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HEARING TESTIMONY:
U.S. SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS
MARCH 24, 2004

Mr. Chairman and Members of the Committee:

Good Morning. My name is Chris Viale. I am the Chief Operating Officer of the Cambridge Credit Family of Companies.

While I have submitted a longer statement for the record, I will use my time now to specifically address three things:

- How we lead the industry in full disclosure;
- How we have rebated more than $14 million to our clients through our Good Payer Program; and
- How we are committed to providing financial education.

Disclosure

At Cambridge the benefits, limitations and costs of our program are spelled out clearly in writing and then reinforced by our counselors to ensure that there is full understanding before any consumer joins our program. At two critical points in the decision-making process we provide a clear written description of our fees and a summary of what this means in dollars and cents to the prospective client.

The first example is our Service Agreement. As you can see, Section I covers "Cambridge's Services, Fees and Sign Up Instructions." This explains our **"**Service

Design Fee", which is equal to one month's payment, for the creation of the payment plan, and our "Payment Program Service Fee", which is 10 percent of the amount the client pays Cambridge each month or $25, whichever is higher. These fees are summarized and presented in an easy-to-understand format at the end of the section. As you can see, the amount paid to Cambridge and the amount paid to creditors is clearly identified. While our Service Agreement has always contained the simplified "Summary of Cambridge's Fees," the example in the box was added in July 2002 as one more way we can be as clear as possible on this issue.

The purpose of the signed service agreement is that it establishes that the potential client understands our services and fees, prior to blinding the consumer's decision-making process with quotes of benefits and savings. We deliberately present this to clients before proposing a payment plan because they need to view the plan within the context of what it will cost them. About 30 percent of people decide not to join our program at this point. Most companies do the opposite; they present savings first, disclosing their fees and terms of service later**.**

The second example is the Debt Management Plan Summary, which lays out the proposed payment plan based on the client's existing balances and our knowledge of the various creditors' guidelines**.** As you can see, the plan summary lists each creditor, the approximate balance with each creditor, and the portion of the proposed DMP payment that will go to each creditor. The monthly service fee to Cambridge is also listed as a portion of the total monthly DMP payment.

The summary further lists:

- The estimated repayment term;
- The total approximate managed debt;
- The one-time payment design fee (noting that it is not paid to the creditors);
- The total estimated monthly fees;
- The average expected good payer rebates;
- The estimated net DMP repayment amount;
- The estimated "on own" repayment amount; and
- The estimated savings the client will experience if they complete the program.

This summary is a relatively new addition to our communications. While it's more information than we are required to provide, we invested in the technology to make it possible because it's helpful to our clients and it again reinforces both the costs and benefits associated with our services.

So, it is not until this point – when the potential client has acknowledged the benefits and fees associated with our services and has been advised of the monthly payment plan – that a consumer makes the decision of whether to join our program.

The Cambridge Good Payer Program

It's important to understand that in most cases, if a client sticks with their payment plan, their upfront design fee will be refunded through our Good Payer Program. Cambridge is the only company in the industry that actually takes the Fair Share money received by creditors and shares it with our clients. The philosophy behind the program is simple: Give clients an incentive for making regular, on-time payments that will also help them financially to get out of debt sooner. For each dollar we receive from creditors for payment on a client's debts, we hold 50 cents in a trust for that client. Contrast this with every other credit counseling company that keeps these Fair Share fees for themselves.

As a client's potential earnings in the Good Payer Program accrue, it is clearly illustrated on their monthly statements. We have submitted information to the subcommittee that contains the details of how this money has been disbursed to our clients. It an enormous amount of data, but the highlights are that, to date: $14,096,000 has been refunded to 75,832 clients. The amount refunded is proportional to the amount of debt managed. A consumer with a higher monthly payment will have higher fees and also receive larger rebates. It is all relative to the debt we are handling, as illustrated in the information submitted to the subcommittee. As you can see on our display, several clients with high debt loads and a high initial fee were refunded over $3,000, even one at $6,000.

We believe this is a tremendously valuable program and would encourage you to ask other companies why they don't do the same.

The Cambridge Commitment to Financial Education

One of the most accurate criticisms of our industry is the lack of true financial education offered to indebted consumers by credit counseling companies. As long as consumers remain ignorant of how the lending and financial communities work, personal debt will always be a problem for Americans. At Cambridge, we're working to change this dynamic. The vast majority of the 40,000 consumers who contact us each month take advantage of nothing more than free access to financial education. Only about 12 percent of consumers who contact us ever join a debt management program.

We offer education through one-on-one counseling; community presentations; a 2 ½ hour video featuring respected credit expert Deborah McNaughton that is given to all clients; monthly financial newsletters covering topics like understanding credit, budgeting, saving for retirement, and buying a home; and our comprehensive financial education web site, GoodPayer.com. We are also working with Junior Achievement to conduct a pilot education program for high schools that we hope to roll out nationally. I have copies of our education materials for you.

Conclusion

I'd like to make one final point and that is to dispel the notion that credit counseling clients are poor, uneducated people with little means or intelligence to help themselves. This is absolutely not true. It has been our experience that credit counseling clients come from productive, tax paying, middle-class households. Statistics show that approximately 30 million households are struggling with credit card debt today. These are people that expect a level of service that is on par to their experiences with other parts of the financial services sector. Credit counseling services of the 21st Century cannot be based on the social service welfare model of the 1950's. Any regulations that ignore this fact will ultimately harm consumers much more than help them.

At Cambridge we are committed to providing credit counseling services to all consumers with a high level of transparency, respect, compassion, and professionalism.

Thank you.