight cities, Better Business Bureau experience with pro-raters has been, on the whole, unfavorable. Most of the larger cities are included in this category and, in more than half, complaints have increased so rapidly within the past year as to create serious problems.