AGREEMENTS FAVOR PRO-RATERS

"No interest. No co-signers. No security needed. No reference check," is an advertising theme employed by many pro-raters. What is not disclosed is that while interest is not charged, there are substantial service charges, often as high as 35% of total indebtedness, added to the debtor's already overwhelming financial burden. Nor is it disclosed that references, co-signers and security are not required because the debt pooling company assumes no financial risk.

Customarily, the debtor is induced to sign a contract legally binding on him. If, because of non-fulfillment of promises or other cause of dissatisfaction, the disillusioned client seeks to withdraw from a pro-rating plan, he frequently finds that he can do so only at the sacrifice of most, if not all, of the money that he has paid in. He may even face supplementary collection proceedings by the pro-rater. Many such complainants do not have a copy of the agreement that they signed, but investigation by a Better Business Bureau has generally developed that the document is weighted in favor of the pro-rater's receiving the full amount of his fees at the expense of the client and creditors. There is no uniformity in the amount of fees charged by debt adjustment companies or in the method of their exaction. The same company may charge different rates to different clients. In many cases, however, the pro-rater demands the full amount of fees contemplated for the entire life of the agreement, regardless of how long it may be in effect.

Generally, the fee is based on a percentage of the client's total indebtedness which may be augmented by "bookkeeping charges" based on the number of accounts involved. Total charges may amount to from 10% to 35%, or more, of the total indebtedness. They may be considerably more than what prospective clients may anticipate. A New York company, for example, has represented that its fees are 10% of the total indebtedness. An analysis by the Better Business Bureau of New York City of complaints from dissatisfied clients who withdraw from the plan showed that, to these people, charges actually ranged from 16% to 58%.

PILING DEBT ON DEBT

The agreement has sometimes permitted the pro-rater to deduct all or most of his fee from the client's initial payments. In other cases, a percentage is to be deducted from each payment during the life of the agreement, but, under these circumstances, some pro-raters have set up "reserve funds" by the expedient of postponing payments to creditors. If a client cancels the agreement before it has run its course, the pro-rater applies the "reserve" toward the satisfaction of the total fees he would have collected had the agreement been completed. If sufficient funds are not on hand for this purpose, the client is presented with a bill for the balance. If he fails to pay, the debt adjuster may institute legal proceedings to collect. There is an example of an Ohio company which induced its clients to sign *cognovit* notes for the full amount of its fees. Such notes are, in effect, a confession of judgment and the Better Business Bureau of Akron recently reported that 21 judgments, totalling $1,896.83, had been taken against one debt adjuster's clients who had signed such notes. Similar judgments totalling $497.13 were reported as to five customers of another debt pooling firm. In many cases, where judgments are taken, the holder of the note may garnishee the debtor's wages.

There is a strong suspicion that some pro-raters so conduct their operations as deliberately to encourage clients to withdraw from agreements during the early life thereof. In such cases, the unfortunate client discovers that, at considerable expense to himself, he has not only failed to improve his position *vis a vis* his creditors, but has acquired a new creditor, i.e., the pro-rater.

RELATION TO CREDITORS MISREPRESENTED

Many complaints have arisen from sales representations in advertising and at interviews calculated to lead the debtor to believe that all of the sales credit organizations, banks, loan companies and others to whom he is indebted will automatically agree to whatever plan for payment the pro-rater may devise. The Boston Better Business Bureau, which has pioneered in educating the public on this subject, has pointed out that creditors are under no requirement so to soften