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Gonsalves: Don't swim with loan sharks

By **Sean Gonsalves**
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If Whitey Bulger had more brains than brawn, he would've just gone into the legal loan-sharking business and made a killing that way.

While the infamous gangster is facing a 32-count racketeering indictment— including being involved with 19 murders — state lawmakers are wrestling with how to deal with for-profit "debt relief" companies slithering around the commonwealth.

As consumer debt has risen to historic highs, so have for-profit "debt settlement" companies — loan sharks who offer to consolidate their clients' debt and negotiate a lump sum settlement with creditors.

In the face of these money-grubbers out to squeeze blood from a rock, the feds have been trying to enhance consumer protection laws through legislation such as the Dodd-Frank Act and the U.S. Consumer Financial Protection Bureau, which Republicans have been trying to delay and dismantle since Day One.

Now, legal loan sharks and their hired guns are looking to fly under the radar and Bulger-ize state governments into passing industry-friendly legislation, consumer watchdogs say.

Hence, House Bill 3569.

It's been quietly moving through the Massachusetts House since being favorably reported out of the Financial Services Committee earlier this month.

Two weeks ago, the bill, first sponsored by Rep. Michael A. Costello, D-Newburyport, was recommended for passage by the House Ways and Means Committee, which includes two members of the Cape's legislative delegation — Reps. David Vieira, R-Falmouth, and Timothy Madden, D-Nantucket.

Both Vieira and Madden said they don't see the bill as legalizing for-profit "debt relief" companies. They were under the impression the bill would regulate what is now "no-man's" land and help to rein in such companies already operating under the radar.

Still, consumer advocacy groups — such as the National Consumer Law Center, The Midas Collaborative, the Center for Responsible Lending and the National Association of Consumer Bankruptcy Attorneys — say this bill and similar bills across the country will lead to fees, higher interest rates and collection lawsuits that will hurt many more Bay State consumers than it will help.

They point to studies such as the audit done by the Government Accountability Office in April 2010 that found the "fraudulent, abusive and deceptive practices" of for-profit debt settlement companies posed serious risks to consumers.

After investigating 20 big for-profit debt relief companies, the GAO found that 17 of them collected fees before settling a single debt. They also noted instances where thousands of dollars in fees were collected from clients whose cases were never settled.

The GAO also found some debt settlement companies who fraudulently claimed "unusually high success rates for their programs — as high as 100 percent," even though the Federal Trade Commission and various state investigators actually found less than a 10 percent success rate.

Andrew Pizor, an attorney with the National Consumer Law Center, told me the bill being considered on Beacon Hill is part of a state-by-state national movement that he likened to "whack-a-mole."

Pizor said nonprofit debt management and credit counseling companies provide a needed service. But, for-profit companies rely on a business model that's simply not viable.

"It's bad public policy to legalize a business model that only helps a small minority of people while hurting a majority of its customers," Pizor said.

"The whole point is that people don't have the money, but these companies are saying, 'We'll take some of your scarce funds for ourselves and whatever else we can squeeze out we'll give to creditors."

He points to studies that show most consumers end up worse off than before signing up with one of these companies.

"It's very rare for people to settle all their debts. You may get some settled but there are other debts that end up growing. And in the meantime, you might get sued and go from trying to settle, say, $1,000 to paying more than that," Pizor said.

But Adam Martignetti, chief of staff for the Financial Services Committee, told me the bill contains consumer protections, including strict licensing requirements and a prohibition against "debt settlement" companies being compensated before signing an agreement with clients.

While on roll call break Wednesday, both Vieira and Madden said that because they didn't have enough information yet on the potential risk to consumers, neither voted to send the bill out of committee.

They also said they'd like to hear from constituents before a final vote before the full House.

I hope you take them up on that and tell them what you think because I already put in my 2 cents

Don't Bulger us, bro. This is Beacon Hill, not Winter Hill. These companies shouldn't be merely monitored and regulated.

They should be put in legislative cement shoes and fed to the fishes.

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