2019 Economic Impact of the Debt Settlement Industry

Methodology and Documentation

Prepared for

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September 2019

The Economic Impact of the Debt Settlement Industry: 2019

Executive Summary

The *2019 Economic Impact of the Debt Settlement Industry* estimates the economic contributions made by the debt settlement industry to the US economy in 2019. John Dunham & Associates (JDA) conducted this research, which was funded by the American Fair Credit Council (AFCC)[1]. This study uses standard econometric models first developed by the US Forest Service, and now maintained by IMPLAN, Inc. Data came from industry sources, government publications, and Infogroup.

The debt settlement industry is defined to include private, for-profit companies that offer a debt resolution strategy that allows debtors to reduce the amount they owe in exchange for a lump-sum payment or series of installments. Not included in the definition of the industry are firms which: Collect debts, provide credit counseling, promise to repair credit ratings, cash checks, or provide "debt consolidation."

Industries are linked to each other when one industry buys from another to produce its own products. Each industry in turn makes purchases from a different mix of other industries, and so on. Employees in all industries extend the economic impact when they spend their earnings. Thus, economic activity started by the debt settlement industry generates output (and jobs) in hundreds of other industries, often in sectors and states far removed from the original economic activity. The impact of supplier firms, and the *induced impact* of the re-spending by employees of industry and supplier firms, is calculated using an input/output model of the United States. The study calculates the impact on a national basis and by state.

The study also estimates taxes paid by the industry and its employees. Federal taxes include industry-specific excise and sales taxes, business and personal income taxes, FICA, and unemployment insurance. Direct retail taxes include state and local sales taxes, license fees, and applicable gross receipt taxes. The debt settlement industry pays real estate and personal property taxes, business income taxes, and other business levies that vary in each state and municipality. All entities engaged in business activity generated by the industry pay similar taxes.

The economic impact of the debt settlement industry is comprised of three pieces. First, companies providing debt settlement services employ thousands of people in offices around the country. Second, creditors working with debt settlement firms to settle consumer debts receive funds owed by debtors faster than they otherwise would, and avoid the negative business and reputational consequences of forcing such debtors into bankruptcy, or to answer collections actions that may or may not result in any recovery. Finally, debtors will see economic benefits resulting from the elimination of generally expensive debt, freeing up resources that would have been used to service that debt, even while the consumer is struggling under its burden. This money would be spent in the local economy generating additional economic benefits.

All together, these three components of the debt settlement industry are a dynamic part of the U.S. economy, accounting for $4.9 billion in total economic output or roughly 0.02 percent of GDP.[2] Debt settlement companies currently employ 5,215 Americans.[3] These workers will earn $490.4 million in wages and benefits.[4] When supplier and induced impacts are taken into account, along with the economic

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[1] The American Fair Credit Council (AFCC) serves as a trade association to the nation's debt settlement firms. As part of its mandate, the AFCC helps to ensure that debt settlement companies are committed to the highest standards of ethics and operational standards on behalf of their clients.

[2] Based on 2019 GDP of $21.0 trillion. See: "Gross Domestic Product, First Quarter 2019 (Second Estimate)" *Bureau of Economic Analysis.* May 30, 2019. Available at: https://www.bea.gov/system/files/2019-05/gdp1q19_2nd_0.pdf

[3] Represents full-time-equivalent jobs.

[4] With an average compensation of more than $94,000 per year, these are very good jobs.

effects of the benefits received by both creditors and debtors, the industry is responsible for 27,980 jobs in the United States and $1.9 billion in wages, as well as $659.6 million in federal, state and local taxes.[5]

As a result of state-imposed regulatory or statutory restrictions, debt settlement services are not generally available in 18 states. Were debt settlement broadly available in these states, it is estimated that there would have been an additional 218,650 settlements occurring in 2018, for about $629.9 million. Consumers in those states would see their debt reduced by nearly $422.4 million.

Based on this model, were debt settlement widely available across all states, the economic impact of debt settlement to the U.S. economy would have been $6.3 billion – $1.4 billion larger – with 9,170 additional jobs.[6]

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[5]   Not including state and local sales taxes that might be imposed on debt settlement services.
[6]   Figures may be rounded for clarity throughout this report.

Economic Benefit of the Debt Settlement Industry to America

The debt settlement industry provides an important service to both creditors and debtors who have the desire to negotiate and resolve debts that are unlikely to be paid in full in any reasonable time frame. Rather than declaring bankruptcy, debtors can utilize the services of a debt settlement firm as an intermediary between themselves and their creditors to help reach terms that will allow them to resolve debts that they simply cannot afford to pay in full.

Of course, creditors, particularly banks or credit card issuers, would like to see all of the loans that they make paid in full with interest and fees; however, this is not always possible. This is one reason why unsecured loans, like credit card debt, can carry very high interest rates. In effect, those who pay back their credit card loans subsidize those who default. Debt settlement allows creditors to resolve these non-performing loans in a timely manner, generating the highest return possible with the least amount of cost and effort.

A debt settlement service provider works on behalf of financially distressed consumers to negotiate the lowest possible payment that the creditor would accept to discharge their clients' unsecured loans. It is a way for debtors to avoid personal bankruptcy, while at the same time assuming responsibility for their debts in a manner they can afford.

Debt settlement is an option widely available to consumers in 32 states and the District of Columbia.[7] The American Fair Credit Council (AFCC) serves as a trade association to the nation's debt settlement firms. As part of its mandate, the AFCC helps to ensure that debt settlement companies are committed to the highest standards of ethics and operational standards on behalf of their clients.

The economic impact of the debt settlement industry is comprised of three pieces. First, companies providing debt settlement services employ thousands of people in offices around the country. Second, creditors working with debt settlement firms to settle consumer debts receive funds owed by debtors faster than they otherwise would, and avoid the negative business and reputational consequences of forcing such debtors into bankruptcy or to answer collections actions that may or may not result in any recovery. Finally, debtors will see economic benefits resulting from the elimination of generally expensive debt, freeing up resources that would have been used to service that debt, even while the consumer is struggling under its burden. This money would be spent in the local economy generating additional economic benefits.

It is important to note that these three components of the economic impact of debt settlement are mutually exclusive, and all are derived from the settlement itself. The impacts from the settlement firms themselves are the result of the fees that they receive as part of the settlement agreement. These fees are paid by debtors out of their savings from reduced debt payments. Creditors receive cash payments on often uncollectable debt, the value of which is determined based on the net present value of the payment stream, while debtors receive benefits resulting from reduced overall payments once the debt is fully settled. In effect, the settlement firms and creditors receive their benefits from the settlement payment itself, while debtors receive theirs from reduced future payments once the debt is cleared.

This analysis was commissioned by the AFCC in order to help it better understand the economic benefits that the provision of debt settlement services provide to the American economy. The analysis examines

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[7]   As a result of state laws or regulations, debt settlement services are not widely available to consumers in the following states: Connecticut, Georgia, Hawaii, Illinois, Iowa, Kansas, Maine, New Hampshire, New Jersey, North Dakota, Ohio, Oregon, Rhode Island, South Carolina, Vermont, Washington, West Virginia, and Wyoming. Debt settlement services were made generally available in Wisconsin in July 2018. As such, the economic impact calculation for that state will likely be underestimated. It will likely be a few years until sufficient data are available for activities in Wisconsin.

all three parties in a settlement negotiation – the creditor, the debtor, and the debt settlement firm – and calculates how each benefit from debt settlement programs, and how these benefits flow through to the general economy.

Size and Number of Settlements

In order to help understand how debt settlement benefits the American economy, it is necessary to first calculate the size and number of settlements made in a given year. In the case of this analysis, 2018 is used as the base year.

Based on data from the AFCC, the pool of debt undergoing the settlement negotiating process by AFCC member companies is substantial. A recent report commissioned by the AFCC determined that more than $12.0 billion worth of debt had been cumulatively enrolled in AFCC member settlement programs as of 2017.[8] These debts had been accrued by almost 400,000 individual consumers and represented a total of more than 2.9 million separate accounts. Of course, there are new accounts being enrolled or settled every day. While some may take a very long time to reach settled status, many accounts are settled and discharged over the course of one year. The vast majority of this debt is from credit cards. Mortgage debt, car-loan debt, which are secured by consumer assets, and student debt, more than 90 percent of which is serviced by the federal government and not eligible for discharge in bankruptcy, are not generally eligible for debt settlement services.

2019 Economic Impact of the Debt Settlement Industry examines just those accounts that were settled in calendar year 2018 by all debt settlement firms, not just those that are members of AFCC. This means that the debt settlement firm negotiated the terms of settlement for a debt, and the client agreed to those terms and made at least one payment to the creditor. All told, about 902,450 accounts were settled in 2018, with a principal value of $5.1 billion and a settlement value of $2.5 billion.[9] The average settlement was in the amount of about $2,727.[10] The average debt enrolled in a settlement program (for those debts settled in 2018) was $4,961.

Table 1 – Size of the Debt Settlement Industry (Accounts Settled in 2018)

	Amount	Per Settlement
Settlements	902,449	
Total Debt Enrolled	$ 4,477,210,023	$ 4,961
Total Debt Amount at Settlement	$ 5,105,944,408	$ 5,658
Settlement Amount	$ 2,460,913,175	$ 2,727

Scope of the Debt Settlement Industry

In 18 states, debt settlement is not widely available to consumers.[11] This does not mean, however, that people who have obtained debt settlements do not live in the other jurisdictions. Based on the data for 2018, there were people currently living in every state and the District of Columbia who settled debt

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[8] Regan, Greg, *Options for Consumers in Crisis: An Updated Economic Analysis of The Debt Settlement Industry (Data as of March 31, 2017)*, prepared by Hemming Morse LLP for the American Fair Credit Council, February 5, 2018. Available at: https://americanfaircreditcouncil.org/regan-reports/

[9] The numbers reported here include all of the settlements reported to JDA by industry members. This includes settlements where no state or zip code identifier was available, settlements where the reported zip code did not match current zip code data, and settlements made for debtors in territories like Puerto Rico or Guam. This means that the settlement figures reported here are larger than those reported at the state level in Appendix F, which represents only those settlements where the state of the debtor could be identified.

[10] These figures are based on data from 14 companies, representing about 67 percent of all debt settlements.

[11] As a result of state laws or regulations, debt settlement services are not widely available to consumers in the following states: Connecticut, Georgia, Hawaii, Illinois, Iowa, Kansas, Maine, New Hampshire, New Jersey, North Dakota, Ohio, Oregon, Rhode Island, South Carolina, Vermont, Washington, West Virginia, and Wyoming.

during the year.[12] While some states had marginal numbers, activity did occur in each. Appendix Table B shows the number of settlements and the amount by state.

The average settlement of $2,727 is fairly consistent across states, with the smallest ($2,214) in Iowa and the largest in Vermont ($4,839).[13] It should be noted that Alaska, the state where settlement services are widely available with the largest average settlement amount ($3,846), actually ranks third in average settlement size, behind Vermont and Maine, two states where debt settlement services are not widely available.

Table 2 – Debt Settlement Breakdown (Accounts Settled in 2018)

	Amount	Per Settlement	Percent
Debt Enrolled	$ 4,477,210,023	$ 4,961	100.0%
Debt at Time of Settlement	$ 5,105,944,408	$ 5,658	114.0%
Settlement Amount	$ 2,460,913,175	$ 2,727	55.0%
Savings to Debtor	$ 1,650,144,279	$ 1,829	36.9%

For the period between January 1, 2018 and December 31, 2018, the average settlement amount was equal to approximately 55.0 percent of the debt held by the client at enrollment, and 48.2 percent of the loan, interest, and fees due at the time of settlement. On top of this, clients pay the settlement companies a fee for their services, which on-average was equal to about 22.2 percent of the enrolled debt during this period. This means that, for each individual account enrolled in a debt settlement program, the average client saved about $1,830, or 36.9 percent of the total of each of the unsecured debt accounts at the time of enrollment into a debt settlement program, inclusive of fees.

Creditors received approximately 55 cents on the dollar for debt settled through a settlement service firm. Considering that some of the enrolled debt is likely accumulated interest and penalties, the actual losses to the creditors are likely smaller. In total creditors received or agreed to receive nearly $2.5 billion in settlement payments in 2018.

The effect of these small unsecured loans on the economy and on people's lives should not be taken for granted. The median amount of savings in the United States is just $12,120 per household, and for people of limited means, savings are even smaller.[14] According to Magnify Money, the median savings for the bottom 40 percent of households, more than 51 million families, was zero, while the next 20 percent had just $34,3210 in total savings.[15] For these families, a savings of even a couple of thousand dollars is meaningful.

Debt Settlement and the US Economy

Debt settlement companies advocate on behalf of consumers by negotiating directly with their creditors to achieve reductions in the amount that they owe, allowing their clients to get back to living normal lives.

Debt settlement benefits the American economy in three ways. First, US-located companies offering a debt resolution strategy that allows debtors to reduce the amount they owe in exchange for a lump-sum or installment payments generate jobs and economic output through their activities. In addition, creditors receive settlement payments where they otherwise might not receive any payment from a particular

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[12]   Note that these people may have gone to states where debt settlement is generally available, or may have moved from states where debt settlement is generally available.

[13]   Vermont is a state where debt settlement services are not widely available to consumers, so this is based on a very small number of actual settlements.

[14]   Horymski, Chris, *How Much Does the Average American Have in Savings?* <u>Magnify Money</u>, LendingTree, April 28, 2019. Available at: www.magnifymoney.com/blog/news/average-american-savings/

[15]   Medians reflect the mid-point in a distribution. Fifty percent of households in the bottom income quintiles have at least some savings.

customer. These payments generate economic benefits not only to the financial services sector of the economy, but through supplier and induced effects to industries located all across America. Finally, debtors will pay less in principal, interest, and fee payments. Having their financial house in order will allow them to eventually start spending additional money in the local economy, generating economic benefits from gasoline stations to supermarkets to clothing stores.[16]

Combined, the industry contributes about $4.9 billion in total annually to the US Economy and impacts firms in 514 distinct sectors through its supplier and induced linkages.[17] (See Table 3)

Table 3 –Economic Contribution of the Debt Settlement Industry (2018)

($ in Millions)		Direct		Supplier		Induced		Total
Jobs		8,525		6,177		13,277		27,979
Settlement Firms		5,215		3,786		6,813		15,814
Creditors		3,310		2,391		4,322		10,023
Debtors		-		-		2,142		2,142
Wages	$	801.58	$	404.57	$	683.96	$	1,890.11
Settlement Firms	$	490.38	$	247.51	$	352.58	$	1,090.46
Creditors	$	311.20	$	157.07	$	223.75	$	692.02
Debtors	$	-	$	-	$	107.63	$	107.63
Economic Output	$	1,559.25	$	1,139.05	$	2,203.03	$	4,901.33
Settlement Firms	$	953.90	$	696.83	$	1,126.21	$	2,776.94
Creditors	$	605.35	$	442.22	$	714.70	$	1,762.27
Debtors	$	-	$	-	$	362.12	$	362.12

A total of 226 firms comprise the debt settlement sector of the industry, and these firms employ more than 5,215 people.[18] Other firms are related to the debt settlement industry as suppliers. These firms produce and sell a broad range of items including office equipment, telecommunications services, advertising services, office space, and other goods and services needed to perform the debt settlement function on behalf of customers. In addition, a number of people are employed in government enterprises responsible for the regulation of the industry. All told, the debt settlement industry was responsible for 3,786 supplier jobs. These firms generate about $696.8 million in economic activity.

An economic analysis of the debt settlement industry also takes additional linkages into account. While it is inappropriate to claim that suppliers to the supplier firms are part of the industry being analyzed,[19] the spending by employees of the industry, and those of supplier firms whose jobs are directly dependent on the debt settlement industry, should be included. This spending on everything from housing, to food, to educational services and medical care makes up what is traditionally called the "induced impact" or multiplier effect of the industry. In other words, this spending, and the jobs it creates are induced by the debt settlement process.[20] This model estimates that the induced impact of the settlement industry generates 6,813 jobs and $1.1 billion in economic impact, for a multiplier of 1.18.[21]

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[16] Once a settlement is reached, and the debt is cleared, the debtor will no longer need to make monthly credit card payments on that amount. These interest savings are equal to the annualized payment on the net settlement amount with a 10-year payback. An interest rate of 15.09 percent is used in this model. For modeling purposes, the net present value of this payment stream is used to calculate the economic impact of consumer savings.

[17] Economic sectors based on IMPLAN sectors.

[18] Throughout this study, the term "firms" actually refers to physical locations. One debt settlement company, for example, may have facilities in dozens of locations throughout the country. Each of these facilities is included in the count and is based on data downloaded and collected during March and April 2019.

[19] These firms would more appropriately be considered as part of the supplier firm's industries.

[20] Note that this does not include jobs created by consumers and financial institutions that benefit from debt settlement services.

[21] Often economic impact studies present results with very large multipliers – as high as 4 or 5. These studies invariably include the firms supplying the supplier industries as part of the induced impact. John Dunham & Associates believes that this is not an

In addition to providing economic benefits to the economy at debt settlement firm locations, the industry provides benefits both to creditors and to debtors. Creditors working with debt settlement firms to settle consumer debts receive funds owed by debtors faster than they otherwise would, and avoid the negative business and reputational consequences of forcing such debtors into bankruptcy or to answer collections actions that may or may not result in any recovery. Based on the methodology described below, it is estimated that in 2018, creditors benefitted to the tune of $600.4 million in revenue through the efforts of debt settlement firms. This additional revenue translates into 3,310 additional jobs with the creditors themselves, paying about $311.2 million in wages. When supplier and induced effects are included, a total of 10,023 jobs and almost $1.8 billion in additional economic activity is generated in the economy.

Finally, debtors benefit as a result of a reduction in expensive debt. Over time, this frees up an estimated $249.0 million in resources that would be to service that debt.[22] This money would be spent in the local economy generating another 2,142 jobs, and $362.1 million in additional economic benefits.

Savings for debtors would accrue over time. Once a settlement is reached and cleared, the debtor would no longer be making monthly payments to the creditor. This money would then be available to spend in the local economy. While the debtor may not see an immediate increase in resources, the model can be used to calculate the economic benefit as if it were to occur today based on the net present value of the stream of savings – in this case, calculated over a 10-year period.

Table 4 – Fiscal Impact of the Debt Settlement Industry

($ in Millions)	Federal		State/Local		Total	
Taxes	$	440.40	$	219.17	$	659.57
Settlement Firms	$	245.24	$	113.42	$	358.66
Creditors	$	156.60	$	79.82	$	236.42
Debtors	$	38.56	$	25.93	$	64.49

All told, the benefit to the economy of the debt settlement industry is more than $4.9 billion, or 0.02 percent of GDP, and almost 28,000 individual jobs are either directly or indirectly related to the industry and its activities.[23] Table 3 on the prior page presents a summary of the total economic impact of the industry in the United States. Summary tables for each state are included in the appendix of this report.

An important part of an impact analysis is the calculation of the contribution of the industry to the public finances of the country. In the case of the debt settlement industry, the traditional direct taxes paid by the firms and their employees provide $358.7 million in revenues to the federal, state, and local governments. An additional $300.9 million in tax revenues are generated by the benefits accruing to creditors and debtors. These figures do not include state and local sales taxes that might be levied on debt settlement services, or on purchases made as part of the supplier and induced impacts.

Expanding Debt Settlement Services in States Where They Are Not Widely Available for Consumers

Based on the data presented above, debt settlement services not only provide consumers with considerable benefits, but they also enhance overall economic activity in states where they are widely

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appropriate definition of the induced impact and as such limits this calculation to only the effect of spending by direct and supplier employees.

22   This represents the discounted value of the payments that would be made over time.

23   Based on 2019 GDP of $21.0 trillion. See: "Gross Domestic Product, First Quarter 2019 (Second Estimate)" *Bureau of Economic Analysis.* May 30, 2019. Available at: https://www.bea.gov/system/files/2019-05/gdp1q19_2nd_0.pdf

available. Of course, even in those states, there are considerable economic impacts since companies and debt settlement beneficiaries spend part of their savings on goods and services produced in them. However, the additional benefits from ensuring that debt settlement services are widely available could be large.

In order to determine the scope of these benefits, JDA developed a model based on the data used in the economic impact study, statewide demographics, and statewide financial profiles. A number of different data elements were examined, and an extremely strong correlation was found between the level of credit card debt in each state to the number of debt settlements reached. This makes obvious sense as credit cards generally provide the easiest and the most expensive unsecured debt to which an average household has access. Mortgage debt, car-loan debt, which are secured by consumer assets, and student debt, more than 90 percent of which is serviced by the federal government and not eligible for discharge in bankruptcy, are not generally eligible for debt settlement services.

In addition, the model found that the level of consumer debt in the state impacted the number of settlements. The methodology of the model is presented in the *Methodology* section below.

Table 5 – Projected Economic Impact If Debt Settlement Is Widely Available

	Direct	Supplier	Induced	Total
Jobs	1,242	867	7,058	9,167
Wages	$115,831,306	$55,997,131	$336,651,629	$508,480,065
Output	$226,568,535	$154,107,242	$1,026,417,298	$1,407,093,075

	State and Local	Federal	Total
Taxes	$102,275,186	$178,309,266	$280,584,452

Based on this model, were debt settlement widely available across all states, the economic impact would be nearly $1.4 billion larger, with almost 9,167 additional jobs, $280.6 million more in federal, state and local tax revenues, and, most importantly, $422.4 million more in savings for debtors and $629.9 million in payments to creditors that they might otherwise have not received.

The results (nationally) are shown in Table 5. A full breakdown by state is presented in Appendix G.

Methodology

This study begins with an accounting of the direct employment in the debt settlement sector. The data come from a variety of government and private sources.

It is sometimes mistakenly thought that initial spending accounts for all of the impact of an economic activity or a product. For example, at first glance it may appear that consumer expenditures for a product are the sum total of the impact on the local economy. However, one economic activity always leads to a ripple effect whereby other sectors and industries benefit from this initial spending. This inter-industry effect of an economic activity can be assessed using multipliers from regional input-output modeling.

The economic activities of events are linked to other industries in the state and national economies. The activities required to provide debt settlement services generate the direct effects on the economy. Regional (or indirect) impacts occur when these activities require purchases of goods and services such as office equipment or electricity from local or regional suppliers. Additional induced impacts occur when workers involved in direct and indirect activities spend their wages. The ratio between induced output and direct output is termed the multiplier.

This method of analysis allows the impact of local production activities to be quantified in terms of final demand, earnings, and employment in the states and the nation as a whole.

Once the direct impact of the industry has been calculated, the input-output methodology discussed below is used to calculate the contribution of the supplier sector and of the re-spending in the economy by employees in the industry and its suppliers. This induced impact is the most controversial part of economic impact studies and is often quite inflated. In the case of the debt settlement model, only the most conservative estimate of the induced impact has been used.

Model Description and Data

This analysis is based on data provided by Infogroup, the AFCC, individual AFCC member companies, and the federal government. The analysis utilizes the IMPLAN model in order to quantify the economic impact of the debt settlement industry on the economy of the United States.[24] The model adopts an accounting framework through which the relationships between different inputs and outputs across industries and sectors are computed. This model can show the impact of a given economic decision – such as operating a debt settlement facility – on a pre-defined, geographic region. It is based on the national income accounts generated by the US Department of Commerce, Bureau of Economic Analysis (BEA).[25]

Every economic impact analysis begins with a description of the industry being examined. In the case of the debt settlement model, the debt settlement industry is defined as firms that offer a debt resolution strategy that allows debtors to reduce the amount they owe in exchange for a lump-sum payment.

The IMPLAN model is designed to run based on the input of specific direct economic factors. It uses a detailed methodology (see IMPLAN Methodology section) to generate estimates of the other direct impacts, tax impacts, and supplier and induced impacts based on these entries. In the case of the debt settlement Economic Impact Model, direct employment in the debt settlement industry is the starting point for the analysis. Direct employment is based on data provided to John Dunham & Associates by

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[24] The model uses 2016 input/output accounts.
[25] RIMS II is a product developed by the U.S. Department of Commerce, Bureau of Economic Analysis as a policy and economic decision analysis tool. IMPLAN was originally developed by the US Forest Service, the Federal Emergency Management Agency, and the Bureau of Land Management. It was converted to a user-friendly model by the Minnesota IMPLAN Group in 1993.

Infogroup as of March and April of 2019; and from industry data provided by the AFCC and its member companies.

Infogroup data is recognized nationally as a premier source of micro industry data. This data is gathered at the facility level; therefore, a company with a headquarters, a satellite office, and a call center would have three facilities, each with separate employment counts. Since the Infogroup data are adjusted on a continual basis, staff from John Dunham & Associates scanned the data for discrepancies. In addition, the AFCC conducted a short survey of members in order to obtain facility level job counts. A total of 22 individual companies provided data. Member provided data is given first priority in assigning jobs to a facility, followed by Infogroup data; for facilities where neither source has employment information, median job counts are used (based on industry and state data) to fill in gaps.

Once the initial direct employment figures have been established, they are entered into a model linked to the IMPLAN database.[26] The IMPLAN data are used to generate estimates of direct wages and output. Wages are derived from data from the U.S. Department of Labor's ES-202 reports that are used by IMPLAN to provide annual average wage and salary establishment counts, employment counts, and payrolls at the county level. Since this data only covers payroll employees, it is modified to add information on independent workers, agricultural employees, construction workers, and certain government employees. Data are then adjusted to account for counties where non-disclosure rules apply. Wage data include not only cash wages, but health and life insurance payments, retirement payments, and other non-cash compensation. It includes all income paid to workers by employers.

Total output is the value of production by industry in a given state. It is estimated by IMPLAN from sources similar to those used by the BEA in its RIMS II series. Where no Census or government surveys are available, IMPLAN uses models such as the Bureau of Labor Statistics' growth model to estimate the missing output.

In addition to the economic benefits that result from the operation of debt settlement firms themselves, creditors benefit since they receive payment on loans that might be in default, and as a result of bankruptcy proceedings that may not have been paid for many years, or may never have been paid at all. The estimates used in this model are extremely modest because they assume that all loans will eventually be repaid by the debtor and that all loans will be repaid after 10 years.

These are very conservative assumptions. According to the most recent *Census of Consumer Finances* conducted by the Federal Reserve, about 11.5 percent of families report that they have filed for bankruptcy at some point.[27] It is reasonable to assume that those with debt problems sizable enough to seek debt settlement might have an even higher bankruptcy rate. In addition, many debts have a much longer term than 10 years, and it is likely that even if they were to be paid off, this might occur over 12 or 15 or even 30 years.

Even using the very conservative assumptions, creditors are estimated to have received almost $2.5 billion in payments. Taking the net present value of these payments versus payment of the debt in full in

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[26]   The debt settlement industry is modeled using IMPLAN sector 434 (Nondepository credit intermediation and related activities) which is the same sector as, for example, mortgage brokers.

[27]   ICE Benchmark Administration Limited (IBA), ICE BofAML US Corporate BBB Effective Yield, retrieved from FRED, Federal Reserve Bank of St. Louis. January, 2019 average. This rate represents the effective yield of the ICE BofAML US Corporate BBB Index, a subset of the ICE BofAML US Corporate Master Index tracking the performance of US dollar denominated investment grade rated corporate debt publicly issued in the US domestic market. This subset includes all securities with a given investment grade rating BBB. Available at: https://fred.stlouisfed.org/series/BAMLC0A4CBBBEY

10 years' time, and using a discount rate of 4.63 percent,[28] this would translate into a benefit of $600.4 million for creditors.

Based on this methodology, the benefits of debt settlement are divided across creditors, lenders, and settlement firms. There is no double counting of benefits. For modeling purposes, the figures represent the cash flow over the specified 10-year period, discounted back to 2018. [29]

The calculated benefit is run through the IMPLAN model to determine the impacts not only on the finance industry, but also the general supplier and induced effects that would come about through additional bank revenues.[30]

Finally, debtors benefit to the tune of an estimated $1.65 billion in reduced debt, net of fees. While this is a distinct benefit to debtors, it does not directly translate to an economic impact. By helping creditors and debtors work out their obligations in a mutually satisfying way, debt settlement benefits the economy by freeing up current resources for creditors. Once the debt is cleared, debtors also will have money to spend on the goods and services that they need, rather than spending that money on interest payments to credit card companies. This eventually creates more spending in the economy, generating additional jobs, wages, and taxes. For modeling purposes, benefit calculations are based on future interest savings equal to the annualized savings on the net obligation amount with a 10-year payback. An interest rate of 15.09 percent is used.[31]

Families in different states and of different means will spend these additional resources differently. Unfortunately, while data on the state of residence of the debtors exist, there are no data available on their current income levels. Rather than make heroic assumptions, this model assumes that savings are distributed according to the existing median family income distribution in each state.[32]

The resulting economic benefits come about from additional consumer spending in the states. These are therefore *induced* benefits only. There is no supply or direct effect calculated from the increased consumer spending.

Table 6 outlines each of the individual components of the debt settlement process that are used in the model.

Table 6 – Settlement Benefits by Category

($ in Millions)	Settlement Benefit	Percent
Total	$ 5,105,944,408	100.0%
Settlement Firms	$ 994,886,954	19.5%
Creditors	$ 2,460,913,175	48.2%
Debtors	$ 1,650,144,279	32.3%

In addition to the economic benefits to the economy in terms of increased employment, wages, and economic output, the model also includes information on income received by the Federal, state and local

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[28]   2016 Survey available at: https://www.federalreserve.gov/econres/scfindex.htm

[29]   As such, benefits from a given years' settlements will stretch out for a number of years; however, like a waterfall, there will be past benefits from the prior nine-years settlements occurring in a given year.

[30]   The creditors benefits are modeled using IMPLAN sector 434 (Non-depository credit intermediation and related activities) which is the sector containing credit card issuers.

[31]   Board of Governors of the Federal Reserve System (US), Commercial Bank Interest Rate on Credit Card Plans, All Accounts, retrieved from FRED, Federal Reserve Bank of St. Louis. Available at https://fred.stlouisfed.org/series/TERMCBCCALLNS, Rate as of February 2019.

[32]   The income categories in IMPLAN are concentrated at the lower levels: Households LT15k, 15-30k, 30-40k, 40-50k, 50-70k, 70-100k, 100-150k, 150-200k, 200k+

governments, and produces estimates for the following taxes at the Federal level: Corporate income; payroll, personal income, estate and gift, and excise taxes; customs duties; and fines, fees, etc. State and local tax revenues include estimates of: Corporate profits, property, sales, severance, estate and gift, and personal income taxes; licenses and fees and certain payroll taxes. These tax revenues are calculated for each of the three segments of the model.

Projection Methodology

There are 18 states where debt settlement is not widely available to consumers. This does not mean that no settlements are made for debtors in these states, nor does it mean that there are not settlement companies or financial institutions that currently benefit from settlements located in those states. Rather, government restrictions hamper debtors' ability to broadly access debt settlement services.

In order to determine the scope of these benefits, JDA developed a model based on the data used in the economic impact study, statewide demographics, and statewide financial profiles. A number of different data elements were examined, and an extremely strong correlation was found between the level of credit card debt in each state to the number of debt settlements reached. [33] A total of 11 different variables of different types were examined. The moments of the data are presented in Table 7.

Table 7 – Variables Examined for Projection Analysis

	Mean	Standard Deviation
Settlements Per Household	16.0972	11.9407
Full Access to Debt Settlement (Y/N)	60.78%	
Credit Card Debt Per Capita	$ 6,222.69	$ 599.65
Median Income	$ 61,640.06	$ 9,389.40
Percent of Population Earning < $50K	44.10%	6.62%
Median Age	38.1176	2.4176
Percent of Adults With No High School Diploma	11.10%	2.87%
Percent of Adults With Some College	60.55%	5.32%
Unemployment Rate	381.18%	84.24%
Number of Households	2,329,920	2,465,062
Number Households Earning Under $50K	1,022,175	1,044,287

While some of these variables in combination were statistically correlated with the number of debt settlements per household, in no case did the equation itself explain much of the variation. Graphically, it was clear that the states where consumers had full access to debt settlement services had significantly more settlements (states marked as 1), but the demographic models simply were not showing the differences. This meant that there had to be some variable of combination of variables that could predict the difference.

After examining a number of different models, credit card debt levels, and initial debt levels (a proxy for consumer debt) were statistically significant (p value = 0.0239 and =0.0019 respectively). A simple model was used to develop the projections:

$$S_c = A + \alpha D_c + \beta S_c$$

As the equation shows, settlements per capita were a function of a state where debt settlement was widely available to consumers (A), per capita credit card debt (D) and the size of enrolled debts (S). The resulting

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[33]   Proxied by the average per capita balance on credit cards. Data from 2017, Experian.com

model was not only statistically significant, it explained more than 70 percent of the variation in the number of settlements per state.[34]

Figure 1 – States With and Without Full Access to Debt Settlement
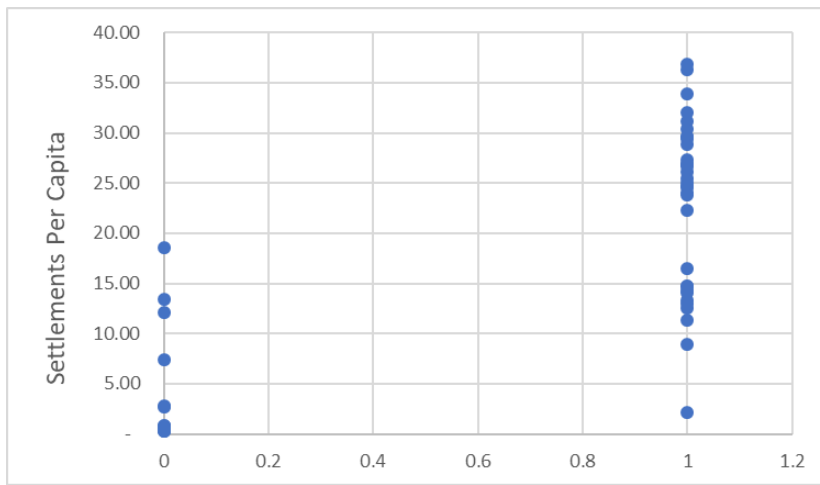
This is an extremely strong statistical model, and as Figure 2 shows, projects actual settlement amounts with a great deal of accuracy. The resulting model equation used to project the impact of settlements on those states where they are currently not generally available is:

Number of settlements per capita -2.6542 + 0.00363*(per capita credit card debt)+ 0.000000021*(average enrolled debt).

Figure 2 – Model of Full Access to Debt Settlement
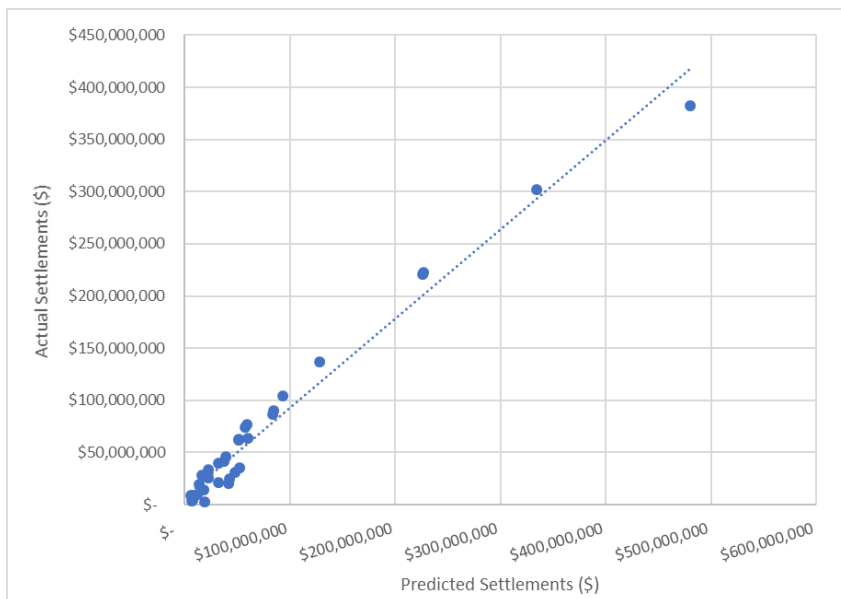
Once the number of settlements was determined for the 18 states, average settlement values, fee rates, and other assumptions from the full model were applied to the results. This provided a baseline of the number of settlements, amounts, savings and fees for each of the 18 jurisdictions. Each state, however, already

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[34]   With an F-statistic of 40.69 and an R-squared of 0.722.

has at least some debt settlements. The existing amounts were netted out from the predicted amounts in each case to determine the net new economic impact if settlements in those states were generally available to consumers. Table 7 outlines the resulting projections, with the data on the economic impact by state presented in Appendix G.

Table 7 – Projected Settlements and Amounts for 18 States

State	Settlements	Current Debt	Estimated Settlement Amount	Fees	Consumer Savings
Connecticut	9,965	$ 58,849,779	$ 32,346,974	$ 13,077,090	$ 21,689,987
Georgia	26,952	$ 144,531,668	$ 79,442,305	$ 32,116,579	$ 53,269,358
Hawaii	3,839	$ 19,065,375	$ 10,479,346	$ 4,236,543	$ 7,026,836
Illinois	34,964	$ 181,444,197	$ 99,731,398	$ 40,318,963	$ 66,874,036
Iowa	9,468	$ 38,140,549	$ 20,964,078	$ 8,475,264	$ 14,057,283
Kansas	7,290	$ 39,747,374	$ 21,847,275	$ 8,832,318	$ 14,649,503
Maine	2,249	$ 18,531,653	$ 10,185,984	$ 4,117,944	$ 6,830,124
New Hampshire	4,044	$ 20,129,190	$ 11,064,076	$ 4,472,935	$ 7,418,921
New Jersey	26,668	$ 138,213,831	$ 75,969,686	$ 30,712,684	$ 50,940,823
North Dakota	1,560	$ 9,855,342	$ 5,417,021	$ 2,189,969	$ 3,632,337
Ohio	34,307	$ 187,312,251	$ 102,956,793	$ 41,622,911	$ 69,036,797
Oregon	9,421	$ 55,009,580	$ 30,236,196	$ 12,223,754	$ 20,274,623
Rhode Island	2,322	$ 15,394,754	$ 8,461,777	$ 3,420,889	$ 5,673,972
South Carolina	11,046	$ 67,369,087	$ 37,029,640	$ 14,970,177	$ 24,829,908
Vermont	1,009	$ 8,882,924	$ 4,882,528	$ 1,973,887	$ 3,273,937
Washington	27,045	$ 111,539,434	$ 61,308,016	$ 24,785,330	$ 41,109,566
West Virginia	4,644	$ 23,514,771	$ 12,924,971	$ 5,225,249	$ 8,666,729
Wyoming	1,857	$ 8,401,214	$ 4,617,755	$ 1,866,845	$ 3,096,396
Total	218,650	$ 1,145,932,974	$ 629,865,818	$ 254,639,331	$ 422,351,137

Disclaimer

The 2019 debt settlement model reflects the best data and modeling techniques available now and should provide a very accurate measure of the economic footprint of the industry today. While there is some double counting (for example where credit card companies contract with settlement firms, or vice-versa), these are extremely limited and not material to the overall results.

Any errors are unintentional and are strictly those of John Dunham & Associates and should not reflect on the quality of data provided by the AFCC or its member firms.

IMPLAN Methodology[35]

Francoise Quesnay, one of the fathers of modern economics, first developed the analytical concept of inter-industry relationships in 1758. The concept was actualized into input-output analysis by Wassily Leontief during the Second World War, an accomplishment for which he received the 1973 Nobel Prize in Economics.

Input-Output analysis is an econometric technique used to examine the relationships within an economy.

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[35] This section is paraphrased from IMPLAN Professional: Users Guide, Analysis Guide, Data Guide, Version 2.0, MIG, Inc., June 2000.

It captures all monetary market transactions for consumption in a given period and for a specific geography. The IMPLAN model uses data from many different sources – as published government data series, unpublished data, sets of relationships, ratios, or as estimates. IMPLAN, Inc. gathers this data, converts it into a consistent format, and estimates the missing components.

There are three different levels of data generally available in the United States: Federal, state and county.

Most of the detailed data are available at the county level, but there are many issues with disclosure – especially in the case of smaller industries. IMPLAN overcomes these disclosure problems by combining a large number of datasets and by estimating those variables that are not found from any of them. The data is then converted into national input-output matrices (Use, Make, By-products, Absorption, and Market Shares) as well as national tables for deflators, regional purchase coefficients, and margins.

The IMPLAN Make matrix represents the production of commodities by industry. The *Bureau of Economic Analysis (BEA) Benchmark I/O Study of the US Make Table* forms the bases of the IMPLAN model. The Benchmark Make Table is updated to current year prices, and rearranged into the IMPLAN sector format. The IMPLAN Use matrix is based on estimates of final demand, value-added by sector and total industry and commodity output data as provided by government statistics or estimated by IMPLAN. The BEA Benchmark Use Table is then bridged to the IMPLAN sectors. Once the re-sectoring is complete, the Use Tables can be updated based on the other data and model calculations of interstate and international trade.

In the IMPLAN model, as with any input-output framework, all expenditures are in terms of producer prices. This allocates all expenditures to the industries that produce goods and services. As a result, all data not received in producer prices is converted using margins which are derived from the BEA Input-Output model. Margins represent the difference between producer and consumer prices. As such, the margins for any good add to one. If, for example, 10 percent of the consumer price of a debt settlement is from the purchase of communications services, the communications margin would be 0.1.

Deflators, which account for relative price changes during different time periods, are derived from the Bureau of Labor Statistics (BLS) Growth Model. The 224 sector BLS model is mapped to the 536 sectors of the IMPLAN model. Where data are missing, deflators from BEA's Survey of Current Businesses are used.

Finally, the Regional Purchase Coefficients (RPCs) – essential to the IMPLAN model – must be derived. IMPLAN is derived from a national model, which represents the "average" condition for a particular industry. Since national production functions do not necessarily represent particular regional differences, adjustments need to be made. Regional trade flows are estimated based on the Multi-Regional Input-Output Accounts, a cross-sectional database with consistent cross interstate trade flows developed in 1977. These data are updated and bridged to the 536 sector IMPLAN model.

Once the databases and matrices are created, they go through an extensive validation process. IMPLAN builds separate state and county models and evaluates them, checking to ensure that no ratios are outside of recognized bounds. The final datasets and matrices are not released before extensive testing takes place.