FEE STRUCTURE AND SETTLEMENT OPPORTUNITY POTENTIAL

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Consumers Interested in Debt Settlement, Creditors,
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-Regarding-

Debt Settlement Workshop
Unanswered Panel Discussion Questions

EXHIBIT A: Fee Structure Differentiation

As the debt settlement industry continues to grow and expand in today's deteriorating economy, the need for debt relief is now more apparent than ever. Unfortunately, debt settlement can often be construed as an ambiguous service, mostly due to the flood of 'up and coming' debt settlement companies and the inability to distinguish an industry identity. The majority of debt settlement companies create differentiation by promoting matters such as location, size, client completion testimonials, trade organization logos, and even industry awards and recognitions, however the actual performance of the company still seems vague. Often brushed-over or misconstrued, the program fee structure and allocation of a consumer's funds is absolutely the key indicator of not only the company's performance, but the consumer's financial success throughout the debt settlement program.

Comparisons in fee structure can only be explained with the knowledge of basic program models, and justified by a consumer's funds availability at the program duration of six months. There are three basic models of debt settlement; front-end loaded, flat-fee model and UDMSA compliant. Which is best? These models will not only be explained, but the most important factor to understand about the debt settlement models is the settlement opportunity at six months within settlement program.

A 'front-end loaded' debt settlement program is often referred to other misleading terms similar to, 'early savings' or 'upfront program'. These terms can be deceiving if referred to a model that collects 40% or more of the service fees within the first 3 or 4 months of the program. The remainder of the fees owed to a company is paid over the next 12 months or less. Other variations of this program may be the percentage that is collected within the first several months of the program, or the remainder may be paid off for a longer duration depending on the program term. Typically, this program type is collecting company fees and leaves consumers with little savings at 6 months. For example: If a consumer owed $30,000 in debt and was qualified for a debt settlement program through a company who quoted a 40% settlement savings budget, a 15% service fee on a standard 36 month program, the average monthly payment would be $458 per month. On a 'front-end' loaded program, 40% of the service fees would equate to $1,800, which is about $450 per month for the first four months. Rather than saving those funds for a settlement opportunity at 180 days (6 months), those funds are collected by the company. If the company collected the remaining 60% of the service fee ($2,700) over the following 12 months, the consumer would only have $466 in a settlement savings account at 6 months into the program, leaving very diminutive opportunity for that quoted "40% Settlement".

The Uniform Debt Management Services Act (UDMSA) was drafted by The National Conference of Commissioners on Uniform State Laws (NCCUSL) in July 2005. This drafted legislation lists rules and procedures for "debt-management services". Few states have adopted this Act as a requirement, but the program model could also be referred to as a "performance-

based" program model. 4% of the total debt (not to exceed $400) is collected in the first month, then a $50 per month service fee is collected and 30% of the savings is paid to the company after the settlement is finalized and paid. Settlement opportunities are absolutely created with this type of program, but have only been adopted by few states, and by few debt settlement companies. Please refer to the UDMSA for further detail: http://www.ftc.gov/bcp/workshops/debtsettlement/UDMSA_Final.pdf

Fortunately, a 'flat-fee' program is a hybrid combination of the front-end and UDMSA program. This could be applied in states that do not require a state-regulated debt management program. Many companies that offer a 'flat-fee' model, support and are working towards the effort of the state-regulated UDMSA. Simple to understand, the service fee is paid over 50% or more of the program duration. In most cases, the first month's payment is collected by the company in full. Traditionally, this is collected to create a consumer's file, complete a budget review, and create appropriate account teams for the new client. 100% of the company fees are taken evenly over 18 months for a 36 month program Using the same consumer scenario discussed in the 'front-end loaded' program model, the consumer would have approximately $1,099 at 180 days into a debt settlement program. At six months in the program, this leaves the consumer with 235% more in savings than the 'front-end loaded' program model. Although it is absolutely true that the service fee amount (at the END of 36 months) is the same cost any way you slice it, the difference is that the consumer is in a better financial situation because a settlement opportunity has been created with around $1,099 in a settlement savings account. These funds have been saved for the creditors, so that the debt settlement company can begin engaging more creditors at an earlier stage with the strategy of a better settlement percentage, and create further opportunities for the consumer to settle the accounts and complete the program.

EXHIBIT B: Fee Structure and Settlement Opportunity Potential

The chart below looks briefly at a typical debt settlement client, a consumer with 6 accounts with a total debt of approximately $30,000. The data looks at the difference within the first 12 months of enrollment and what can be accomplished in a 'front-end loaded' model and a 'flat-fee' program model.

Example: Consumer Information	
6 Credit Accounts	
Credit Card #1	$4,628
Dept Store Card #2	$2,025
Credit Card #3	$5,684
Credit Card #4	$4,050
Credit Card #5	$6,911
Credit Card #6	$6,702
TOTAL: $30,000	

Fee Structure Comparison			
	15% Service Fee	**Months 1 6**	**Months 7 12**
'Front-End' Model	**'Front-End' Model= 40% of Fees Over 1st 4 Months, 60% Over Next 12 Months**		
	SAVINGS	$466	$1,864
	FEES	$2,250	$3,600
	Savings Available to Creditors	**$466**	**$1,864**
'Flat-Fee' Model	**Flat-Fee' Model= 36 Month Program, Fees Even Over 18 Months**		
	SAVINGS	$1,099	$2,418
	FEES	$1,660	$3,160
	Savings Available to Creditors	**$1,099**	**$2,418**

Settlement Possibilities Example:

- In Month 6, Company B is able to settle Card number 2 @ 35%
- In Month 9, Company B is able to settle Card number 1 @ 37%
- In Month 12, Company A is able to settle Card number 1 @ 40% or less

The consumer has reduced 22% of the debt after completing 12 months of the program with the Flat-Fee model. The same consumer would have only decreased the debt load by 15% in the Front-End model. Typically, when an account reaches 90+ days past due, there will be a settlement offer available. Furthermore, debts can typically be sold after charge-off, or approximately 180 days delinquent. If a company's fees are paid up front, this has a major impact on the ability to settle with the originating creditor.

EXHIBIT C: Success Rate Explanation and Calculation

The successful completion of a debt settlement company is determined by the initial set-up of the program terms and model, as described above. Equally important, the company's actual settlement success rate is a crucial factor as well. A prodigious amount of companies advertise the settlement statistics on websites. The formula for success rate of a company is comprised by three primary factors; the total number of clients, the average debt load, and the average length of the program. In order for a consumer to effectively understand the company's performance, a formula is briefed below:

Simple Calculation: Success Rate			
A =	Total Number of Clients Enrolled	**X**	Avg. Debt Load
Monthly Inventory Movement Goal=	A (Answer from Above)	/	Avg. Length of Program Term

Companies in the industry could be more forthcoming in how they calculate success to potential clients. This data should also be scrutinized by an independent third party auditor for accurate results. Below, you will find a simple way to determine what type of inventory movement there should be when judging a company's success in the debt settlement marketplace.

Simple Calculation: Success Rate Example: Company A	
Active Clients	20,000
Avg. Debt Load	$30,000
Avg. Program Term	39

Success Rate = Inventory Movement			
A =	Total Number of Clients Enrolled	**X**	Avg. Debt Load
	20,000	***X***	***$30,000***
Monthly Inventory Movement Goal=	A (Answer from Above)	/	Avg. Length of Program Term
$15,384,615	***$600,000,0000***	*/*	***39***

Simply put, if a company is not moving the necessary inventory on a monthly basis, they are not going to successfully graduate the client in the period contracted. As depicted above, it is quite easy to determine a company's overall success rate when given the data necessary to perform this simple calculation.