

Opening Statement of Bernaldo Dancel

Before the Senate Permanent Subcommittee on Investigations

March 24, 2004

Introduction

Thank you Mr. Chairman and members of the Subcommittee. My name is Bernie Dancel. I am the Chief Executive Officer and Chairman of Ascend One Corporation—the parent company of Amerix Corporation, 3C Incorporated (“3Ci”), FreedomPoint, and FreedomPoint Financial. I have been involved with credit counseling for nearly a dozen years. I appreciate the opportunity to appear before you today to discuss important issues in the credit counseling industry. Let me say that I think the Committee’s inquiry has been a serious one and, at least in the case of our company, one that has stimulated some constructive self-examination.

Mr. Chairman, in my statement today I am going to make two principal points. First, I want to explain why I believe that the title of this hearing, which talks of “profiteering,” does not appropriately apply to my company. In the course of doing that, I will discuss many aspects of the credit counseling industry and of my business. Second, recognizing that there is always room for improvement, I want to discuss with you briefly the important new initiatives we have recently undertaken, in no small part as a result of the engagement we have had with the Committee.

Personal background and credit counseling experience

At the outset, though, I’d like to say a word about the personal experiences that form the backdrop of my involvement in the credit counseling field. Growing up, I watched my mother—a single parent who was laid off while trying to raise two boys—struggle to keep up with her bills and end up in debt. She didn’t know where to turn for help and ultimately filed for bankruptcy. Some years later, at age 23, I found myself divorced, with two children, faced with supporting two households but going deeper and deeper into debt. After two years of struggling to keep my head above water, I ended up filing for bankruptcy, which I still view as one of the worst experiences of my life. I didn’t know there were any other options for someone in my situation. I wanted to break the cycle, and I wish I had known about and had ready access to credit counseling then.

I first learned how credit counseling could help people who were financially stressed when I took a job as a counselor with a nonprofit credit counseling agency in Florida. Through my work interacting directly with consumers, I realized that the agency was missing an opportunity to make these valuable services available to many more people.

I believed that there were several key obstacles preventing credit counseling agencies from meeting the growing demand for their services. The vast majority of consumers facing difficult financial situations were not even aware that credit counseling services were available or could be useful. And of the consumers who knew about credit counseling, many were

deterred by the prospect of having to sit down face-to-face with a stranger or, worse yet, a neighbor, to discuss such a personal issue as financial problems. Other consumers simply couldn't afford to take time away from their jobs to attend an appointment during regular 9 to 5 business hours. Finally, the vast majority of credit counseling agencies were relying on outdated processes that made their operations slow and inefficient. In fact, many agencies did not even use computers to process payments to creditors, and the process of initiating a plan and getting help to the consumers frequently took up to six weeks.

Those observations led me to start my own nonprofit credit counseling agency in 1992, which later became Genus Credit Management. I started small, by running an advertisement in a newspaper listing a phone number for people struggling with debt to call. By the time I started Amerix five years later, Genus had served more than two hundred fifty thousand consumers. The numbers of consumers seeking help from Genus proved my theory right: people wanted to be able to address their financial situation with more convenience and privacy over the telephone and to get immediate help.

I founded Amerix because I wanted to extend what we had done with Genus to serve other credit counseling agencies by providing state-of-the-art processing and technology to enable them to meet the growing demand for credit counseling.

Good service at a fair price

Now let me turn to the main points I'd like to address today. I must say, first, that the term "profiteering" has no proper application to my company. Of course I do run a for-profit business, but I assume that the Committee does not take the position that it is inherently inappropriate for a for-profit business to provide services to nonprofit organizations. It seems to me that the right questions to ask in examining whether a for-profit business is acting appropriately with regard to nonprofit credit counseling organizations are: (1) does the for-profit company offer a good service; and (2) does it offer that service at a fair and competitive price. I would submit to you that in the case of Amerix and the credit counseling agencies with which we do business, the answer to both of these questions is yes.

Services. Amerix offers a valuable array of services to credit counseling agencies. We achieve economies of scale by developing and improving a technology system that we offer to multiple credit counseling agencies. These services include:

- Daily direct debits, electronic disbursements and check remittances
- Automated accounting, reconciliation, and cash management services
- Electronic files for all customer-related documents
- Monthly customer statements
- Automated routing of customer calls
- Negotiating or arranging payment plans through a database of more than 60,000 credit grantors
- Providing ongoing customer service related to account processing
- Requesting and invoicing fair share payments to credit counseling agencies
- Expanding public awareness of the credit counseling agencies' services

Simply put, it is more efficient for nonprofit credit counseling agencies to purchase this bundle of services from Amerix than to invest in the technology necessary to perform these essential tasks themselves. Furthermore, this unique integration of telephony, desktop and software enables our CCA clients to efficiently conduct counseling sessions and gather information critical to assist all callers. Everyone who calls a CCA client benefits from our services regardless whether that individual enrolls in a debt management plan.

Fair price. There are three good indicators of the fairness of our price. First, when our largest customer, American Financial Solutions (AFS) acquired a large group of clients from Genus Credit Management, AFS put out a request for proposals to see whether it could find a better price for the set of services we offer—whether packaged together or broken up. No one stepped up with an offer. Second, as the documents we produced to this Committee show, Ascend One operates on a very low profit margin. In 2001 and 2002, our profit margin before taxes was less than 3%; and it was not substantially different in 2003. Nor would it make a material difference to those profit margins if the salaries paid to top executives were substantially reduced or even eliminated. By contrast, comparable service providers in the processing industry had a profit margin well in excess of 10% in 2003.^{1/} Third, and most important, the price that we charge to credit counseling agencies allows them to offer their services to consumers for a level of contributions that are as low or lower than many credit counseling agencies that are members of the NFCC or AICCCA, and without having to pass significant up-front costs on to consumers.

Debt Management Plans. But what about Debt Management Plans? Is it true that we and the credit counseling agencies we serve have a fundamentally different approach to DMPs than more traditional credit counseling agencies of the kind that are members of the National Foundation for Credit Counseling? No. First, the rate of DMP enrollment for CCAs that operate under our CareOne umbrella—about 3 persons enrolled for every 10 who call—is not much different from the historical rate of enrollment among NFCC or other AICCCA members.

Second—and this is critical—we operate on a pricing model that makes it irrational for us to try to sign people onto DMPs who aren't right for that kind of service. Setting up a DMP for a consumer requires a significant upfront investment, averaging more than \$300 per account, in addition to ongoing servicing expenses. We do not charge the CCAs with whom we do business any up-front fee. Our CCA clients do not charge consumers any start-up or initiation fee to enroll in a DMP. That means that we do not recoup our start-up costs until an individual has been making payments on a DMP for a year and a half. So it would be counterproductive for us to try to register people on DMPs who weren't suited for such a program.

By contrast, some CCAs charge consumers large upfront fees, keeping the consumer's entire first monthly payment, or charging a percentage of the consumer's total debt, which typically translates to a fee of \$300 or more. Because they recoup their costs on day one, they have no incentive to make sure that the consumer is really suited and qualified for a DMP.

^{1/} Source: Edgar Online Pro for Data Processing (SIC 7374).

Thus, where these other CCAs make money on customers even if they immediately drop out of their DMP, we actually lose money on customers who don't stick with their plans for an extended period of time. Our pricing model recognizes that it is in everyone's best interest to limit DMPs to people who can follow the program successfully. It's best for consumers who get real benefits from the plans because they are able to make the payments; it's best for the CCAs because creditors often base fair share payments on whether consumers stick with the plans; and it's best for us because we have an incentive to recoup our upfront investment. In effect, we have become invested in the consumer's success.

Education and counseling. But what about education and counseling? Isn't that completely lost in the shuffle in the pell mell rush to sell DMPs? No. The CCAs we serve provide valuable resources to the public, including financial literacy classes, and their websites offer myriad educational and counseling tools, including budget advice, savings exercises, financial calculators, and libraries of articles addressing everything from credit cards to taxes. In addition, we have made our own investment to provide a comprehensive on-line educational library on the CareOne website, which is available to any website visitor whether or not they are a client of a CareOne agency. The wide-ranging resources include a continuously updated database of more than 130 articles on money management and credit awareness, and interactive tools, such as a personalized budget planner and 49 calculators that give individually-tailored answers to financial questions.

I also want to underscore that DMPs themselves can be a very valuable educational tool when they are right for a particular consumer. Indeed, when a DMP is appropriate for a consumer, it is the best kind of financial education and counseling available, with the greatest capacity to actually change a person's behavior for the better. DMPs provide a framework that guides consumers to make monthly payments, exercise financial discipline, and learn by experience how to devise and follow a budget so that they can meet their financial goals. In addition, trained counselors provide ongoing support and valuable advice to consumers if their circumstances change or problems arise. Unlike some CCAs, the CCAs we service provide counseling through the entire life of the DMP and not just for the first few months. And of course, DMPs also provide other concrete benefits to consumers, such as stopping harassing creditor calls and helping consumers rebuild their credit.

New Initiatives

Thus, I think we have clearly been conducting our business in a fair and proper manner—offering good services at competitive prices that allow CCAs to offer their services at a very competitive rate. That said, we recognize that we can always do better, and this investigation has played a quite constructive role for our company in helping us define the best ways to do that. I think, frankly, the area where I believe there is particular room for improvement is in seeing the CCAs we serve offer good education and counseling services to *all consumers seeking assistance*, whether they are suitable for a DMP or not. In that spirit, we recently announced a number of new initiatives that should improve the experience of all those who contact an agency we serve.

First, as the owner of the CareOneSM service mark, 3Ci has announced that it will adopt new, enhanced licensing standards to make sure that consumers working with agencies offering CareOneSM credit counseling will have access to the highest quality personalized financial counseling and money management education, regardless of whether they choose to enroll in a debt management plan. The expanded CareOneSM standards require licensed credit counseling agencies to:

- Provide patient personalized financial counseling and education to every client who seeks assistance, including an individualized assessment of the client's financial situation in order to identify and help implement the best alternative to address his or her needs.
- Offer each client an opportunity to receive a personalized budget worksheet, together with budgeting tips, whether or not the client qualifies for or chooses to enroll in a debt management plan.
- Devote at least 1,000 hours per year to community outreach activities that address consumer credit and money management.
- Partner with an educational institution to advance educational offerings and to promote general consumer financial awareness, education, and literacy.
- Serve all clients who seek assistance, regardless of ability to pay, creditors owed, amount owed, or enrollment in a debt management plan.
- Comply with the Code of Practice Standards established by the Association of Independent Consumer Credit Counseling Agencies or the National Foundation for Credit Counseling.

Second, Amerix will require every nonprofit agency with which it does business to adhere to these enhanced standards, even if the agency chooses not to license the CareOneSM service mark.

Third, as of March 15, 2004, Amerix stopped providing overflow origination services to the only client that was receiving these services, and announced that it will no longer provide these services to any agency going forward. As a result, Amerix will charge no more than 67% of the revenue associated with any new caller who enrolls in a DMP.

Fourth, Amerix has undertaken to assist its credit counseling agency clients in reviewing and revising the scripts that counselors use when assisting callers seeking credit counseling so that the scripts better reflect the individually tailored counseling that all callers receive regardless whether they choose to enroll in a debt management plan.

Fifth, Amerix has undertaken to eliminate from the current service agreements with its credit counseling agency clients certain contractual provisions relating to debt management plan enrollment. These include "assist rates," which relate to enrollment of a specified proportion of

callers in debt management plans, as well as “revenue standards,” which relate to average revenue level per account.

Sixth, Ascend One has made a 10-year, \$5 million commitment to the Ascend One Fund for Financial Literacy, including \$500,000 of immediate funding to launch the foundation’s efforts to promote financial literacy, especially among teenagers and young adults who are just entering the credit market and need knowledge and skills to manage their finances responsibly.

Conclusion

Mr. Chairman, Ascend One is committed to playing a positive role in the field of credit counseling, so that more and more American consumers can get the help they need, delivered in a fair and straightforward manner.

Thank you, and I look forward to answering your questions.