



# Staten Island Advance

## Bad credit? Be wary of quick fixes

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Contributed by Karen O'Shea

A growing number of Staten Islanders are faced with out-of-control credit-card bills and sinking credit ratings as a national economic crisis makes it even more difficult to repay debt -- and their desperation is being tapped by credit-repair companies looking to cash in on the problem.

While there are legitimate firms offering credit counseling and debt management, many people are falling for alluring pitches and paying hundreds of dollars for debt relief that never comes. One advertisement from CreditGUARD of America offered a "debt-management program" that could "turn a person's life around" and cut credit-card payments "by 35 to 50 percent, and reduce or eliminate interest."

But CreditGUARD is an 800-number call center that offers debt management for clients but also refers people to other companies, including the Florida-based Consumer Law Center.

Michael Morochnick of New Dorp responded to the CreditGUARD ad and was referred to the Consumer Law Center. But what Morochnick thought was a way out of a financial hole only ended up setting him back \$800 and plunging him deeper in debt.

According to the Florida State Attorney General's office, there are 42 complaints against the Consumer Law Center and an open investigation into allegations of deceptive and unfair practices in debt-management services.

"The record is clear -- when debt booms, fraud booms. Consumers who find themselves in trouble are vulnerable because they are often scared and a little desperate. It's frightening to have debts that are unsustainable and it's very easy in that situation for people to make a quick decision they come to regret," said Travis Plunkett, legislative director for the Consumer Federation of America in Washington, D.C.

To Jackie Morochnick, CreditGUARD's advertisement sounded like a way for her son to pay off his high-interest credit-card balances totaling about \$18,000.

She encouraged him to call CreditGUARD, and before long Michael Morochnick was giving another company, the Boca Raton-based Consumer Law Center, limited power of attorney to negotiate with creditors and deduct \$200 a month from his checking account over the next 62 months for what the Morochnicks believed was a plan to pay off his creditors.

Consumer Law Center withdrew a total of \$800 over the four months from Michael's checking account - - presumably to make payments to Michael's creditors, said the Morochnicks.

But when Jackie Morochnick went last November to take some money out of her own small savings account -- an account she added her son's name to after her husband died three years ago -- she learned her money had been frozen by a creditor going after her son's assets.

"They were supposed to help us but they turned our lives upside down. They took away money from a widow and they made my son's life worse," she said of the Consumer Law Center during a recent interview in the neat New Dorp apartment she shares with her son. Â

## **QUESTIONABLE PRACTICE**

Debt-settlement companies don't pay creditors immediately but accept payments over an extended period of time before trying to use that money to negotiate a lower payoff with creditors, said Claudia Wilner, an attorney with the Neighborhood Economic Development Advocacy Project (NEDAP) in Manhattan.

"In our experience, this is a system that almost never works for anybody because what happens almost immediately is what happened to this client -- the creditors refuse to negotiate with the debt-settlement company. Meanwhile, the amount of money the client owes can close to double because of the late fees and interest and penalty fees," she said.

While the Morochnicks believed they were entering into a debt-management plan promised in the CreditGUARD advertisement, the Consumer Law Center says it promised no such help.

Responding to the Advance through e-mail, the company cited privacy concerns when it said it could not comment on the specifics of the Morochnick case. In an e-mail, the firm said its "network of attorneys sues banks and abusive debt collectors. We do not administer debt-management or debt-repayment plans."

But documents provided by the Morochnicks show Michael Morochnick agreed to pay Consumer Law Center \$200 each month for a little over five years for a total of \$12,400. Consumer Law Center said the maximum settlement to Morochnick's creditors would be \$5,433, or about 30 percent of the \$18,113 he owed in credit-card bills, with Consumer Law Center taking an additional \$4,528 fee.

## **MOUNTING DEBT**

Bank records show the company deducted \$200 from Morochnick's checking account from July through October of last year. The payments stopped when Michael Morochnick's accounts were frozen by one of his original creditors in November.

Mrs. Morochnick said her son is responsible for his credit-card debt -- some of which includes bills run up while he was temporarily out of work and expensive dental work related to an earlier battle with Hodgkins cancer -- but he believed he was on the road to repayment with the Consumer Law Center. Michael Morochnick also filed for bankruptcy in 2004 and ran up more credit card bills after that.

"He tried to set it right ... He was making the payments and doing the right thing," Mrs. Morochnick said of her son, who recently learned his wages will be garnished by a creditor.

They have requested a refund, something the Consumer Law Center says it provides to dissatisfied customers who request it in writing.

Advocates for reforming the credit-card industry say more people find themselves deep in debt because credit-card companies can boost interest rates at any time, sometimes for unlikely reasons and without the expressed consent of the card holder.

Personal bankruptcies in the borough jumped 45 percent last year, to 636 filings, court records show. An increasing number of debt collection and credit card companies are going after Islanders in Civil Court, where nearly 100 cases each week are credit related.

## **COMPLAINTS FILED**

A spokeswoman for the Florida Attorney General said there were 10 complaints against Boca Raton-based CreditGUARD of America, although the company is not part of that state's investigation into the Consumer Law Center, now located in Coral Springs. CreditGUARD is registered as a charitable organization that last year raised \$11.6 million.

Juan Valladeres, vice president of operations for CreditGUARD, said his company specializes in debt management but refers people to other companies when it cannot help clients. He said CreditGUARD does not receive any payment from the companies it refers clients to.

Valladeres was not aware of the investigation into Consumer Law Center, but promised to look into the matter.

A spokesman for the Federal Trade Commission said just because an organization is "nonprofit, there's no guarantee that its services are free, affordable or even legitimate." The FTC suggests consumers seeking help with credit card debt find an agency that offers in-person counseling. Many universities, military bases, and credit unions also operate credit-counseling programs, according to the FTC.

Experts like Plunkett from the Consumer Federation of America say people should avoid making up-front or automatic payments to companies and check with the state attorney general, local consumer-protection agency or Better Business Bureau to see if complaints have been registered against a company.

"The advice is to slow down and take a deep breath and do some smart shopping first. Look to see the firm you are dealing with is reputable," he said.

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