

# RISK Alert

ACTIONABLE INSIGHTS FOR BOND POLICYHOLDERS.



Alert Type

Awareness

Watch

Warning

## Credit / Debt Relief Scams On The Rise

There are reputable companies and organizations that can help negotiate concessions with creditors or set consumers up with a plan to pay down debts. However, scammers that guarantee to get you out of debt quickly and cleanly with an upfront payment are often illegal and on the rise. Even with legit companies, debt relief and credit relief carries considerable risk. Many firms instruct consumers to stop paying their debts, on the premise that creditors will negotiate a reduction.

### Details

Debt relief service scams target consumers with significant credit card debt by falsely promising to negotiate with their creditors to settle or otherwise reduce consumers' repayment obligations; to lure them into purchasing services with promises to remove negative credit report information; to increase their credit scores; to reduce credit card interest rates, or to eliminate/reduce student loan debt. These operations often charge cash-strapped consumers a large up-front fee, but then fail to help them settle or lower their debts – if they provide any service at all. Some debt relief scams even tout their services using automated robocalls to consumers on the Do-Not-Call List.

### Common Schemes

Credit repair scams frequently target financially distressed consumers who are having credit problems – which during these unprecedented times leads to significant opportunities for fraudsters. These operations lure consumers to purchase their services by falsely claiming that they will remove negative information from consumers' credit reports even if that information is accurate.

- Promises borrowers they can increase their credit score by “piggybacking” on another person’s credit by being listed as an “authorized user”. The borrower is often charged upfront fees which is illegal under the Credit Report Organizations Act (CROA). The FTC’s Telemarketing Sales Rule prohibits for-profit companies using telephone calls to sell these services from charging fees prior to reducing or settling a person’s debt. Some of these fees were in the thousands of dollars by people that are already in financial distress.
- False promises made and charging upfront fees to consumers struggling with student loan debt. A recent FTC complaint alleges the defendants pretended to be affiliated with the Department of Education promising to enroll consumers in student loan forgiveness, consolidation, and other repayment programs to eliminate or reduce student loan debt. Instead of providing the services promised, the company often contacted the loan servicer to place the loans into temporary loan forbearance or deferment status without the consumers’ authorization.

**Date:** September 1, 2020

**Risk Category:** Fraud; Scams; Consumer Lending

**States:** All

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# Credit / Debt Relief Scams On The Rise

- Telemarketing scammers promise to reduce credit card interest rates after being paid. Consumers are convinced the scammers are affiliated with their card issuer, or a credit card network, and can save up to thousands of dollars in interest. The bad actors will typically apply for new credit cards with temporary low “teaser rates” and perform balance transfers from the existing accounts to the new accounts. These transfers can have additional costs associated leaving the consumer with even more debt.

## Common Warning Signs

- A debt relief company asks for fees up front, before it settles any debts.
- The company guarantees it can eliminate debt or reduce it by a particular amount in a set period of time.
- The company advises to cut off communication with creditors.
- The company won't send information about its services unless financial information is provided such as credit card account numbers and balances.

## Risk Mitigation

Consider these loss control tips to assist your members in not becoming victim to these scams:

- Advise members to avoid paying upfront fees to purchase services from a company that promises to reduce debt, interest rates, or promise faster loan payoffs
- Watch for members with balance transfers of credit card balances receiving teaser rates
- Educate members to never share their Federal Student Aid ID information
- Warn members that high-pressure sales tactics and “too good to be true” services such as eliminating debt for a fee are key indicators of illegitimate companies
- Be wary of delinquent members that stop communicating and subsequently try to negotiate a loan settlement
- Encourage members to do their homework on debt relief services. Search online and check with your state's attorney general and consumer protection agency to see if the company has been the subject of complaints
- Report credit relief and debt relief scams to the Federal Trade Commission, [online](#) or at 800-382-4357

## Risk Prevention Resources

Access CUNA Mutual Group's [Protection Resource Center](#) at [cunamutual.com](#) for exclusive risk and compliance resources to assist with your loss control efforts. The Protection Resource Center requires a User ID and password.



### Facing risk challenges?

[Schedule](#) a free personalized discussion with a Risk Consultant to learn more about managing risk.

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Interested in learning more about emerging risks?

Contact CUNA Mutual Group's Risk & Compliance Solutions at 800.637.2676 or [riskconsultant@cunamutual.com](mailto:riskconsultant@cunamutual.com)