



Ontario to crack down on debt-settlement agencies

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Amid sky-high consumer debt, it's a disturbing sign of the times: a growing number of Canadians are being duped by unscrupulous debt-settlement companies.

Horror stories from debt-laden consumers who have turned to such operators for help, only to find themselves even further in the hole or being sued by their creditors, are prompting the Ontario government to crack down with new legislation to be introduced Thursday.

Already Alberta, Manitoba and Nova Scotia have regulations on debt-settlement companies. The rules in the country's most populous provinces are meant to protect some of the "most vulnerable consumers" from "unfair business practices," according to Ontario Consumer Services Minister Tracy MacCharles.

Debt-settlement companies negotiate with creditors on behalf of consumers and arrange payment schedules or settlements. Consumers pay fees to the companies for their services.

By the end of last year, the average consumer debt load (not including mortgages) in Canada reached a record \$27,485, a 5.9-per-cent year-over-year jump, according to credit monitoring firm [TransUnion](#).

Those who prey on desperate consumers looking to wipe away their debts or restore credit ratings have sprung up in droves recently in Ontario.

"The Ministry of Consumer Services became aware of an upward trend in consumer inquiries and complaints about debt settlement companies in 2011, with the trend continuing into 2012," said Bryan Leblanc, a spokesperson with the minister's office.

Complaints sometimes come from consumers who've discovered the debt-settlement companies they've turned to haven't been paying their creditors much, if anything.

Jeffrey Schwartz, executive director of the non-profit [Consolidated Credit Counseling Services Canada, Inc.](#), noticed the same trend after he says tough legislation in the United States sent “fly by night” operators to Canada to find more “fertile ground.”

“When it became evident that Canadians were going to go a little bit more heavy into debt, all of sudden, and no surprise, these companies would pop up,” he added.

Ontario plans to ban up-front fees, place a cap on fees, mandate transparent contracts as well as a 10-day cooling off period that would allow consumers to back out of settlement agreements, outlaw misleading advertising and revoke licences of non-compliant companies.

Twenty-two debt-settlement companies now operate in Ontario, and each month, the [Ontario Association of Credit Counselling Services](#) receives at least 100 complaints related to the industry.

Since Alberta amended its similar legislation in 2006, there have been just 33 complaints with five sanctions ordered including one licence revocation.

“The number of complaints is low and that is partly reflective of the regulation’s impact,” said Mike Berezowsky, a spokesperson with Service Alberta. “Though, we do know that people who find themselves in debt trouble are typically reluctant to come forward because they’re embarrassed.”

Blair Mantin, a trustee in bankruptcy at [Sands & Associates](#) in Vancouver, said British Columbia badly needs similar legislation, where he has watched the problem escalate particularly in the last six months as desperate consumers turn to him for advice.

“We used to see one case every few weeks – now it’s one to two cases a week,” he said.

One of those cases is Erica, 28, who despite working two jobs, racked up \$18,000 in credit card debt just by trying to keep up with the cost of living in the country’s most expensive city. She turned to a debt settlement company based on an ad she saw on Facebook to help her whittle it down.

“He just made it sound like they are very successful at this,” said Erica, who asked that her last name not be used. “That it was a very common thing.”

But after paying that company almost \$3,800 last year, Erica was hit with a lawsuit by a bank and most of that money had been eaten up in fees to the debt settlement firm.

“I felt like my life is over. What am I going to do? My credit is ruined,” she said. “...I’m not proud of it.”

She has now filed for bankruptcy.

Richard Cooper, who is chairman of the **Canadian Association of Debt Assistance**, which represents a number of debt settlement firms, acknowledged there are some "bad actors" in the industry that make "outrageous claims."

But he says the legitimate companies have been successful in cutting repayments to creditors by up to 60 per cent and worries there's nothing in the Ontario legislation for the consumer. He worries the new rules will limit consumers' ability to get the help they need with their debt.

For Mr. Schwartz, new legislation is a step in the right direction.

"It's going to eliminate companies with less honourable intentions from the marketplace," he said.

Some red flags for consumers nationwide:

- Fees: up-front, no maximums, fees for consultation and educational material
- Inflated promises: massive reductions in debt or reversing negative information on credit reports
- Tactics: high-pressure, demands to cut off communication with creditors, refusal to hold face-to-face meetings and no physical address