JOHN PUCCIO, CEO AND PRESIDENT
CAMBRIDGE CREDIT COUNSELING CORP.
TESTIMONY

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

Mr. Chairman and Members of the Committee:

My name is John Puccio, and I am proud to say that I am President and Chief Executive Officer of the Cambridge Credit family of companies ("Cambridge"). I want to emphasize four points in my oral testimony today, and I've submitted a longer written version for the record.

First, the companies I created in 1993, and which now employ over 400 people located in Massachusetts, New York and Florida, help hundreds of thousands of consumers with the education and support they need to get out of burdensome credit card and other unsecured debt. We have all heard the statistics on the explosive growth of consumer debt. It will only get worse in our view. The debt management education we provide will help. But this Subcommittee needs to understand that reform of the credit counseling industry is only a small part of the solution.

I don't see any creditors sitting at this table, and I believe they should be here. We need to ask certain creditors why they "democratized" access to credit so permissively? Why they persist with policies of sky-high interest rates in a historically low-interest rate environment? Why they impose overly stringent late payment terms that result in costly fees and more interest charges? Why creditors sometimes make it difficult for consumers to enter debt management programs? You can attack the credit counseling industry, and reforms are needed, but one day you're going to have to ask the creditors why they make it virtually impossible for well-intended, hard-working people even to tread water much less to catch up with and pay off their credit card debt.

Cambridge is an essential part of that solution. We educate consumers about their options, and if a debt management program makes sense for them, we consolidate their credit card and other unsecured debt, and play a role as their advocate with creditors so they can obtain lower interest rates, a critical ingredient to getting out of debt as quickly as possible. Under our debt management plans, consumers who were paying interest rates as high as 18 to 29 percent can pay their debt off within five years, often times at rates in the 6 to 9 percent range. While your staff succeeded in finding a disgruntled Cambridge customer, which it could have done for virtually any business in this country, our consumer complaint rate has been less then one percent (about 600 complaints to external agencies out of 230,000 clients served in our over six years in operation). And we have many, many satisfied and happy clients that were also available to this subcommittee if you had chosen to speak with them.

We do charge our clients a fee for this service, but as my colleague Chris Viale made clear, consumers are fully aware of our fees – and they pay them because they understand the benefits of the Cambridge service. Full, honest and up-front disclosure about fees so that consumers can make an informed choice is at the core of our service.

Parenthetically I would note that our fee model puts the power in the hands of consumers. We rely primarily on those fees to provide service. Virtually all other credit counseling companies are more dependent on the so-called “fair share” payments from creditors. That makes them beholden not to the consumer but to the creditors. And as Chris Viale has explained, we are the ONLY credit counseling organizations that rebate to consumers any portion of the fair share payments we receive from creditors – a total of more than $14 million back in our clients' pockets.

Second, Cambridge is licensed to do business and is examined and regulated by the appropriate state agencies in Massachusetts, Michigan, Maine, and Connecticut. In New York, its sister company is licensed and regulated. We are operating with ample and expert government supervision. The Subcommittee staff attorneys are not the first government officials to review our business practices. Cambridge Credit's fees have been examined and approved by the Department of Banking of the State of Connecticut; the State of Maine Department of Professional and Financial Regulation, Office of Consumer Credit Regulation; and the Michigan Department of Consumer and Industry Services, Office of Financial and Insurance Services. Those state departments license Cambridge Credit. Its sister company, Cambridge/Brighton Budget Planning Corporation, is licensed and regulated by the New York State Banking Department. While legitimate concerns have been raised by the U.S. Federal Trade Commission (FTC) and the Internal Revenue Service (IRS) in their Consumer Alert about whether <u>some</u> not-for-profit credit counselors have been attempting to use their tax-exempt status to circumvent consumer protection laws, that is simply not the case with <u>Cambridge</u>. In those states where Cambridge is licensed and doing business, it is subject to regulatory oversight and annual examinations comparable to commercial banks.

It simply is not illegal or profiteering when one's fees are regulated by state enforcement and banking authorities and, as in the case of Cambridge, one happens to be successful in attracting consumers to a service that provides a benefit. In New York, for example, the Banking Department has licensed Cambridge's sister company to conduct its programs and has approved its fee structure under Article 12 –C Banking Law sec. 585 (fees charged to consumers cannot be "unreasonable" as determined by the Superintendent of Banks).

Third, Cambridge has operated on a transparent basis not only with these state agencies, but with the IRS as well. The core and material business relationships this subcommittee may question me about today have been disclosed to the IRS as required. We have filed every form required by every pertinent government agency in a timely and accurate manner. Moreover, as I think your staff will attest, since your first contact with Cambridge almost four months ago, Cambridge officials and its attorneys and accountants have cooperated fully with your staff, answered all questions and provided every requested document.

Fourth, let me get right to the main issue for this panel. Why has Cambridge operated as a tax-exempt not-for-profit, while also doing business with tax-paying for-profit affiliated entities, which I also own and control? Cambridge operates as a not-for-profit because most creditors and most state laws ***require*** that we be a not-for-profit to provide credit counseling and debt management. We have no choice but to operate as a not-for-profit, if we want to help consumers, and we have done so in a way that fully complies with the requirements of our 501(c)(3) status. Moreover, this structure has allowed the Cambridge organization to fulfill its educational and credit counseling mission.

At the same time, operating nationally and responding to over 40,000 calls from consumers seeking assistance EVERY MONTH, as well as remitting approximately $300 million to creditors on an annual basis in 2003, we've had to look for ways to operate at that scale and with efficiency while still dealing with a patchwork of state laws. To do that, we utilize three affiliates that offer services to Cambridge as well as to other related and unrelated entities. Let me briefly outline those companies:

Brighton Debt Management Services (formerly Brighton Credit Corporation of Massachusetts) – provides centralized back-office services as efficiently as possible; clerical and administrative services are not part of the educational mission of Cambridge, and so it's appropriate that the back-room operations be separated from Cambridge.

Cypress Advertising & Promotions – permits Cambridge to benefit from the 15 percent discounts typically paid to advertising agencies; and

Debt Relief Clearinghouse – which advertises debt relief services on a national basis and provides Cambridge with potential clients; due to restrictions on advertising in the credit counseling industry in certain states, Cambridge itself cannot advertise on a national basis, since it is not licensed in every state in the U.S.

These three companies were established to provide services to related and unrelated companies. Have I profited from these three affiliated companies? Yes, I have. But so have consumers, with more educational tools and better, higher quality services and support to help them get out of debt. Each entity was set up with the advice of a major accounting and law firm, has engaged in transactions with Cambridge at their fair market value, and has been disclosed to the IRS. This is what the law allows. And, indeed, it's better for Cambridge to engage in fair-market transactions with for-profit affiliates that have been efficiently designed and tailored to do business with the unique factors associated with a credit counseling company, than with other non-affiliated for-profits. (I might add, in the early days of Cambridge, the not-for-profit had no history and was therefore unable to obtain the necessary credit to sign for office leases and equipment purchases. I had no choice but to utilize a for-profit affiliate and sign personally – assuming substantial personal risk – to obtain the necessary credit to purchase the equipment and buy these services.)

Finally, let me conclude by saying that I want to work with the Congress, the FTC, and the IRS to devise federal guidelines for how this industry should operate in the future. Congress should enact ***federal*** consumer protections and ***federal*** rules-of-the-road for this industry – with enforcement clearly under the jurisdiction of the FTC and the IRS. The patchwork of state laws that deal with credit counseling and the current not-for-profit structure are outdated. Tax-exempt not-for-profit credit counselors who are dependent on the credit card companies for their revenues face an inherent conflict of interest as to whom their master is: the banks or the consumer. At Cambridge, we're devoted to the consumer. And we believe that once the Subcommittee concludes its hearing, Congress ultimately has before it the higher mission of figuring out which is best for consumers and the country: tax-exempt not-for-profits that are dependent on the banks, or tax-paying for-profit credit counseling agencies that present a conflict-free, fee-for-service business model that consumers are familiar with and that works in every other financial services sector.

Behind this session today I'm sure are the efforts of a group of credit counseling companies with a social services mentality and model that enjoys a near monopoly in this industry. The Cambridge Revolution threatened that monopoly, which we're sure is part of why we have been put in the position of defending ourselves.

While Cambridge has strictly complied with the requirements of its Section 501 (c)(3) status, if Congress were to enact a law that preempted state requirements about not-for-profit status and required creditors to work with for-profit companies – we at Cambridge would applaud that as helping to empower consumers. Recently, the National Conference of Commissioners on Uniform State Laws expressly reserved the tax-paying, for-profit model in its model statute, which it is currently drafting with the assistance of a cross-section of consumer and industry participants. And so that educational efforts would not fall by the way-side, we would also encourage Congress to require for-profit credit counselors to engage in educational activities, using a model like the Community Reinvestment Act as it applies to banks, requiring for-profit credit counselors to engage in socially advantageous programs, so that the education consumers desperately need would continue and expand.

That's what the Cambridge Revolution is about: education, empowerment, service, choice and, ultimately, financial freedom. Congress can share in that mission or kill it. If you decide to deny Americans these benefits, then whatever you do to me, my employees and our clients here today will pale in comparison to the damage American consumers will suffer as they struggle with a mountainous debt burden that calls out for new innovative solutions.

The choice is yours. I want to work together with Congress to devise federal regulation and enforcement of disclosure and business practice requirements in the credit counseling industry, so that consumers can benefit from an industry based on the choice, empowerment and services that companies like Cambridge provide. We look forward to working with the subcommittee on its final recommendations.

The following answers respond to the eight question areas raised by the Subcommittee in its letter to me of March 5, 2004.

(1) <u>History of the Cambridge Family of Companies</u>

I created the corporations comprising the Cambridge family and their dedicated employees helped to develop them through years of hard work.

Cambridge Credit Counseling Corp. ("Cambridge Credit"), is a not-for-profit consumer credit counseling organization organized (in 1996) under the General Laws of the Commonwealth of Massachusetts and recognized by the IRS (in 1998) as exempt from federal income tax under Section 501(a) of the Code as an organization described in Section 501(c)(3) of the Code. Cambridge Credit is headquartered in Agawam, Massachusetts, and in 1997 it purchased the intangible assets of Cambridge Credit Corporation and Brighton Credit Corporation. (The accounting firm BDO Seidman conducted a valuation of the intangible assets in July 1997 in which it employed the guidelines set forth by the NACVA in reaching the amount $14.1 million. The BDO Seidman valuation of the intangible assets was included in the Form 1023 application for Section 501 (c) (3) status of Cambridge, which was approved by the IRS in 1998. This same valuation was subsequently disclosed in each Form 990 annually submitted to the IRS as well as in the Cambridge financial statements. A second accounting firm, KPMG, in 2003 reviewed and concurred with the BDO Seidman valuation report of 1997.)

Cambridge/Brighton Budget Planning Corporation ("Cambridge/Brighton"), located in Islandia, New York, is a Type "B" not-for-profit corporation under the New York Not-For-Profit Corporation Law, formed on December 6, 1996. It was organized as a separate and distinct entity from Cambridge Credit for the purpose of obtaining a license (granted in 1997) from the New York State Banking Department in order to be able to provide credit counseling services in New York State, as well as such other jurisdictions where it deems it to be appropriate. Cambridge/Brighton was generally inactive from its date of incorporation through May 2002, when it received the approval of its fees from the New York State Banking Department.

Brighton Credit Management Corp. ("BCMC") is a Delaware corporation with its principal place of business in Palm Beach Gardens, Florida. BCMC provides credit counseling services nationwide.

As discussed below, Cambridge Credit, Cambridge/Brighton and BCMC currently procure various services from the following corporations: (i) Cypress Advertising and Promotions, Inc., (ii) Debt Relief Clearinghouse, Ltd., and (iii) Brighton Debt Management Services, Ltd.

CYPRESS ADVERTISING & PROMOTIONS, INC.

Cypress Advertising is in reality an extension of the administrative service bureau (Brighton). Cypress came into existence when it was discovered that advertising agencies receive discounts not available to non-agencies. These discounts typically amount to 15%.

Cambridge benefits from its agreement with Cypress because the discounts received by Cypress are passed through to Cambridge. Cambridge is billed the actual cost paid by Cypress.

These discounts would not be available to Cambridge if these ads were placed with an unrelated entity. Additionally, since the services provided by Cypress are in conjunction with Brighton, Cambridge does not need to employ a staff to create and produce its advertising. Due to the relationship between all the parties involved, management can oversee the advertising function with the confidence of knowing that Cambridge is receiving the best value for its advertising dollars.

DEBT RELIEF CLEARINGHOUSE, LTD.

Debt Relief Clearinghouse was created to advertise various financial services available to consumers, such as credit counseling and mortgage and income tax resolution services, not just for Cambridge, but to serve other related and unrelated not-for-profits and for-profit companies as well. Debt Relief markets to consumers with its nationally broadcast infomercial. Consumers that contact Debt Relief are placed with the appropriate financial agency, based upon their needs. The consumer is never charged a fee for this service.

Cambridge Credit has a subscription services agreement with Debt Relief that provides it with potential clients. There are no fees for providing the potential client. Cambridge benefits from this relationship for the following reasons:

- Cambridge is not distracted from its charitable and educational mission by attempting to oversee the operations of a call routing center that advertises various financial services, other than credit counseling;
- Due to restrictions on advertising in the credit counseling industry, Cambridge does not incur the substantial costs of producing and maintaining multiple infomercials that can only be aired in regions that permit the advertising of credit counseling services;
- Debt Relief will only provide Cambridge with consumers that can become potential clients based upon their demographic information, which is primarily the consumer's state of residence. Cambridge is provided with potential clients that reside in states in which Cambridge is licensed or permitted to freely operate as a credit counseling organization;

BRIGHTON DEBT MANAGEMENT SERVICES, LTD.

Brighton Debt Management Services, Ltd. operates as an administrative service bureau, specializing in the credit counseling industry. Cambridge benefits from its relationship with Brighton for the following reasons:

- Cambridge can focus on its charitable and educational mission without the distraction of administering debt management programs;
- Centralized administration of debt management programs at scale and with enhanced efficiency. Administration is time consuming and requires that attention be paid to detail. Each of Brighton's departments (i.e.-data entry, accounting, IT, human resources, etc.) is comprised of individuals trained to focus on these details. Brighton maintains a diversified staff that is there to satisfy the needs of its clients. Brighton trains its client service staff to provide prompt and courteous responses to Cambridge clients by utilizing its internally designed and maintained custom Client Tracking System and state of the art technology;
- Due to the relationship between the parties, Cambridge can maintain high standards of quality, methods, practices and accountability of Brighton's provision of administrative services.

The agreement between Cambridge and Brighton includes the extensive list of services provided. Removal of these functions from the exempt organization enhances the overall charitable and educational mission.

(2) The Terms of the Administrative Service Agreement Between Cambridge Credit Counseling Corp. and Brighton Debt Management Services

Pursuant to its Administrative Services Agreement with Brighton DMS, Cambridge Credit has engaged Brighton DMS to provide all routine “back office” processing (mailing, correspondence, etc.), ongoing customer services (both with customers and creditors), and record-keeping services that are required to be performed in connection with Cambridge Credit’s Debt Management Services. In addition, Brighton DMS provides Cambridge Credit with computers, furniture, equipment and supplies used by Cambridge Credit’s credit counselors in connection with the performance of their Credit Counseling Services.

For the fiscal years ending July 31, 1997 through July 31, 2002, Cambridge purchased its back office services from Brighton Credit Corporation of Massachusetts (“BCCMA”) for a fee equivalent to the actual cost incurred by BCCMA, as disclosed in the Form 990’s filed for each of those fiscal years.

Currently, Cambridge Credit pays Brighton Debt Management an annual fee per client based on a formula (the payment program service fee minus 300 dollars), which has been reviewed and approved by KPMG, the accounting firm, as representing fair market value for the services provided.

(3) The Fee Structure of the Cambridge-Brighton Credit Counseling Agencies

Cambridge Credit, Cambridge/Brighton and BCMC all follow the same fee structure and have done so since Cambridge Credit’s inception in 1996. When new clients first enter into a contract with Cambridge Credit, they pay it a one-time initial fee, in an amount equal to one of the consumer’s regular monthly payments under his/her customized Debt Management Program (the “Payment Design Fee”), which as stated in the customer Service Agreement is for the design of the consumer’s customized Debt Management Program.

The clients then pay to Cambridge Credit a monthly service fee equal to the greater of: twenty-five dollars ($25) or ten percent (10%) of the consumer’s regular monthly payment under his/her customized Debt Management Program (the “Program Service Fee”), which is customary in the industry. This Program Service Fee is a maintenance fee to cover the servicing of the client’s account.

The written Service Agreement between Cambridge Credit and the consumer describes in detail not only the services to be performed under the Debt Management Program, but also the fee structure associated with such services.

In addition to the fees described above, in connection with Cambridge Credit’s account payoff service, Cambridge Credit receives fifty percent (50%) of any negotiated reduction in principal due, provided that such sum does not exceed ten percent (10%) of the original debt.

When a customer makes a monthly payment to Cambridge Credit, Cambridge Credit retains 10% of those monthly payments for itself, and disburses the other 90% of the payments to the clients’ creditors.

Once the creditors receive this money, they pay a “Fair Share” percentage (currently approximately 4%) back to Cambridge Credit. Unlike its competitors that typically keep 100% of the “Fair Share” payments from the creditors, however, Cambridge Credit, through its “Good Payer Program®” rebates 50% of the “Fair Share” payments back to its clients who qualify under the terms of the program by making on-time payments for six months in a row, thus distinguishing it from its competitors and making its debt adjustment service more desirable to consumers. Since 1996, the Cambridge companies have disbursed over $14,000,000 to their clients, thus significantly reducing any fees paid by clients for Cambridge Credit's services.

Cambridge Credit's competitors generally perform debt management services for their clients under a fee structure whereby new clients first signing on pay a fee, usually $60 to $75. The clients then make monthly payments to the competitor. The competitor generally keeps 10% of those monthly payments for itself and disburses the other 90% of the payments to the clients' creditors. Once the creditors receive this money, they pay a "Fair Share" percentage back to the competitor, which the competitor keeps entirely for itself.

Although Cambridge Credit's initial one-time fee is higher than its competitors' initial fee, Cambridge provides extensive and comprehensive educational programs and a higher level of service to its clients. The clients' monthly payments are generally the same under either program, and Cambridge Credit's eligible clients (those who pay the required payment in a timely manner) receive rebates on their payments whereas the competitors' clients typically do not. This results in a substantial overall savings to clients of Cambridge Credit over the course of their repayment term. This overall savings to clients is Cambridge Credit's competitive advantage and contributes to Cambridge Credit maintaining a high customer retention rate.

Cambridge Credit's fees have been examined and approved by the Department of Banking of the State of Connecticut; the State of Maine Department of Professional and Financial Regulation, Office of Consumer Credit Regulation; and the Michigan Department of Consumer and Industry Services, Office of Financial and Insurance Services. Cambridge Credit is licensed by those state departments. The New York State Banking Department has licensed Cambridge/Brighton to conduct its programs and has approved Cambridge Credit's fee structure pursuant to Article 12-C, Section 585 of the New York State Banking Law.

(4) **Counseling and Education Provided by Cambridge Credit to the Community and its Customers**

Overall, Cambridge Credit's mission is to promote a credit-educated society by providing the public with certain resources to assist the public to be successful in managing their spending and credit practices, building a financial future, and avoiding the incidence of personal bankruptcy. In furtherance of accomplishing this educational and charitable mission, Cambridge Credit engages in the following principal educational activities:

(A) conducting educational outreach programs, services and other efforts to disseminate information and provide instruction to the general public related to personal finance and debt management, including, without limitation, concerning the subjects of budgeting, buying practices, debt reduction strategies and the sound use of consumer credit ("Public Outreach Programs"); and

(B) offering counseling assistance, guidance and information directly to the general public related to budgeting and unsecured consumer debt (*e.g.*, credit card debt, student loans, outstanding medical bills, etc.) ("Credit Counseling Services" and collectively with Cambridge Credit's Public Outreach Programs, "Educational Activities").

It is intended and anticipated that Cambridge Credit's Educational Activities will enable the majority of consumers who seek help from Cambridge Credit to take better control of their personal finances and move towards establishing a debt-free lifestyle.

As an integral part of Cambridge Credit's Educational Activities and in furtherance of its mission to educate consumers regarding managing consumer debt and decrease the incidence of personal bankruptcy, Cambridge Credit has developed and implemented what it considers to be the most responsive and effective personalized debt management services program in the industry ("Debt Management Program").

See APPENDIX A for a more detailed description of Cambridge and its educational activities.

(5) Fair Share Paid to Cambridge by Creditors As Well As Information Related to the Nonpayment of Fair Share by Any Creditors

We already have provided this information to the Subcommittee, and we'd be happy to answer any questions about it.

(6) Methods of Compensation to Cambridge Credit Counselors, Including Any (a) Bonuses, (b) Contests, or (c) Any Other Method of Reward

Simply stated, the level of professionalism in the credit counseling industry is poor. In order to avoid this problem, Cambridge compensates its counselors in a manner that aligns their interest with the interests of the clients. Our counselors average a yearly income of approximately $43,000. Their pay is based on factors such as how many consumers they assist, the education delivered, and more importantly, the success of our clients.

There is a popular notion that performance incentives encourage counselors to act in their own best interests, rather than in the interests of consumers. This is not true. With the right incentives (at Cambridge we focus on education and retention as well as enrollment) and compliance measures (our processes are ISO certified and our computer systems are set up to prevent the unauthorized or inappropriate enrollment of clients), we have been able to attract and retain quality counselors, transforming the counseling position from a social service job to a true career. It's been our experience that providing a high quality service in a compassionate, professional manner gets good results for consumers: Fewer than 3 percent of our clients file for bankruptcy, and 34 percent graduate from our program. We feel that these results are much stronger than any other company in the industry can produce, or is willing to publish, and our pay structure is a big part of this success.

(7) Actual Cost of Servicing a Debt Management Plan for Brighton DMS

The approximate cost of servicing a debt management plan is in the range of 21 to 23 dollars per plan per month. This cost was calculated by accumulating all costs associated with servicing a debt management plan divided by the active clients for the period/month.

(8) Market Share of the Credit Counseling Industry Possessed by the Cambridge family of corporations.

We estimate that the Cambridge family of companies represent between five to seven percent market share of the credit counseling industry.

APPENDIX A

DESCRIPTION OF ACTIVITIES

A. Public Outreach Programs

Cambridge Credit is continually researching and developing educational tools in its effort to inform, educate and instruct the general public on sound and effective consumer credit practices, which are generally made available to consumers regardless of their personal financial circumstances. Currently, Cambridge Credit provides the following Public Outreach Programs to the public free of charge in furtherance of achieving its educational and charitable mission:

(i) *Internet-Based Financial Educational Resource Center*. Cambridge Credit, together with affiliated entities, maintains an internet-based Financial Educational Resource Center as a website that can be accessed by the general public from a link on Cambridge Credit's home internet web page (*www.cambridge-credit.org*) or directly at *www.goodpayer.com.* Cambridge Credit's Financial Educational Resource Center provides a wealth of information designed to assist the public with understanding consumer credit and debt reduction strategies, including, for example, informative articles on budget planning, use of credit cards, and addressing financial emergencies.

(ii) *Cambridge/Brighton Quarterly*. Cambridge Credit produces a quarterly newsletter that informs, educates and instructs the public on issues related to budgeting, spending practices and the appropriate use of unsecured consumer debt. The newsletter is distributed free of charge to consumers utilizing Cambridge Credit's Public Outreach Programs and Credit Counseling Services and those participating in Cambridge Credit's Debt Management Program, as well as to any other interested party. In this regard, Cambridge Credit's quarterly newsletter is made available both in hardcopy as well as on the Internet through its website.

(iii) *Employee Assistance Outreach Program*. Cambridge Credit offers an Employee Assistance Outreach Program. In general, this program involves representatives of Cambridge Credit visiting local businesses to give educational seminars to employees regarding managing credit and personal finances. Local businesses are made aware of the program through local chapters of the Better Business Bureau and Chambers of Commerce, as well as through Cambridge Credit's participation in public seminars and community events. Achievement of the goals of this Program has been enhanced by the election of Cambridge Credit's General Manager and Secretary to the Board of Directors of the Better Business Bureau of Central New England, Inc. on May 16, 2003.

(iv) *Consumer Financial Management Seminars/Scholastic Sponsorship Events.* In addition to offering seminars to the employees of local businesses, Cambridge Credit provides seminars to other interested groups, including, in particular, high school and college students. One of the ways by which Cambridge Credit reaches this student audience is by participating as a sponsor of a variety of high school and college athletic and social events, which Cambridge Credit anticipates will reach a substantial number of high school and college students. Cambridge Credit believes that educating and instructing this particularly financially vulnerable group at an early stage in their maturity towards financial independence and responsibility is vital to creating a society that is knowledgeable about consumer credit.

(v) *Bulletin Board*. Cambridge Credit serves as a community resource by providing an internet Q & A forum for consumers to ask questions regarding personal credit and debt management. Cambridge Credit posts its responses on its website so that they are accessible to the public at large. (See the "Ask Bill" link on Cambridge Credit's website).

B. Credit Counseling Services

A significant portion of Cambridge Credit's Educational Activities involves providing one-on-one counseling services to individuals who contact Cambridge Credit upon becoming aware of Cambridge Credit's counseling programs through Cambridge Credit's website and general advertising activities, which are described in greater detail below. Cambridge Credit assists the public with understanding and managing their unsecured consumer debt by providing direct one-on-one access to credit counselors via telephone and in-person sessions.

Because Cambridge Credit's Credit Counseling Services are vital to achieving Cambridge Credit's charitable and educational mission, Cambridge Credit and its affiliates have developed a specialized training and certification program designed to produce the highest caliber credit counseling staff in the industry.

As referenced immediately above, once a consumer calls into or is forwarded to Cambridge Credit, the consumer is entered into Cambridge Credit's custom-tailored workflow software and directed to one of Cambridge Credit's qualified credit counselors. The credit counselor evaluates the type of assistance the consumer requires by conducting a comprehensive review of the consumer's debt, income and cash-flow situation, including, in part, the nature of the consumer's bills and the degree to which such consumer is not current with obligated payments. The counselor then works closely with the consumer in an effort to identify the root cause of the consumer's financial problem in order to be able to directly educate the consumer regarding his/her particular issues, recommend a specific course of action, and otherwise provide useful guidance and information to enhance the consumer's understanding and knowledge regarding effective credit management practices. By way of example, if a counselor finds that the root cause of a consumer's problem is that the consumer cannot afford a consistent and appropriate monthly payment towards satisfying his/her debt due to insufficient income/excessive debt, the consumer is given budgeting and savings advice and directed to Cambridge Credit's Financial Crisis Center at www.goodpayer.com, where there is additional information on what consumers may do when their debt exceeds their ability to pay. Furthermore, if the credit counselor determines that the consumer generates enough income that, with a few improvements to his/her budget, the consumer should be able to afford to pay down his/her bills on his/her own, the consumer is given budgeting and savings advice and educated about the nature of debt, particularly revolving, unsecured credit card debt, and how it can have a detrimental effect on the consumer in the future. Generally, effective strategies for consumers on paying down their debts are also provided. In both of the foregoing examples, which are representative of the substantial percentage of Cambridge Credit's contacts with consumers, the consumer receives such educational services entirely free of charge.

If, on the other hand, it is determined that a consumer is not able to pay down his/her bills on his/her own and the credit counselor determines that the consumer should be able to maintain a consistent and appropriate monthly debt repayment schedule, the credit counselor will generally recommend Cambridge Credit's Debt Management Program pursuant to which the credit counselor will work with the consumer to establish a budget plan to manage the client's debts.

Based on the experience of Cambridge Credit, Cambridge Credit anticipates that more than 85% of consumers who work with Cambridge Credit's credit counselors will receive only Credit Counseling Services, and that accordingly, the balance of consumers receiving Credit Counseling Services from Cambridge Credit will subsequently enter into Cambridge Credit's Debt Management Program.

C. <u>Debt Management Program</u>

As an integral component of its Educational Activities and in furtherance of its mission to assist consumers with achieving financial freedom and avoiding the incidence of personal bankruptcy, Cambridge Credit offers a Debt Management Program for individuals requiring such assistance. In general, one of the following two sets of circumstances would indicate to one of Cambridge Credit's credit counselors that a consumer might benefit from Cambridge Credit's Debt Management Program: (1) if a consumer earns sufficient income to make consistent and appropriate monthly debt repayments but has nevertheless fallen behind on his/her monthly payments and is having difficulty catching up on such payments without appropriate guidance and the benefit of a structured program, or (2) if a consumer earns sufficient income to make consistent and appropriate monthly debt repayments and is current with his/her monthly minimum payments, but is experiencing difficulty in making his/her monthly payments.

In the event that either of the above set of circumstances is present, a credit counselor will provide the consumer with a detailed explanation of how Cambridge Credit's Debt Management Program could assist him/her towards successfully achieving a complete satisfaction of his/her financial obligations. In this regard, the principal objectives of Cambridge Credit's Debt Management Program are to:

(1) reduce the time it would otherwise take the consumer to repay his/her unsecured debt(s) by: (a) consolidating all of the consumer's unsecured debt into a single, affordable, fixed monthly payment, (b) reducing interest charges and late fees on the account(s) serviced by Cambridge Credit, and (c) halting the ability of a consumer to exacerbate his/her debt problems by preventing the consumer from incurring additional debt on the account(s) serviced in connection with Cambridge Credit's Debt Management Program;[1]

(2) enable the consumer to concentrate on repaying his/her debt(s) by working with creditors to suspend collection and other legal activities with respect to the account(s) serviced by Cambridge Credit;

(3) improve a consumer's credit rating over time by establishing a consistent repayment history;

(4) provide additional and more detailed education and instruction to a consumer on the subjects of budgeting, buying practices, and the sound use of consumer credit; and

(5) reduce the likelihood of consumers filing for personal bankruptcy.

If the consumer agrees that Cambridge Credit's Debt Management Program will help the consumer to address his/her credit problems, including, without limitation, by reason of accomplishing one or more of the foregoing objectives, the credit counselor will send the consumer a Service Agreement and then a Debt Management Plan Summary (described in detail below), which detail, in relevant part, the exact services to be provided under the Debt Management Program, the fee structure associated with such services, the total cost to the consumer of participating in the Debt Management Program, the estimated time it will take to repay such consumer's debt under the Debt Management Program and the possible effect that participation in Cambridge Credit's Debt Management Program may have on the consumer's credit rating. The consumer completes the Service Agreement by providing a list of all of his/her unsecured debt, signing the agreement and returning it to the attention of the credit counselor who conducted the initial credit counseling. Upon receipt of the completed Service Agreement, the credit counselor will conduct a more detailed analysis of the consumer's financial circumstances, which generally includes the use of Cambridge Credit's proprietary software to assess whether and in what manner a consumer can benefit most from Cambridge Credit's Debt Management Program, and following such analysis, the credit counselor designs a debt repayment program tailored to such specific consumer and contacts the consumer to discuss with the consumer such specific program, including which accounts should and should not be included as part of the Debt Management Program. As part of the process of designing a tailored, debt repayment program for the consumer, Cambridge Credit's Credit Department in conjunction with the credit counselor may interface with representatives of creditor institutions to arrange an appropriate repayment schedule.

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1 Cambridge Credit anticipates that the average length of time it will take a consumer participating in Cambridge Credit's Debt Management Program to repay his/her debts is approximately 58 months (*i.e*, 4.8 years).

Once the debt management program has been designed by Cambridge Credit's Credit Department in conjunction with the credit counselor, the consumer and creditors, Cambridge Credit prepares and sends the consumer a tailored Debt Management Plan Summary which, as stated above, describes, in part, the estimated time it will take the consumer to pay back his/her debts on the Debt Management Program as well as detailed information regarding the total cost of participation in Cambridge Credit's Debt Management Program. The ongoing administrative and routine processing services are performed by Cambridge Credit primarily through an outsourcing arrangement with Brighton Debt Management Services, Ltd., a for-profit affiliate of Cambridge Credit ("Brighton DMS"). In this regard, once Cambridge Credit's credit counselor reviews and verifies the account(s) to be serviced, and designs the debt management program for the consumer, the credit counselor forwards such program and account information to Brighton DMS which is, in part, responsible for calculating the fixed monthly repayment that the consumer would pay as part of the Debt Management Program. Such calculation takes into consideration the repayment period and is based on the minimum payment the consumer's creditors will accept which is, in turn, based upon the creditors' debt management policies and the consumer's financial situation.

Once the fixed monthly payment is determined, the credit counselor contacts the consumer to relay the payment information and specific benefits of the Debt Management Program (described above) to the consumer. If the consumer determines that he/she would like to enter into the Debt Management Program, his/her first payment will be scheduled. Once a consumer becomes an active participant, his/her account is forwarded to Cambridge Credit's client tracking system, Cambridge Credit executes the Service Agreement and sends a copy to the consumer, and proposals are sent out to each of the consumer's creditors. Also at this time, the consumer receives a customized Welcome Package which includes, in part, specific information on whom to contact if questions arise related to the Debt Management Program, what to expect during the term of the Debt Management Program, and tips on how to get the most out of the Debt Management Program. Further, individuals who enter into Cambridge Credit's Debt Management Program receive an informative educational video and workbook at no additional cost to them geared toward advancing the consumer's knowledge about personal finances. This educational package is a joint effort by Cambridge Credit and an accomplished author and speaker on the subject of credit, debt, and finances, Deborah McNaughton. The educational video and workbook are also made available for purchase by the general public at a reasonable cost through Cambridge Credit's website. Overall, individuals participating in Cambridge Credit's Debt Management Program are satisfied with the program. In the event that an individual is dissatisfied, Cambridge Credit has a formal policy for handling complaints.

A related component of Cambridge Credit's Debt Management Program may include certain creditor intercession activities engaged in by Cambridge Credit on behalf of a participating consumer. Specifically, at the request of a consumer participating in Cambridge Credit's Debt Management Program, a representative of Cambridge Credit will negotiate with a creditor on behalf of such consumer to have a debt considered fully repaid at a reduced amount. In order to be eligible for such services, a client must be able to settle the debt by the due date provided by the creditor.

Under its Good Payer Program, upon a customer's successful completion of six (6) months in Cambridge Credit's Debt Management Program (*i.e.*, maintaining a current account payment status with Cambridge Credit), and for every successful six-month period thereafter, Cambridge Credit returns to the participating consumer fifty percent (50%) of the Fair Share contribution as a reward and as an incentive for paying his/her debts on time.