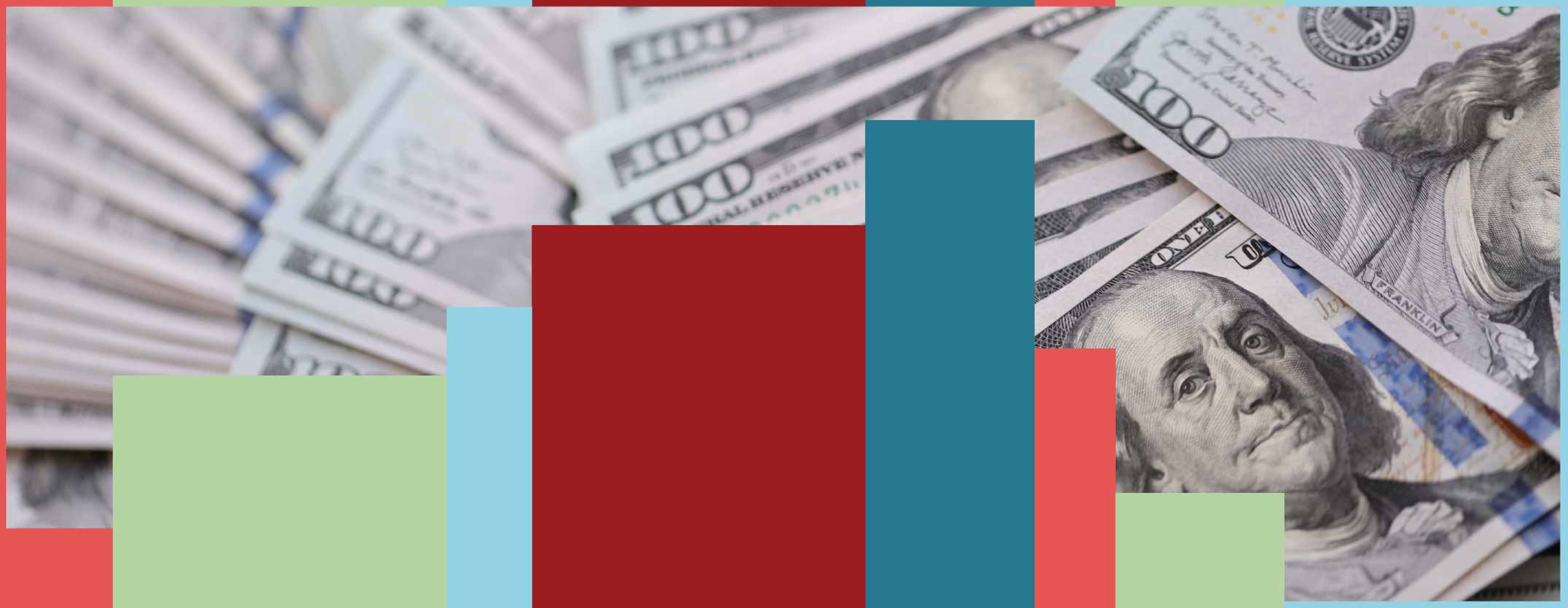
Winter 2025

Debt settlement: Debt.com surveyed 1,144 adults from all 50 states and Washington, DC. The population split was weighted against the U.S. census with a margin of error +/-7%.

Debt Settlement:

Awareness, Education and Progress

A look at how Americans perceive and understand debt settlement



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About Debt.com

Debt.com has helped resolve $12 billion of personal debt for 3 million Americans. We have also provided financial education to more than 10 million people. Its research and analysis have been featured in major newspapers such as The New York Times, Washington Post, USA Today and national TV news outlets including CBS News, Fox News, CNBC and CNN.

Upon its launch, founder and chairman Howard Dvorkin, CPA, declared his intention to create a "one-stop shop" for Americans to resolve all their debts – from credit cards to student loans to tax liens.

Debt.com conducts research monthly on topics related to personal finance and debt. Visit **Debt.com/research** to review the other studies we've conducted over the past 5 years.

Introduction

Debt Settlement is No Longer Obscure

Before the 1990s, if you couldn't get out of personal debt on your own, your options were limited.

While **Debt Management Programs (DMP)** through nonprofit credit counseling agencies were growing in popularity, they were still limited. They required in-person visits, as the days of **DMP**s being handled over the phone were still some years away. **Bankruptcy** was often the only legitimate option.

With bank deregulation in the 1980s, **debt settlement** began to spread as another debt solution. It was held back, however, by bad actors. As late as 2008, the **Federal Trade Commission reported**:

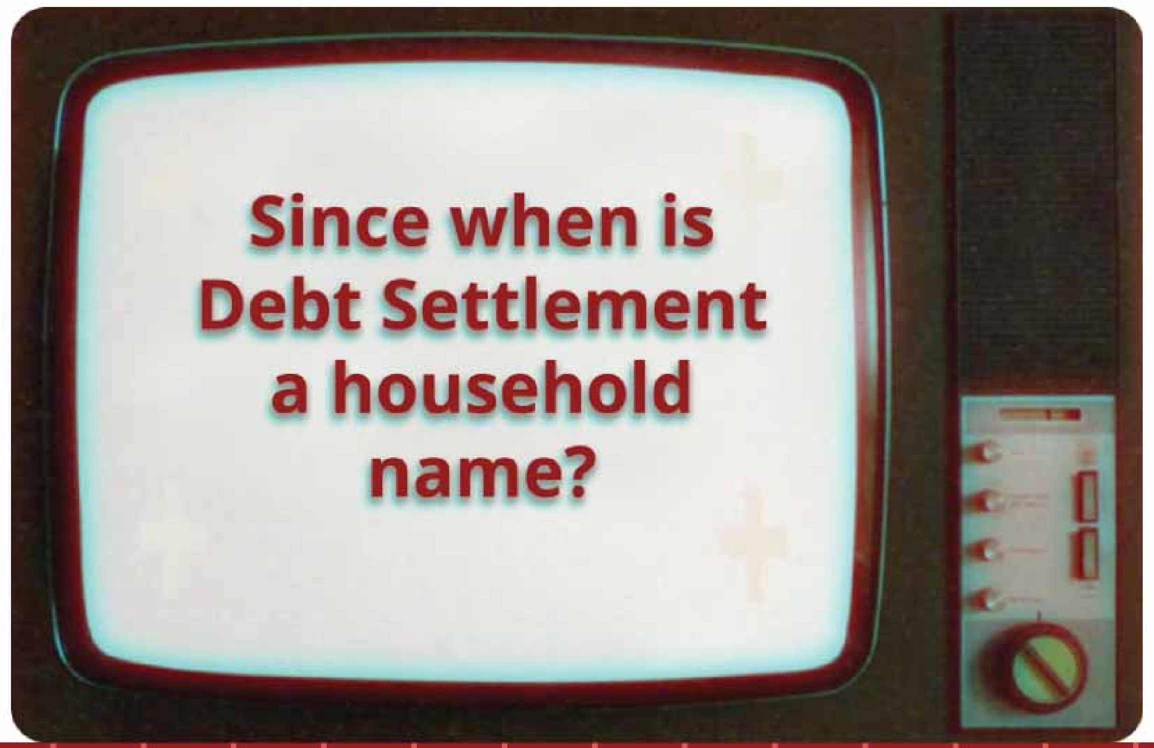
> **Legitimate debt settlement companies are being tarnished by the fraud and abuse that is rampant throughout the industry. Hundreds of debt settlement companies are operating in an under-regulated environment and lack standard policies and procedures, eroding confidence in debt settlement among regulators and consumers.**

> **For the debt settlement industry to remain relevant and succeed as an effective option for Americans facing financial hardship, debt settlement companies must adopt meaningful voluntary industry standards and seek appropriate action from regulators.**

Meaningful change started in earnest over the next few years, with the growth of the **American Association for Debt Resolution** and debt settlement providers who understood that long-term success would come from agreeing to best practices and standards. Slowly, the new requirements have pushed out the less credible providers and improved the industry's reputation.

It's against this background that **Debt.com** sought to learn Americans' opinions of **debt settlement**, as well as their awareness of the specifics of the program.

Here's what we learned.



Debt Settlement Timeline

The 90s

Bank deregulation and a recession made debt settlement more common. Banks created debt settlement departments to negotiate with defaulting cardholders to recover money that would otherwise be lost in chapter 7 bankruptcy.

2003

An economic downturn increased consumer financial distress and helped launch the debt settlement industry. Prior to this, lawyers generally managed consumer settlements.

2005

Significant growth occurred when Congress passed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (**BAPCPA**). The act made it more difficult to file for chapter 7 bankruptcy. This shift enabled debt settlement firms to expand.

- In the early days of debt settlement, firms charged about **15%** or more of the debt as fees. These fees were paid upfront or over six months before negotiations with creditors began.
- Many firms reduced debt significantly, but some took fees without helping consumers, and this caused many complaints leading to an **FTC** investigation.

2010

The FTC created new rules stopping firms from charging fees until debts were settled and accepted by the consumer. This caused **80%** of firms to leave the industry. The remaining firms adjusted and began thriving once settlements were made.

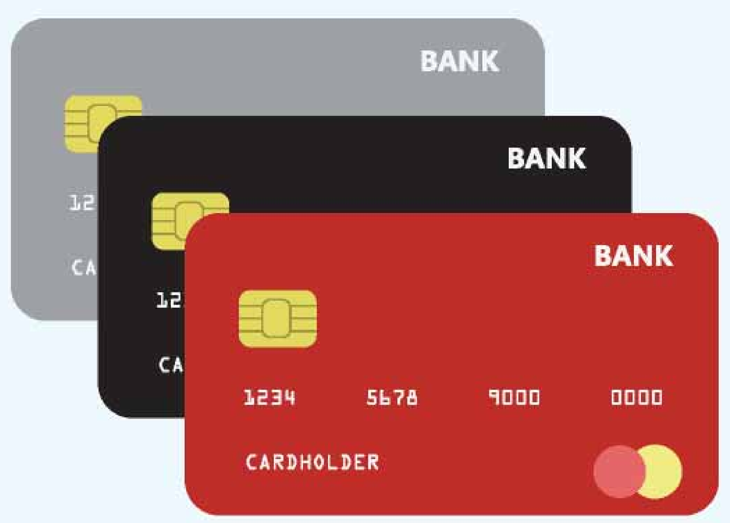
Today

New companies keep entering the market as consumer debt increases, creating big opportunities. The industry is now stable under **FTC**, **CFPB**, and state regulations.

Who Uses Debt Settlement Today

Typical Profile

Average of **$15,000-$30,000 in unsecured debt.**



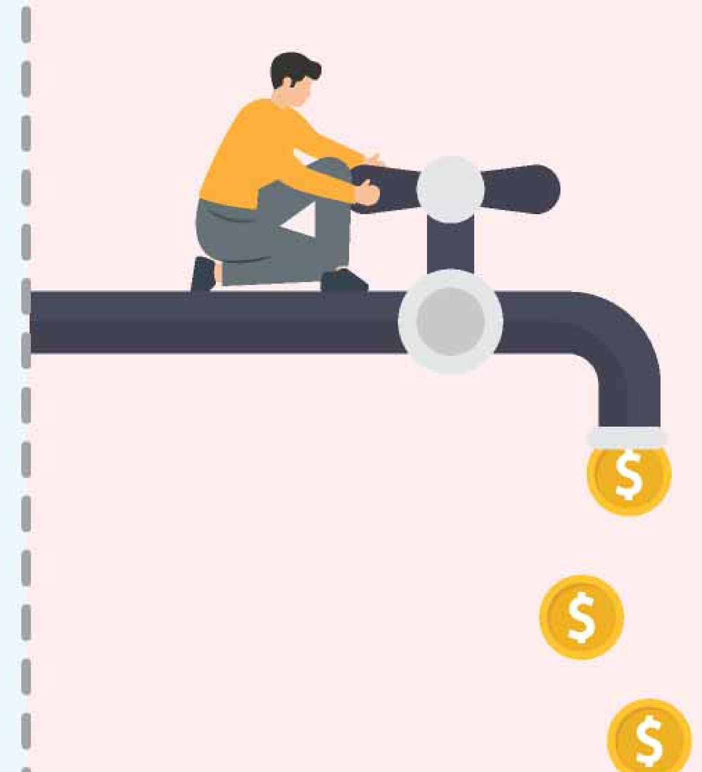
Usually has **6-8 different creditors mostly** credit cards, personal loans, and medical bills.

Has had a job loss, illness, medical emergency, divorce, etc. that has put a **strain on their ability to pay their bills.**

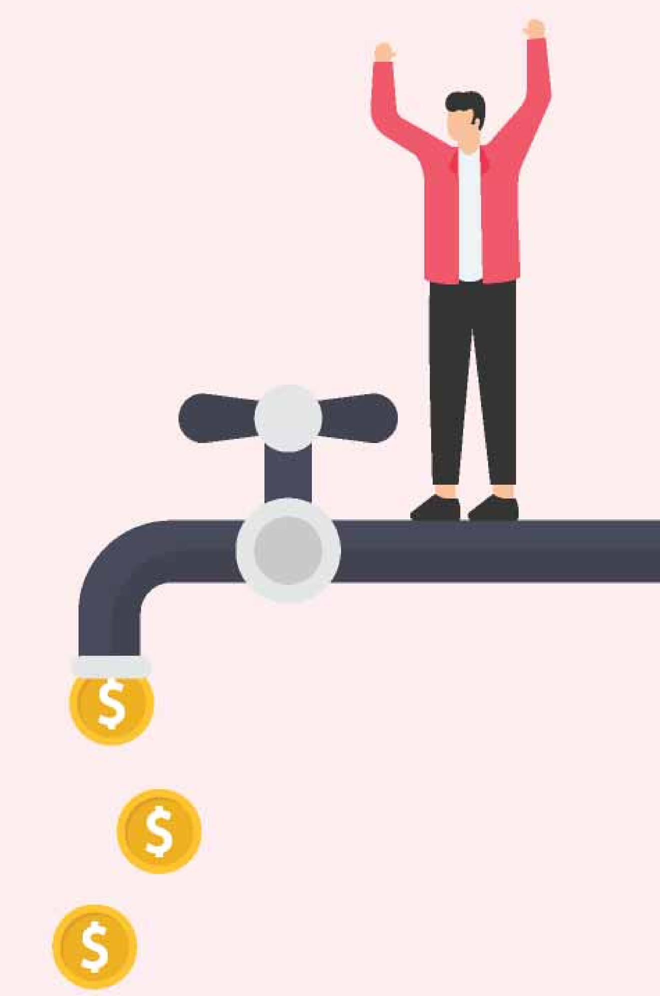
Potentially living **paycheck to paycheck** due to a financial set back.

Demographics

Age: 35-65.



Middle class with a wide range of incomes, generally between **$30,000 to $150,000 annually.**



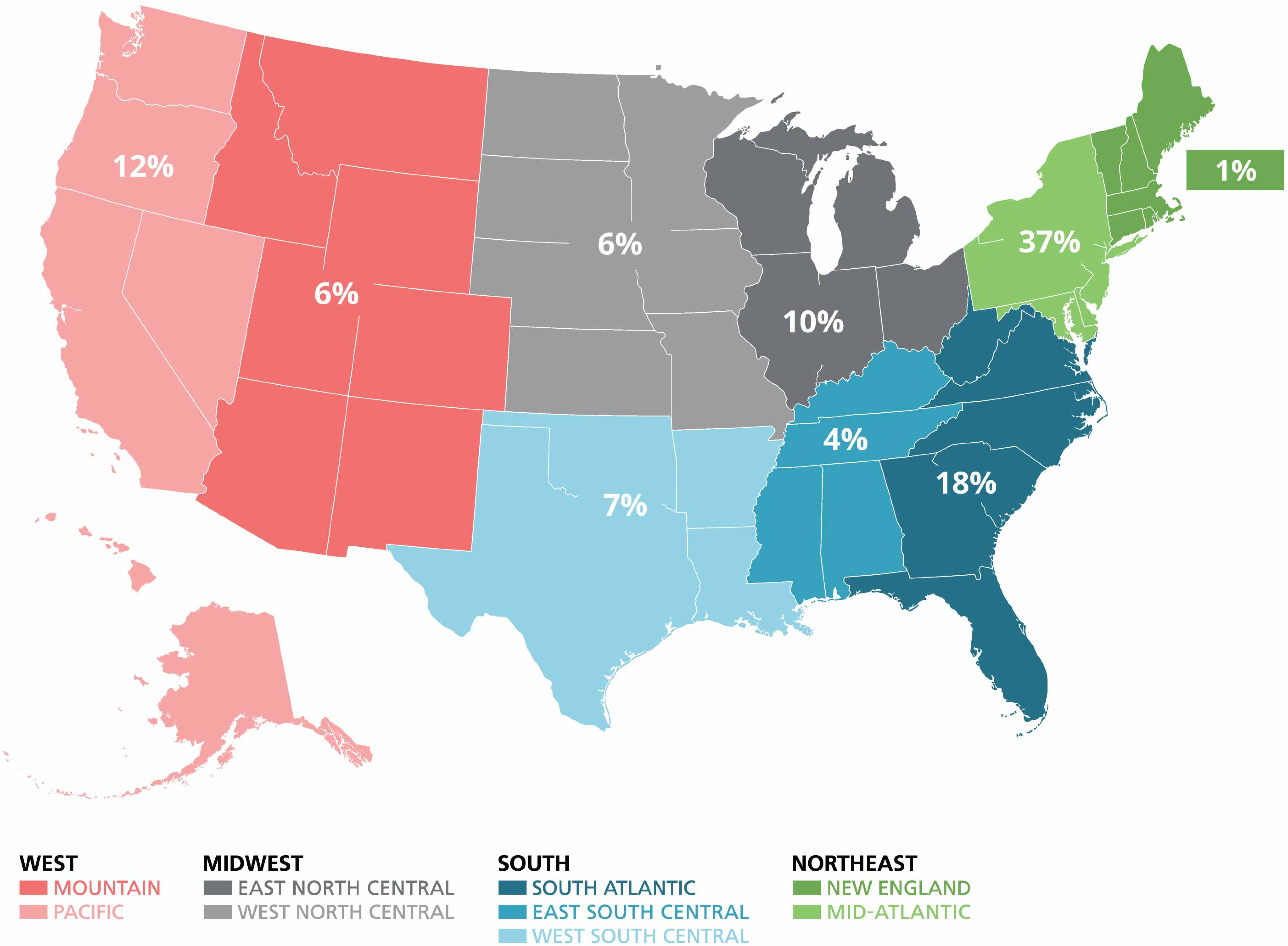
Typically **owns a home.**

Regional Breakdown of Debt Settlement Use

Most respondents who have benefited from debt settlement live in Middle Atlantic states.

Debt.com president Don Silvestri believes this may correspond to housing prices.

“The Mid-Atlantic states have some of the nation’s highest home prices, which means less money left over for discretionary spending,” Silvestri says. “Where cost of living is highest, it’s quite likely debt settlement rates are also high.”



Debt Settlement Players

Acquisition Settlement Partners:

- Brokers and affiliates focused on finding consumers who could benefit from debt settlement
- These are mostly direct-to-consumer models
- Many utilize direct mail, the internet, and “opt in” telemarketing to identify people who would benefit from using debt settlement
- Classic sales, commission business model; affiliated debt settlement partners commissions typically range from 5-7% of the balances owed

Autonomous Trust Account Managers:

- Required under the 2010 rule change, independent account managers hold consumer funds that have been deposited for settlements and serve as third-party payment processors for debt settlement enrollees
- Consumers retain control over the funds and debt settlement firms cannot control or access these accounts. They do not receive any payments from these accounts as fees until a settlement has been accepted
- They receive a fixed fee generally around $10 a month from their clients

Negotiation Settlement Firms:

- They focused on the multi-step process of settling consumer debts with creditors
- Building relationships with settlement firms and others often developing their own internal marketing and sales channels
- Consumer relationships are longer-term and consultative in nature; settlement firms advocate for the consumer with creditors

Associated Consumer Lending Businesses:

- Debt settlement firms can offer consumers a loan so they can borrow money to settle the debts rather than gradually save funds each month in a trust account
- Large debt settlement companies are also building lending businesses or are establishing relationships with lending affiliates
- The loans can quicken debt settlement process

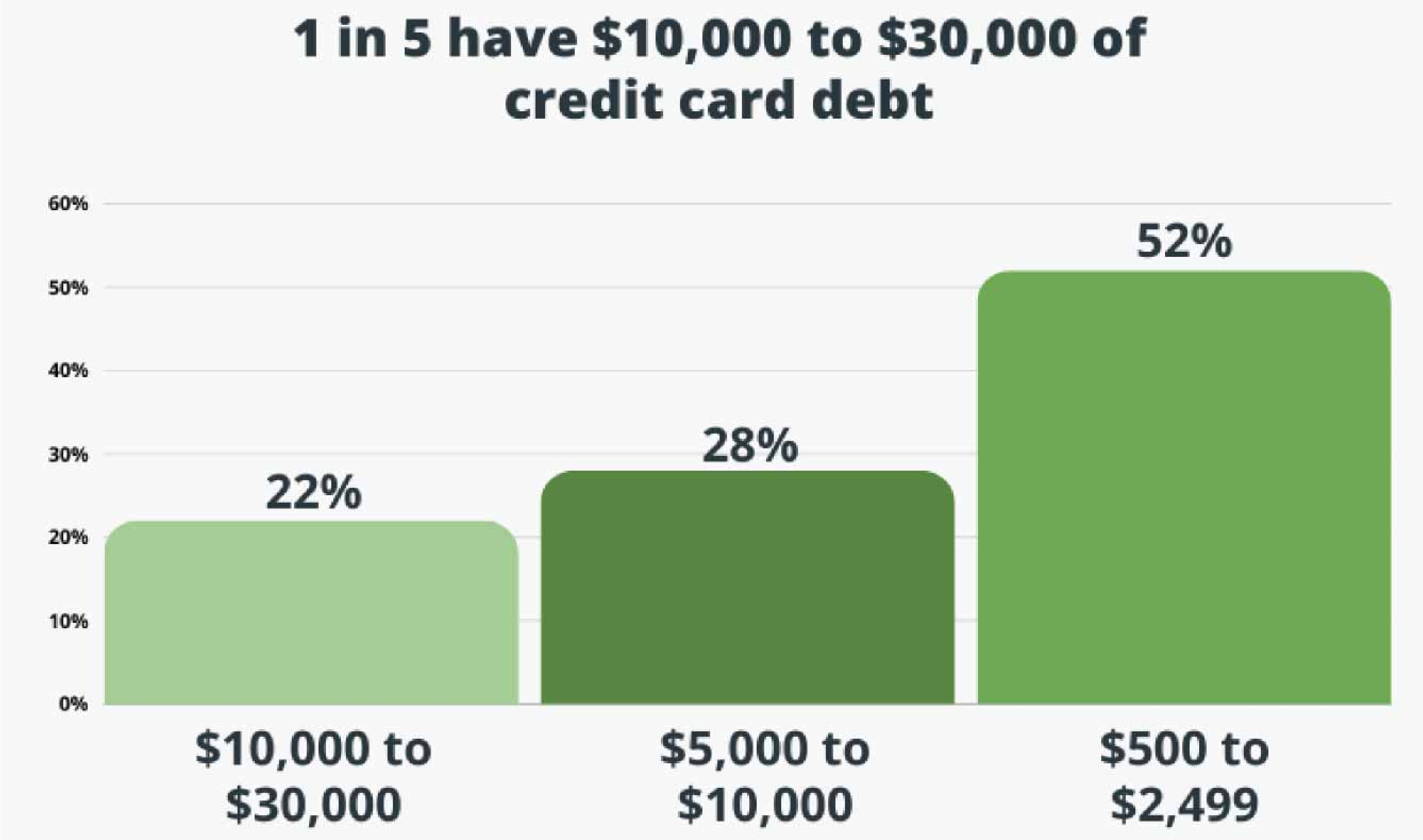
Credit Card Impact

While debt settlement can be used to resolve personal loans, payday loans, and medical bills, one type of debt is settled more than any other: credit card debt.

More than 75 cents of every dollar settled comes from credit card debt – and for good reason considering that nearly half (49%) of American adults carry balances on their credit cards.[1] So it's little wonder that 75% to 80% of all debts settled each year are from credit cards.[2]

It also makes sense when you consider that credit card debt is a major stress on the lives of those adults. Debt.com 's credit card survey revealed that 35% of respondents had maxed out their credit cards in recent years.

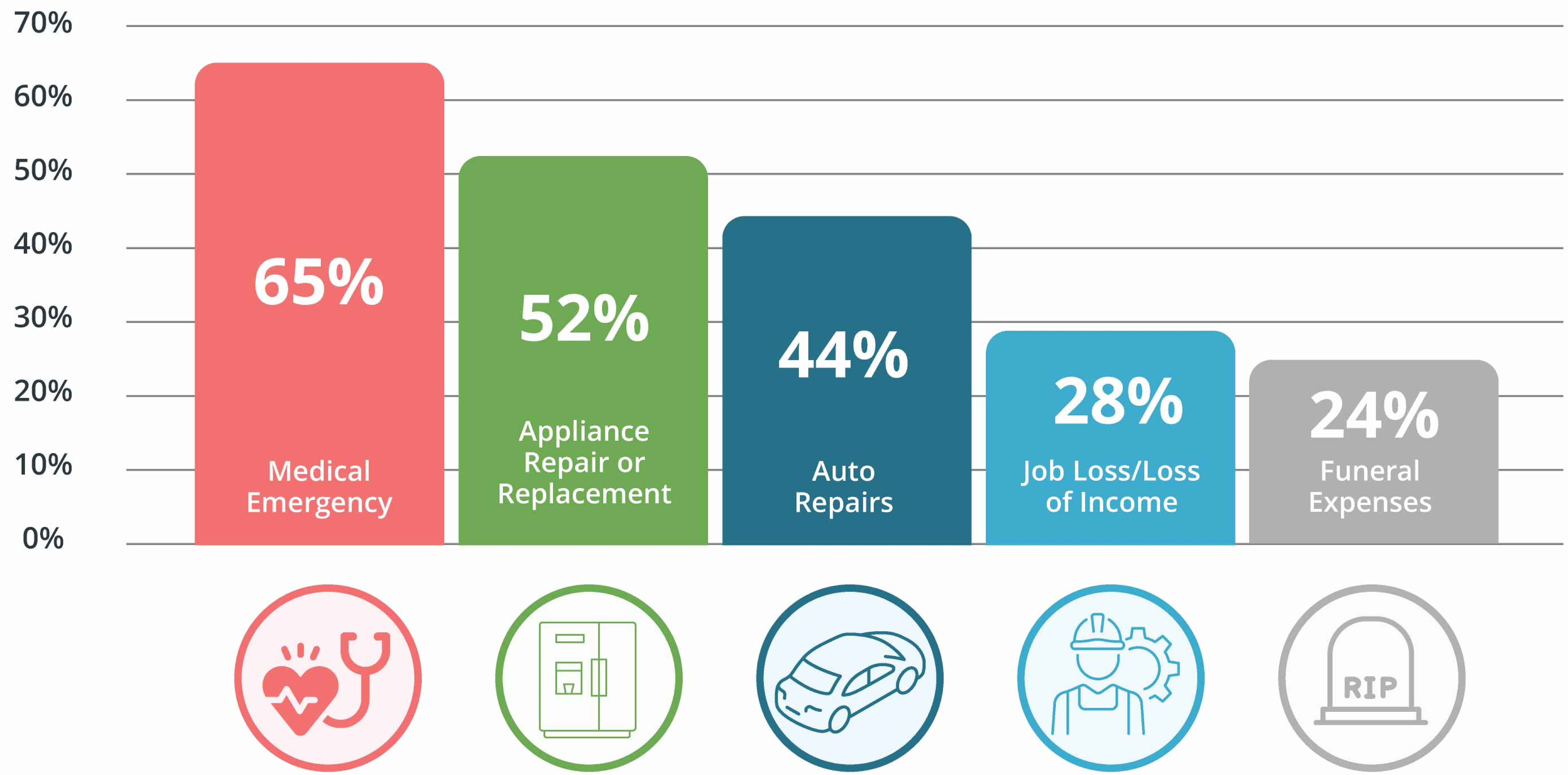
More than 4 in 10 (45%) of respondents cited price increases from inflation as the reason they used their credit cards to make ends meet.



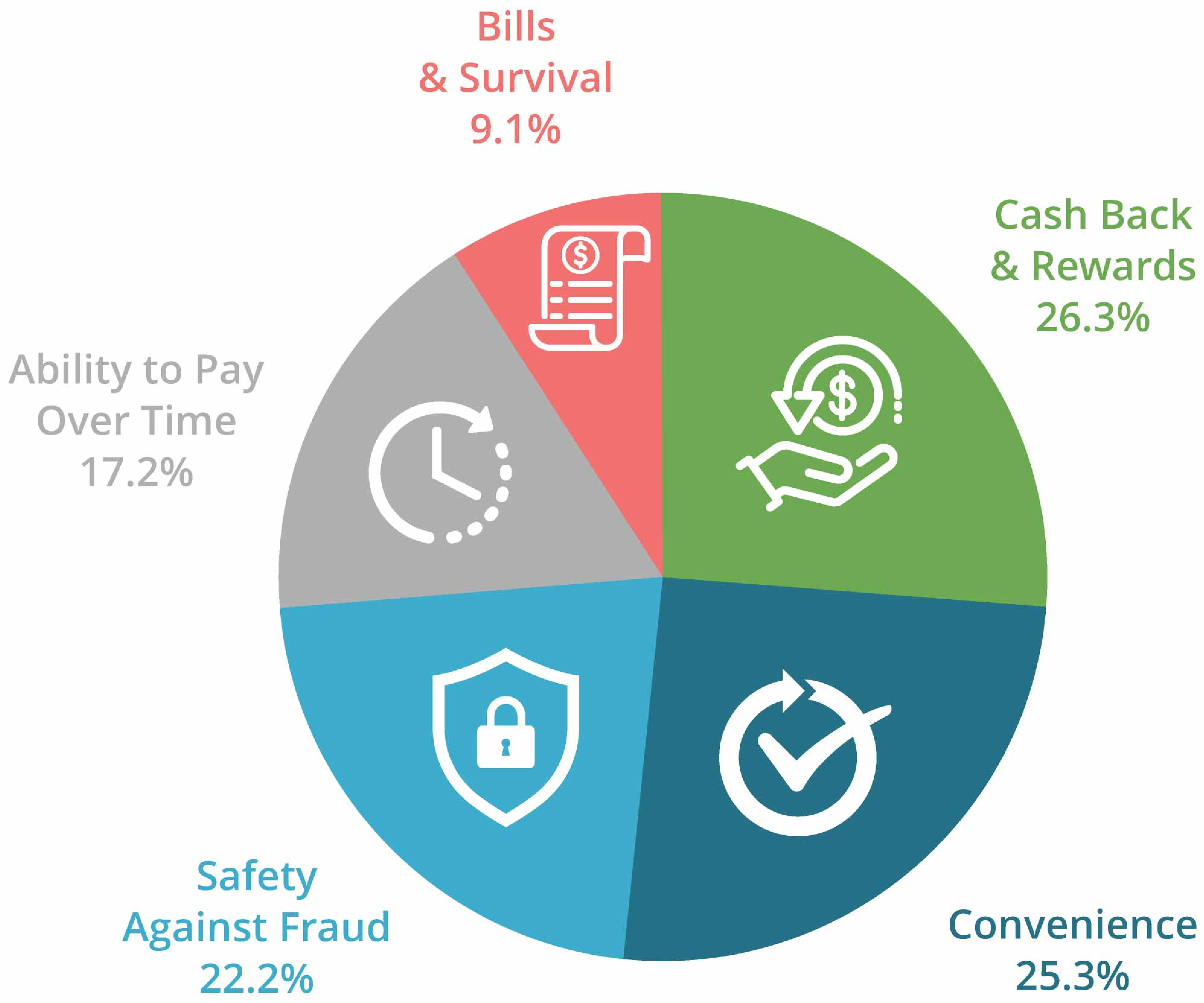
*1 Bankrate, Feb. 14, 2024
*2 American Association for Debt Resolution, April 2024

Fifty-five percent said they would need to rely on credit if faced with a financial emergency. Nearly 9% of all respondents said they got a credit card to pay for a financial emergency.

Of those who opened a credit card due to a financial emergency, the most common reasons cited are...



Top reasons why people use their credit cards



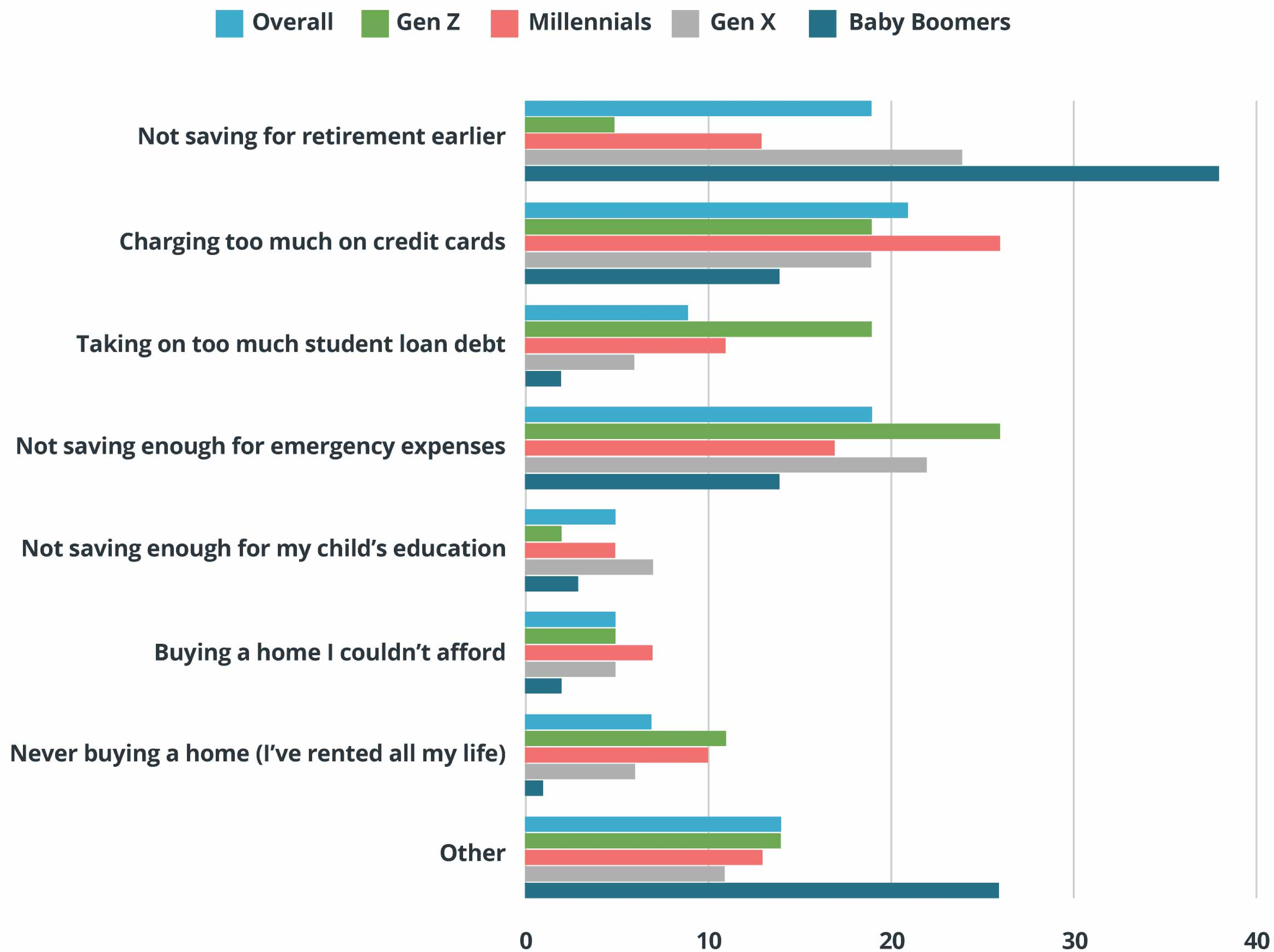
Debt.com's research reported, "more than 3 in 10 feel stressed after using their credit cards" and "more than 37 percent avoid looking at their credit card bills because it's too painful."

That leads Debt.com chairman Howard Dvorkin, CPA to believe that debt settlement isn't just a numbers game.

"Credit cards aren't just ubiquitous, they're dangerous," Dvorkin says. "They cause so much stress so often, it can affect your health. And we know financial health is tied to physical health. So it might not be hyperbole to say: debt settlement might have a health benefit."

When Debt.com asked what people's biggest financial regrets were, the generational results varied, but credit card debt remained high on the list across the board.[1]

Which of the following is your biggest financial regret?



*1 https://www.debt.com/research/financial-regret-survey/

How Debt Settlement Firms Work

01 Consumer Outreach

The company reaches customers who may need help with debt through marketing channels and partners

02 Financial Consultation

The company explains the program and learns about the customer's debt and situation

03 Checking Information

The company reviews the data and credit report to see if they can enroll in the program

04 Presenting the Plan

The company and consumer create a monthly payment plan

05 Joining the Program

The customer enrolls in the program, starts making monthly payments to an independent account (often called a trust account) and stops paying their creditors if they were making payments

06 Saving Settlement Funds

The customer's payments are saved in an independent account managed by an independent trust manager. The settlement firm cannot access this money

07 Starting Negotiations

Once there are enough funds in the account, the firm begins negotiating with the customer's creditors

08 Reviewing Offers

The company shares any settlement offers with the customer. The customer can accept or deny the offer for any reason

09 Paying Settlements

If the customer accepts an offer, the money from the account is used to pay the creditors, either in a lump sum or over several payments

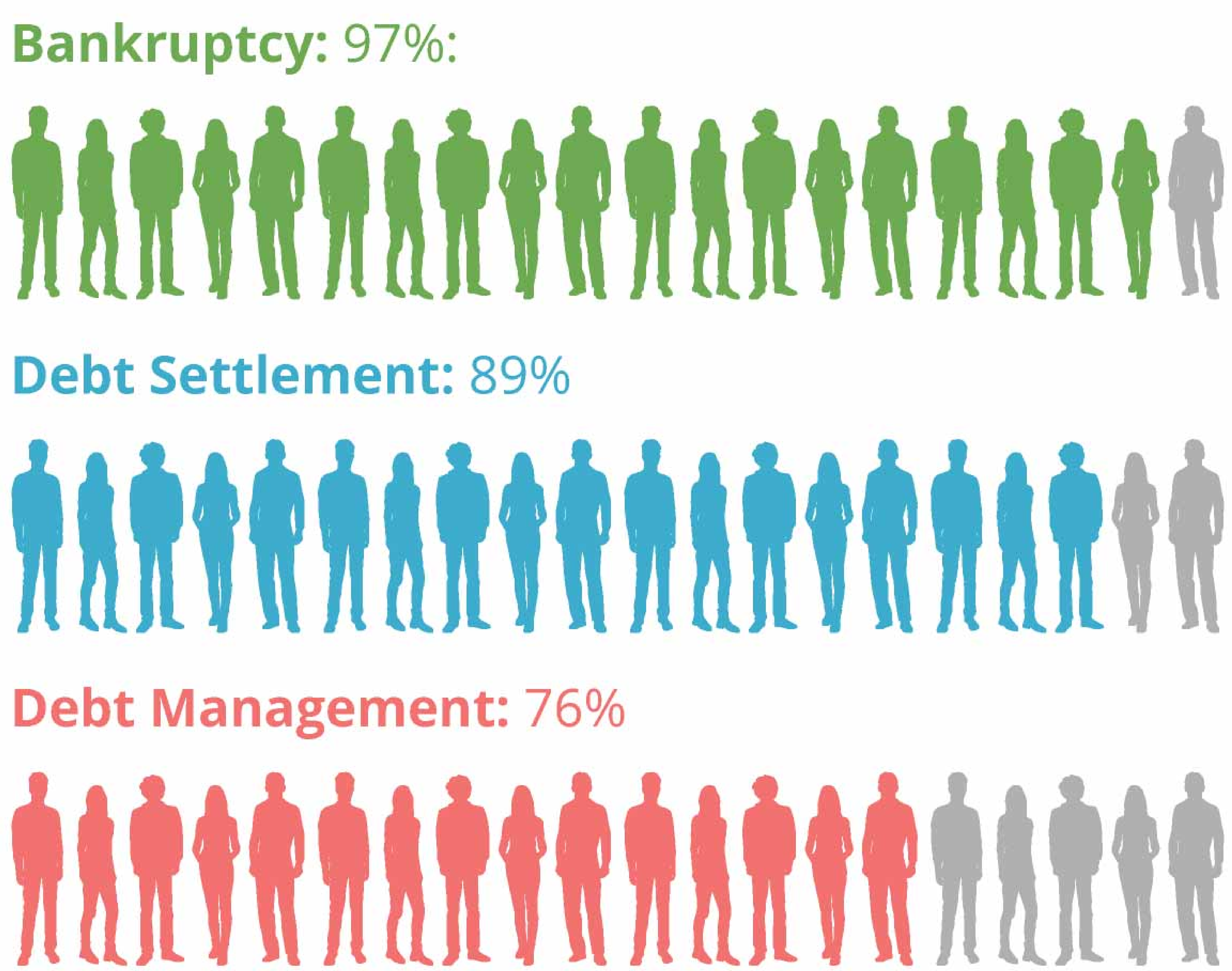
10 Repeating the Process

The firm repeats this process with the customer's other creditors until the customer is debt-free or decides to leave the program

Debt Settlement Comes of Age

Debt.com's experts were mildly surprised that debt settlement had a high level of awareness among the general population – not far behind bankruptcy, which was written into U.S. law with the Bankruptcy Act of 1800.

Nearly 90% of respondents have heard about debt settlement while 97% are familiar with bankruptcy and debt management (76%)



> *"Bankruptcy has a 190-year head start, yet the awareness was separated by only 8%,"* notes Debt.com president Don Silvestri. *"The reason seems clear: It's so much easier to seek out reputable information than it was even a decade ago."*

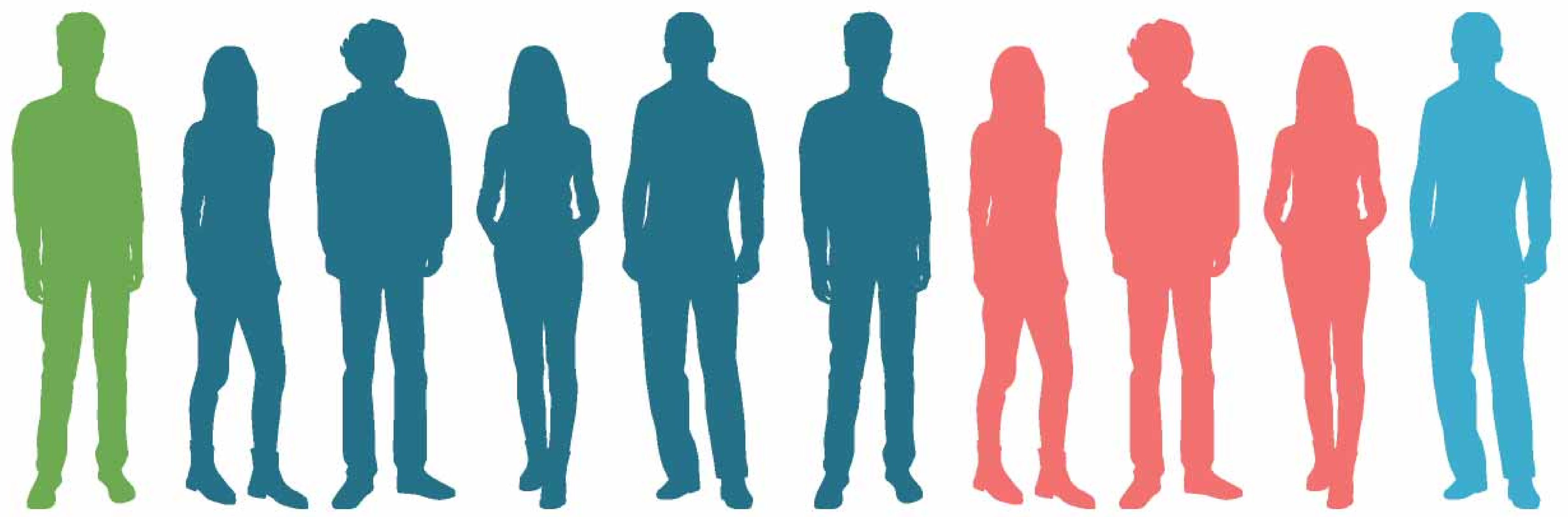
Even more surprising is the number of people who know of debt settlement compared to an older consumer debt relief option called debt management. Debt management is when multiple unsecured debts are combined into one payment, interest rates are reduced to 0%-15%, and the total balances are paid in full.

In comparison, only 75% of respondents are familiar with debt management programs. Even though this solution has been offered by nonprofit credit counseling agencies since the late-1960s.

Of course, this raises another question: What exactly have Americans heard about debt settlement? More respondents considered debt settlement "helpful" compared to bankruptcy and debt management (58% to 49% and 52%). Fewer respondents considered it "risky" (17% to 30% and 15%) and "ineffective" (13% to 15% and 17%).

Nearly 3 in 5 feel debt settlement is a helpful way to deal with outstanding debts

Many Americans know someone who has gone through debt settlement – especially Millennials



12%
Gen Z
(18-29)

42%
Millennials
(30-44)

33%
Gen X
(45-60)

13%
Baby Boomer
(60+)

While more respondents (45%) knew someone who had been through bankruptcy, nearly a third (30%) knew someone who had gone through debt settlement. One age group stood out. Millennials were by far the most familiar with someone who had gone through debt settlement. That was not a surprise to Silvestri.

"Millennials grew up during the Great Recession, survived a pandemic, and have seen their salaries chipped away by inflation. Simply put, they needed a powerful debt solution out of necessity," Silvestri says. "I'm actually pleased by the high number of 42%, because it means those Millennials did not need to pay both the price of bankruptcy and its long-term costs."

Survey Findings on How Much Consumers Know About Debt Settlement

While it's clear Americans are aware of debt settlement and probably know someone who has been through the process, it's less clear if they truly grasp the nuances of it – and bankruptcy too.

While respondents had blind spots when it came to debt settlement, there were similar problems with their knowledge of bankruptcy. For example, just over half (51%) knew that chapter 7 bankruptcy costs more than $1,000. (USA Today reported in January 2024 that the average cost nationally is between $1,800 and $2,300.)

A full 15% believed bankruptcy is "a free service." Meanwhile more than 4 in 10 (44%) knew that credit scores have no impact on your ability to pursue debt settlement.

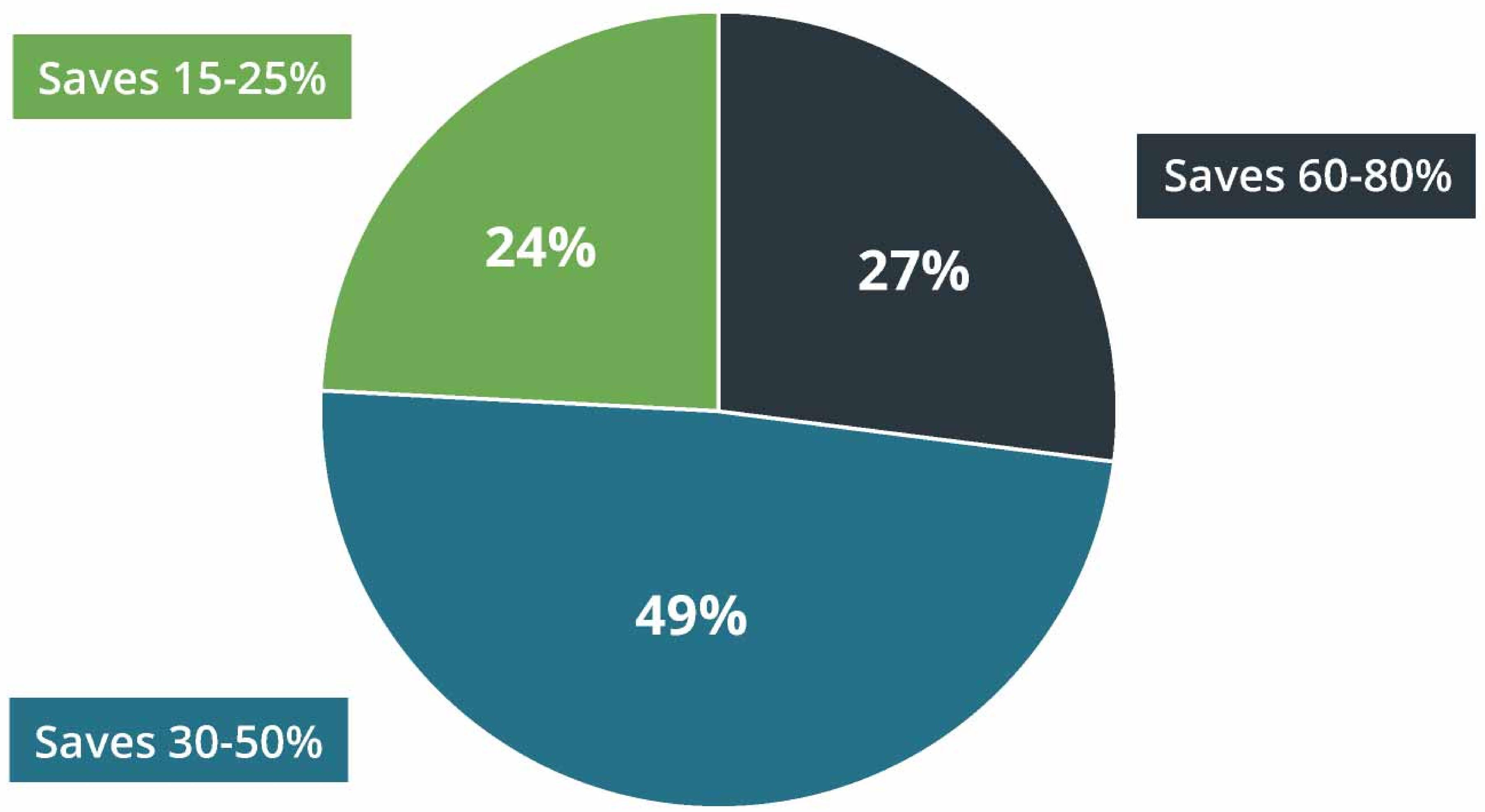
Speaking of credit scores, when asked which is most damaging, 79% correctly responded with bankruptcy, while 21% said debt settlement.

In general, between a fifth and half of respondents knew some details about debt settlement. For example, 49.5% knew debt settlement could cut the average client's debt by 30-50%.

36.5% knew debt settlement costs 20% of the amount forgiven.

How much do you think filing chapter 7 bankruptcy costs?

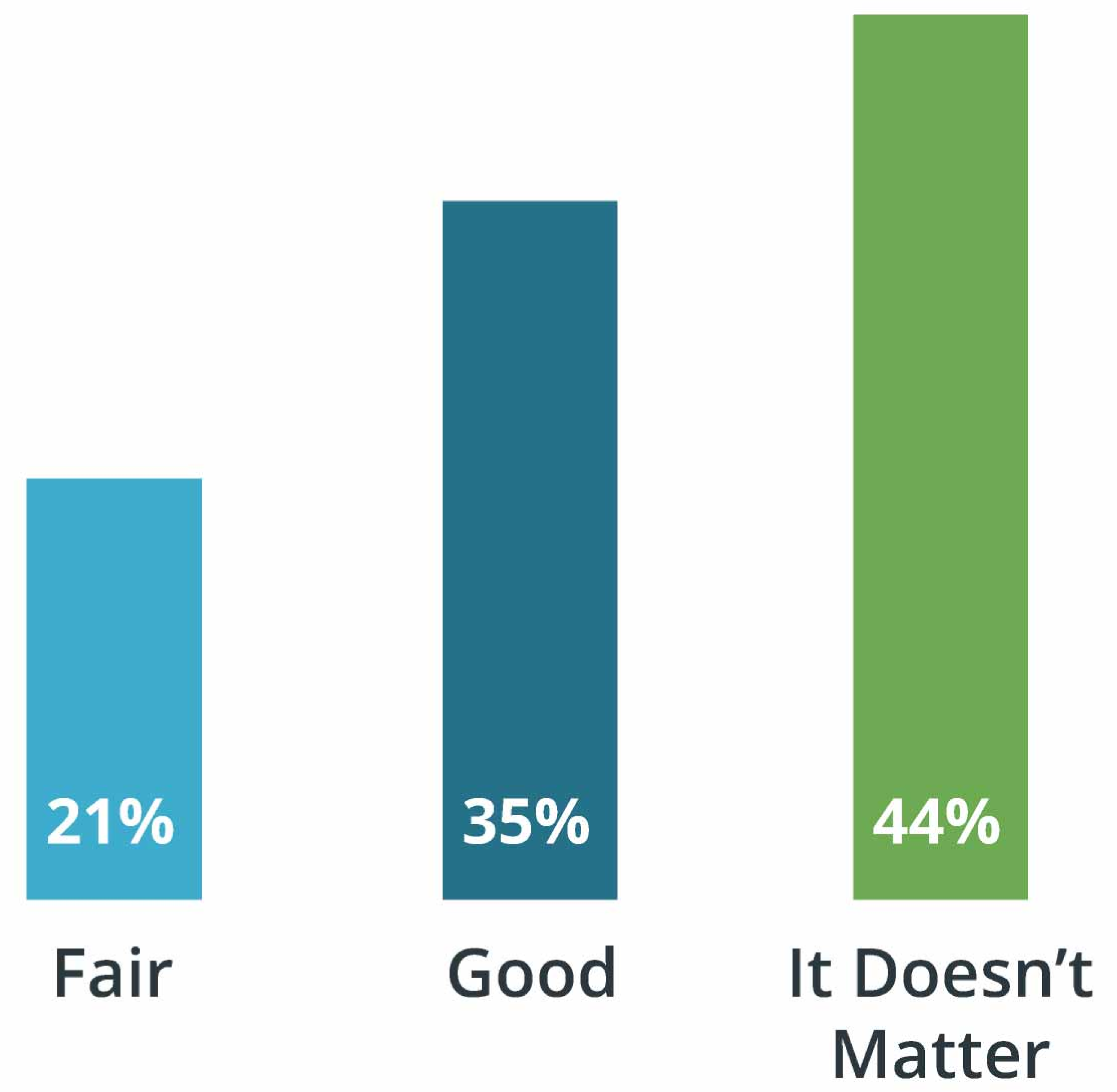
When asked how much debt settlement can reduce debts, survey respondents said...



19.5% knew the decrease to your credit score when using a debt settlement program is “minimal,” because your settlement is paid 'as agreed’ with your creditors in many cases. Your credit score won’t disqualify you from a debt settlement program either. 44% of people answered correctly when asked, “What credit score do you think is needed to qualify for debt settlement?”

In contrast, when asked how a debt management program affects credit scores, 78% stated that the impact would also be ‘minimal’ because all of the debt would be paid in full at the end of the program. They also knew that timely payments had the largest impact on credit scores, and that is a key component to a debt management program.

What credit score do you think is needed to qualify for debt settlement?



For Silvestri, these are encouraging numbers, and he is happy to see how many Americans have done their homework on reputable ways to get out of debt.

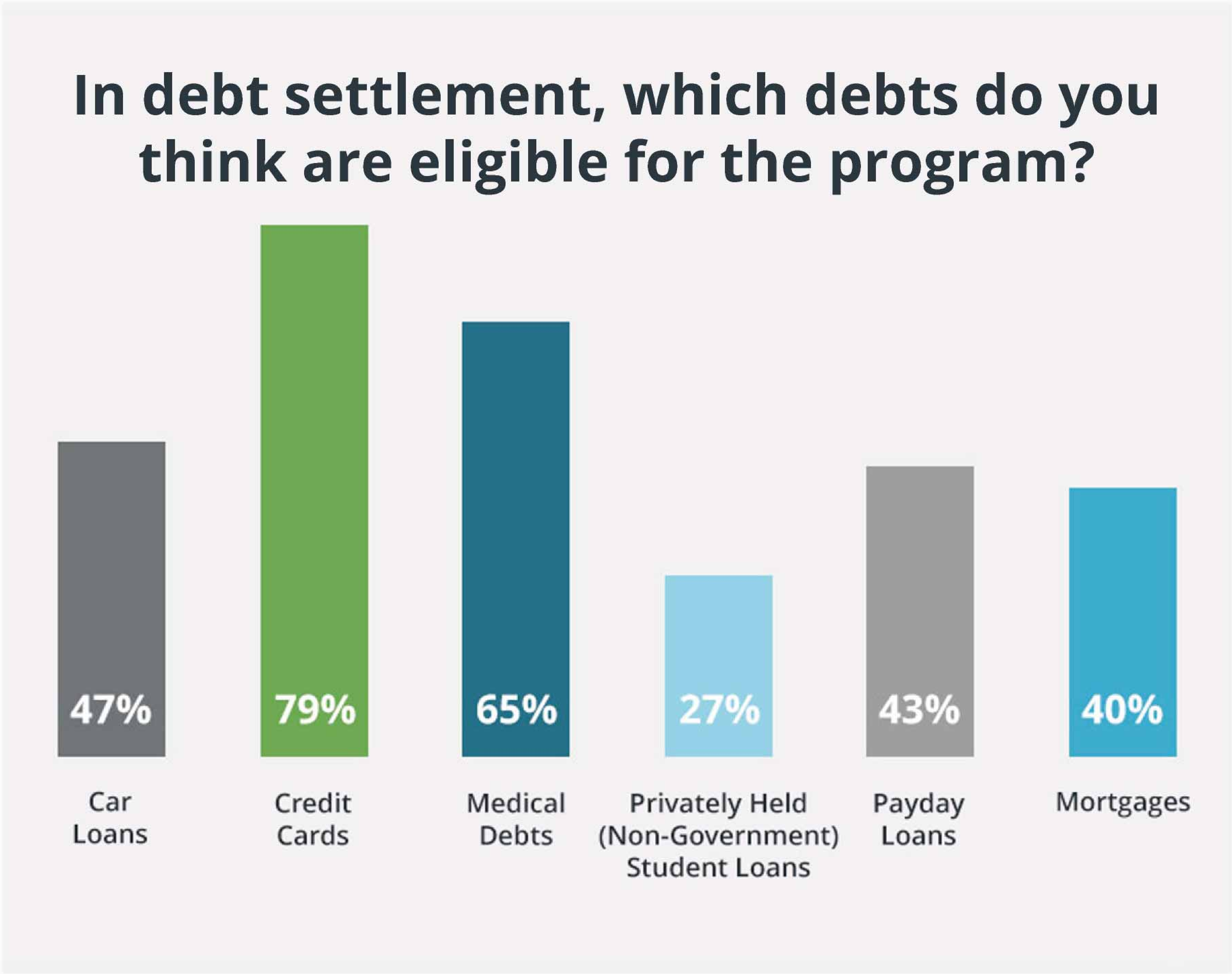
“Debt settlement done right is a powerful tool. Frankly, I’m surprised how many Americans understand these pros and cons. Unlike a consolidation loan, debt settlement is a debt relief service where you can get out of debt quickly to then rebuild your credit.”

Nearly 8 in 10 respondents knew unsecured debts such as credit cards are best for a debt settlement program.

Unsecured debts are not backed by collateral, meaning they are not tied to specific assets like a house or car. Examples include credit card debt, medical bills, and personal loans, where the lender relies on the borrower's promise to repay rather than having the right to seize property if payments are not made.

However, when asked "which debts do you think are eligible?" 4 in 10 selected mortgages, which are a secured debt and won't qualify for debt settlement.

The other 43% of those who said payday loans answered correctly. Meanwhile, 2 in 3 said medical debts, which is true – but not entirely. Medical bills will only qualify for debt settlement after they've gone into collections.



Debt.com
When life happens...

What we do

Debt.com reaches millions of Americans providing expert advice for getting out – and staying out – of debt. Our expert counsel coupled with useful calculators and video education makes understanding money easy and entertaining. While some education aims to sell products, we aim to help Americans find the best solutions to their money issues.

Our one-stop shop makes exploring options simple and safe. We match people seeking debt solutions with proven companies they can trust. How can they trust them? Those companies sign our code of ethics, and we constantly monitor our clients' satisfaction.