

Industry boom requires wariness

Despite warnings about unscrupulous credit counselors out to make a quick buck, there *are* many legitimate organizations that, together, have helped millions of consumers get back on their feet.

Ask the people at your credit union for referral to a reputable credit-counseling agency.

From the 1960s, credit counseling was provided mainly through a network of community-based, social service-oriented agencies operating under the name Consumer Credit Counseling Service (CCCS). Staff conducted typically hour-long face-to-face counseling sessions, going over a client's income and expenses, presenting options for dealing with debt, and providing money management information and educational materials.

In the mid-1990s, these neighborhood offices started losing ground to a new breed of credit counselor. For the most part, the new agencies focused on phone and Internet counseling and employed a more business-oriented approach to attract clients, improve efficiencies, and streamline the DMP process.

While some of the new agencies have proven to be honest and consumer-friendly, others have become known as "DMP mills" for their singular focus on the revenue-generating debt-management plan. Not only did they dispense with the education portion of the counseling process as a way to cut costs, some have been accused of charging hefty fees, pushing a debt-management plan even when inappropriate, and even failing to distribute

payments to creditors.

There are many of these unethical agencies out there just hoping you'll call. The good news is that you can avoid them by knowing what to look for in a credit-counseling agency—see "Right questions find right agencies" inside.

Although the government eventually will publish a list of credit counselors it approves to provide services under the new bankruptcy legislation, those agencies will be required to meet only the minimum standards established by the U.S. Trustee Program. Ultimately, you'll have to rely on your own shopping skills and detective work—including recommendations from people at your credit union—to select the best credit-counseling agency to work with. "Any agency you choose should be consumer-focused, low-cost, and aspire to high standards [of service]," advises Jessica Cecere, the president of CCCS of Palm Beach County/Treasure Coast of Florida.

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Credit Counselors Help Balance the Bills



What are your options when the gap between your income and your bill payments has become so big you've given up hope of them ever meeting again? It's estimated that nine million consumers in that situation contact credit counselors each year.

They want to get a handle on their debt and, in some cases, consolidate and reduce credit card payments and lower interest charges through what is known as a debt management plan (DMP).

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That number is expected to increase by one to two million next year thanks to legislation effective in October 2005 requiring individuals who want to file Chapter 7 bankruptcy to receive financial counseling first.

If finding a credit-counseling agency is easy, finding a reputable one that has your best interest at heart isn't always so. The U.S. Council of Better Business Bureaus says it received 2,127 complaints about credit-counseling services nationwide in 2004,

up from 404 in 2000. The IRS (Internal Revenue Service) is investigating agencies for broad abuses of nonprofit status. And in March 2005, the Federal Trade Commission (FTC) announced settlements with three debt-service companies that will pay a total of \$5 million in consumer redress.

Given the horror stories and recent scandals, how do you know which credit-counseling agencies you can trust?

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Right questions find right agencies

Knowing what to look for puts you in the driver's seat when you're shopping around for a credit counselor. Here are some of the most important questions to ask:

Q. How does the agency attract consumers? Avoid any agency that uses late-night TV commercials, Internet ads, telemarketers, or other aggressive marketing techniques to get clients. Initiate contact with the agencies of your choice only after you get referrals from friends, family, or someone at your credit union, or check listings at nfcc.org (National Foundation for Credit Counseling) or aiccca.org (Association of Independent

Consumer Credit Counseling Agencies).

Q. Is the organization an accredited nonprofit? Since even the most notorious agencies are technically nonprofits, do not let this designation deter you from further investigation. Also, think twice about working with an agency that isn't accredited by an organization such as the Council on Accreditation.

Q. Does the agency provide substantive counseling and education services? The counseling session, whether face to face or by phone, should last 30 minutes to 90 minutes and cover your income, expenses,

debt, the reason for your current financial issues, and your goals. You should receive a customized action plan, and your options should be explained clearly. A debt management plan (DMP) should be established only if it is in your best interest, and it should include all your unsecured creditors, even if they do not make a "fair share" contribution to the agency. Money management classes and educational materials should be available.

Q. What are the fees? There are excellent agencies that provide counseling free, do not charge more than \$50 to set up a DMP, and limit monthly fees to \$50 or the amount allowable by state law. Never work with

an agency that charges excessive fees—especially one that keeps your entire first month's consolidated DMP payment. "A company that asks you to pay a lot of money in exchange for getting you out of debt is probably helping only its own bottom line, not yours," points out Alice Saker Hrdy, assistant director of the FTC's division of financial practices.

Q. Is there full disclosure? The agency should provide a written agreement that clearly states fees, main source of funding (creditors), creditor concessions, amount to be disbursed, how long the DMP will last (not more than 48 months), and the possible impact of a DMP on credit reports.

Q. What kind of customer service does the agency provide? Live assistance should be available during hours of operation, including some evening and weekend hours, and the wait for an appointment should not exceed two days. You should receive monthly DMP account statements, and payments should arrive to your creditors by the due date.

Q. What is the agency's complaint record? Check the agency's record of complaints with the Better Business Bureau and the state attorney general. Ask about the agency's internal complaint resolution process.

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