AADR | American Association for Debt Resolution

# Installment or Term Settlement Standard

- Definition: A "balloon" settlement be formally defined as an installment (or "term") settlement plan where (1) the payment schedule extends for a minimum of 12 months, (2) the initial payment, and each subsequent periodic payments, to the creditor is relatively low, (3) the settlement fee is recovered by the DSC before a substantial percentage of the settlement amount has been paid to the creditor and (4) at the end of the settlement term there is a "balloon" payment due to the creditor that is 25% or more of the settlement amount.

- Follow-up Commitment: DSCs should include as part of their enrollment agreement an express written undertaking to the effect that, if an installment settlement (which, by definition, includes balloon settlements) breaks, the DSC will attempt to re-negotiate the broken settlement with the creditor at no additional charge to the client.

- Fee Recovery: DSCs should recover their fees over no less than 25% of the life of the payment schedule (for example, if the term of the balloon settlement is 48 months, the provider should recover their fees over the first 12 months).

    - "Client First": Fees should only be collected (or continue to be collected) if the internal amortization schedule (NOT the settlement payment schedule) clearly indicates that the client will have enough funds to satisfy the balloon obligation. If a deposit is missed, it may be necessary to suspend fee collection until the internal amortization schedule re-establishes the likelihood that the balloon payment is likely to be met.

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