

Choosing a Credit Counselor



Living paycheck to paycheck? Worried about debt collectors? Can't seem to develop a workable budget, let alone save money for retirement? If this sounds familiar, you may be considering the services of a credit counselor.

Most reputable credit counselors are non-profit and offer services at local offices, online, or on the phone. If possible, find an organization that offers in-person counseling. Many universities, military bases, credit unions, housing authorities, and branches of the U.S. Cooperative Extension Service operate non-profit credit counseling programs. Your financial institution, local consumer protection agency, and friends and family also may be good sources of information and referrals.

But be aware that “non-profit” status doesn't guarantee that services are free, affordable, or even legitimate. In fact, some credit counseling organizations charge high fees, which they made hide; others might urge their clients to make “voluntary” contributions that can cause more debt.

Choosing a Credit Counseling Organization

Reputable credit counseling organizations can advise you on managing your money and debts, help you develop a budget, and offer free educational materials and workshops. Their counselors are certified and trained in consumer credit, money and debt management, and budgeting. They discuss your entire financial situation with you, and help you develop a personalized plan to deal with your money problems. An initial counseling

session typically lasts an hour, with an offer of follow-up sessions.

A reputable credit counseling agency should send you free information about itself and the services it provides without requiring you to provide any details about your situation. If a firm doesn't do that, consider it a red flag and go elsewhere for help.

Once you've got a list of counseling agencies you might do business with, check each one out with your state Attorney General (www.naag.org) and local consumer protection agency (www.usa.gov/directory/stateconsumer/index.shtml). They can tell you if consumers have filed complaints about any one of them. (If there are no complaints about them, don't consider it a guarantee that they're legitimate.) The United States Trustee Program also keeps a list of credit counseling agencies approved to provide pre-bankruptcy counseling (www.justice.gov/ust/eo/bapcpa/ccde/cc_approved.htm). After you've done your background investigation, you will want to interview the final "candidates."

Questions to Ask

Here are some questions to ask to help you find the best counselor for you.

- **What services do you offer?** Look for an organization that offers a range of services, including budget counseling, and savings and debt management classes. Avoid organizations that push a debt management plan (DMP) as your only option before they spend a significant amount of time analyzing your financial situation.

- **Do you offer information?** Are educational materials available for free? Avoid organizations that charge for information.
- **In addition to helping me solve my immediate problem, will you help me develop a plan for avoiding problems in the future?**
- **What are your fees?** Are there set-up and/or monthly fees? Get a specific price quote in writing.
- **What if I can't afford to pay your fees or make contributions?** If an organization won't help you because you can't afford to pay, look elsewhere for help.
- **Will I have a formal written agreement or contract with you?** Don't sign anything without reading it first. Make sure all verbal promises are in writing.
- **Are you licensed to offer your services in my state?**
- **What are the qualifications of your counselors?** Are they accredited or certified by an outside organization? If so, by whom? If not, how are they trained? Try to use an organization whose counselors are trained by a non-affiliated party.
- **What assurance do I have that information about me (including my address, phone number, and financial information) will be kept confidential and secure?**

- **How are your employees paid?** Are they paid more if I sign up for certain services, if I pay a fee, or if I make a contribution to your organization? If the answer is yes, consider it a red flag and go elsewhere for help.

Debt Management Plans

If your financial problems stem from too much debt or your inability to repay your debts, a credit counseling agency may recommend that you enroll in a debt management plan (DMP). A DMP alone is not credit counseling, and DMPs are not for everyone. Don't sign up for one of these plans unless and until a certified credit counselor has spent time thoroughly reviewing your financial situation, and has offered you customized advice on managing your money. Even if a DMP is appropriate for you, a reputable credit counseling organization still can help you create a budget and teach you money management skills.

How a DMP Works

In a DMP, you deposit money each month with the credit counseling organization. It uses your deposits to pay your unsecured debts, like your credit card bills, student loans, and medical bills, according to a payment schedule the counselor develops with you and your creditors. Your creditors may agree to lower your interest rates or waive certain fees. But it's a good idea to check with all your creditors to be sure they offer the concessions that a credit counseling organization describes to you. A successful DMP requires you to make regular, timely payments; it could take 48 months or more to complete your DMP. Ask the credit counselor to estimate how long it will take

for you to complete the plan. You may have to agree not to apply for — or use — any additional credit while you're participating in the plan.

Is a DMP Right For You?

In addition to the questions already listed, here are some other important ones to ask if you're considering enrolling in a DMP.

- **Is a DMP the only option you can give me?** Will you give me on-going budgeting advice, regardless of whether I enroll in a DMP? If an organization offers only DMPs, find another credit counseling organization that also will help you create a budget and teach you money management skills.
- **How does your DMP work?** How will you make sure that all my creditors are paid by the applicable due dates and in the correct billing cycle? If a DMP is appropriate, sign up for one that allows all your creditors to be paid before your payment due dates and within the correct billing cycle.
- **How is the amount of my payment determined?** What if the amount is more than I can afford? Don't sign up for a DMP if you can't afford the monthly payment.
- **How often can I get status reports on my accounts?** Can I get access to my accounts online or by phone? Make sure that the organization you sign up with is willing to provide regular, detailed statements about your account.

- **Can you get my creditors to lower or eliminate interest and finance charges, or waive late fees?** If yes, contact your creditors to verify this, and ask them how long you have to be on the plan before the benefits kick in.
- **What debts aren't included in the DMP?** This is important because you'll have to pay those bills on your own.
- **Do I have to make any payments to my creditors before they will accept the proposed payment plan?** Some creditors require a payment to the credit counselor before accepting you into a DMP. If a credit counselor tells you this is so, call your creditors to verify this information before you send money to the credit counseling agency.
- **How will enrolling in a DMP affect my credit?** Beware of any organization that tells you it can remove accurate negative information from your credit report. Legally, it can't be done. Accurate negative information may stay on your credit report for up to seven years.
- **Can you get my creditors to "re-age" my accounts — that is, to make my accounts current?** If so, how many payments will I have to make before my creditors will do so? Even if your accounts are "re-aged," negative information from past delinquencies or late payments will remain on your credit report.

How to Make a DMP Work for You

The following steps will help you benefit from a DMP, and avoid falling further into debt.

- Continue to pay your bills until your creditors have approved the plan. If you stop making payments before your creditors have accepted you into a plan, you'll face late fees, penalties, and negative entries on your credit report.
- Contact your creditors and confirm that they have accepted the proposed plan before you send any payments to the credit counseling organization for your DMP.
- Make sure the organization's payment schedule allows your debts to be paid before they are due each month. Paying on time will help you avoid late fees and penalties. Call each of your creditors on the first of every month to make sure the agency has paid them on time.
- Review monthly statements from your creditors to make sure they got your payments.
- If your DMP depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, make sure these concessions are reflected on your statements.

The Telemarketing Sales Rule

The Telemarketing Sales Rule (TSR), enforced by the Federal Trade Commission, requires companies that sell debt relief services to explain their fees and tell you about any conditions on their services before you sign up; it also prohibits companies that sell debt relief services by phone from charging a fee before they settle or reduce your debt. For credit counseling that promises to get you into a DMP, that means the company cannot collect a fee until you have entered the DMP and made at least one payment to your creditors using the DMP.

Other Debt Relief Options

Working with a credit counseling organization is just one option for dealing with your debt. You also could: negotiate directly with your credit card company, work with a debt settlement company, or consider bankruptcy.

Talk with your credit card company, even if you have been turned down before. Rather than pay a company to talk to your creditor on your behalf, remember that you can do it yourself for free. You can find the telephone number on your card or your statement. Be persistent and polite. Keep good records of your debts, so that when you reach the credit card company, you can explain your situation. Your goal is to work out a modified payment plan that reduces your payments to a level you can manage.

If you don't pay on your debt for 180 days, your creditor will write your debt off as a loss; your credit score will take a big hit, and you still will owe the debt. Creditors often are willing to negotiate with you even after they write your debt off as a loss. For information, read *How Credit Scores Affect the Price of Credit and Insurance* at www.consumer.ftc.gov.

Bankruptcy. Declaring bankruptcy has serious consequences, including lowering your credit score, but credit counselors and other experts say that in some cases, it may make the most sense. Filing for bankruptcy under Chapter 13 allows people with a steady income to keep property, like a mortgaged house or a car, that they might otherwise lose through the Chapter 7 bankruptcy process. In Chapter 13, the court approves a repayment plan that allows you to pay off your debts over a three to five year period, without surrendering any property. After you have made all the payments under the plan, your debts are discharged. As part of the Chapter 13 process, you will have to pay a lawyer, and you must get credit counseling from a government-approved organization within six months before you file for any bankruptcy relief. For more information, read *Filing for Bankruptcy: What to Know* at www.consumer.ftc.gov.

You can find a state-by-state list of government-approved organizations at the U.S. Trustee Program (www.justice.gov/ust), the organization within the U.S. Department of Justice that supervises bankruptcy cases and trustees. Also, before you file a Chapter 7 bankruptcy case, you must satisfy a “means test.” This test requires you to confirm that your income does not exceed a certain amount. The amount varies by state and is publicized by the U.S. Trustee Program.

Filing fees are several hundred dollars. Attorney fees are extra and vary. For more information visit the United States Courts (www.uscourts.gov/FederalCourts/Bankruptcy.aspx), and read *Coping with Debt* at www.consumer.ftc.gov.

Debt settlement. Debt settlement programs typically are offered by for-profit companies, and involve them negotiating with your creditors to allow you to pay a “settlement” to resolve your debt — a lump sum that is less than the full amount that you owe. To make that lump sum payment, the program asks that you set aside a specific amount of money every month in savings. Debt settlement companies usually ask that you transfer this amount every month into an escrow-like account to accumulate enough savings to pay off any settlement that is eventually reached. Further, these programs often encourage or instruct their clients to stop making any monthly payments to their creditors.

Although a debt settlement company may be able to settle one or more of your debts, these programs can be very risky and have serious negative financial consequences for consumers. Additionally, some debt settlement companies deceive consumers by making promises they do not keep and engaging in other illegal conduct (like charging fees before obtaining any settlements, in violation of the TSR). For information, read *Coping with Debt* and *Settling Credit Card Debts* at www.consumer.ftc.gov.

For More Information

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or get free information on consumer issues, visit **ftc.gov** or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261.

Watch a video, *How to File a Complaint*, at **ftc.gov/video** to learn more. The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.



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