

Consumer Credit Counseling: Factors to consider and what to expect

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Consumers who are having difficulty making credit payments frequently seek assistance from a third party organization to develop a livable approach to debt resolution. Consumer credit counseling can be an effective resource for restructuring payments that fit within an established household budget. The following information provides tips on selecting a credit counseling agency and what to expect from their services.

Choose in-person counseling when possible. Credit counseling agencies provide their services through in-person meetings, telephone consultation, or by internet support. In-person counseling meetings, when geographically possible, offer the best opportunity for information exchange developing a relationship with your counselor. The most convenient counseling office may be one near work, home, your childcare provider or other frequently visited location.

Carefully select the credit counseling agency. At one time, only a few credit counseling organizations existed. Today, there are many organizations offering assistance to consumers. As with any other product or service, not all credit counseling services are the same. Consumer credit counseling services are not federally regulated, meaning organizations who offer credit counseling are not required to adhere to a uniform set of national standards or procedures. Many states require an organization to register or obtain a license to offer debt management plans. In North Carolina, the Department of Justice is the licensing organization for consumer credit counseling agencies. Be sure the organization you select is licensed and does not have pending consumer complaints. The selection of a credit counseling agency is a major decision. Agency errors, omissions, or failure to make timely payments on your accounts can have a long-lasting effect on your credit report and negatively impact your ability to obtain credit at a reasonable interest rate.

Why creditors will work with an agency. Creditors are more likely to reduce interest rates and/or lower payments when a credit counseling agency approaches the creditor for you. The creditors know that the agency will distribute the payments on your behalf. Also, agencies typically set guidelines concerning the use of credit while you are in the debt management program. These factors increase the creditor's confidence that it will receive future payments according to the agreement.

Your agreement with the credit counseling agency. You are in a *debt management program* (DMP) when you agree to let a credit counseling agency distribute your money to make debt payments. You will make one payment each month to the counseling

agency that is sufficient to make all of your debt payments for accounts in the program and to pay the agency fees. You must agree not to use existing credit accounts or open new accounts as part of being in a debt management program. The counseling agency may end their counseling relationship with you if you break your promise not to use credit. In some special circumstances your credit counselor may agree to your use of credit to meet an essential need.

Your responsibilities as a debt management program client. The consumer credit counseling agency will tell you what it expects of its clients. Be sure to read and understand everything that is expected of you. This includes understanding how often you will receive a statement of your account, how to read your statement, how to report and correct any suspected errors, how often you will meet with your counselor, the due date and amount of your monthly payment, and the projected date your debt management program will be complete. It is important to review your statements and ensure that all intended debts are included and accounted for in the debt management program. You will be responsible for managing any debts that you fail to place in the debt management program. This can cause financial problems and an inability to pay if debts are overlooked and not included in the budget you develop with your counselor.

Your credit report and debt management programs. Most creditors will report your participation in a DMP to the credit reporting agency and a note will be entered next to each account on your credit report. Each creditor may interpret your participation in a debt management program differently. One creditor may view it positively since you are resolving your debt obligations while another creditor may be concerned about your ability to meet your obligations. However, participation in the DMP will have less impact as the notation ages and your credit report payment history demonstrates consistent on-time payments. More importantly, if your accounts are seriously overdue and you are not able to make payments under your current agreement with creditors, participation in a DMP may improve your credit report over the long run.

Your FICO score and debt management programs. Participation in a DMP is not a factor in the calculation of the FICO credit score. The FICO score calculation is based on payment history (35%); the amount of credit used in relation to the amount of credit available (30%); the length of time you have used credit (15%); credit seeking activity (10%), new credit applications completed by you; and the type of credit accounts (10%), such as retail or finance company accounts. As you can see, more than half (65%) of the FICO score is a direct result of your payment pattern. Paying on-time will improve your payment history (35%) and will reduce the amount of debt to available credit ratio (30%). Over time, both of these credit management behaviors will improve your credit score.

How to select a credit counseling agency. The credit counseling agency should be:

- a non-profit organization
- an accredited credit counseling agency
- in good standing with the Better Business Bureau, State Attorney General, and local consumer protection agency
- geographically close to your home or place of work

- open hours that fit your schedule

The agency should provide written information that clearly and consistently identifies the:

- cost of their services (avoid agencies where counselors earn a commission from their employer or the creditor company)
- types of service it provides
- terms for providing counseling services (what you must and must not do)
- periodic (monthly) accounting records you will receive about credit payments made on your behalf and the resulting account balances
- contractual arrangement or agreement with you to provide debt management services

Most consumer credit counseling agencies are accredited. To learn more about how the accrediting agency defines its role in facilitating consumer protection for people who become clients of consumer credit counseling agencies, visit the following website for the Council on Accreditation Standards: <http://www.coastandards.org/>.

Find out more about COA and the accreditation process at www.coanet.org.

Do-it-yourself Credit Management Coaching. In some cases, you may be able to manage your own “debt management program” with some guidance and assistance in developing a targeted plan for debt elimination. InCharge® Institute is a national non-profit community organization specializing in personal finance education and credit counseling. InCharge developed Bright Score as part of its mission to help financially distressed families and individuals pay off debts and learn to use credit responsibly. BrightScore works with you to better understand the details of your credit report and the impact on your credit score. BrightScore then develops **a personalized plan for you to execute** to improve the credit situation.

This approach is not a debt management program where an agency takes over the distribution of payment and management of credit accounts. The BrightScore approach requires you to be willing and able to consistently manage the payment of the credit accounts. There are at least two situations when using Bright Score may not be your best solution. First, BrightScore may not be the best option for you if serious illness or other life events may interfere with your ability to manage the payment of accounts. Second, BrightScore may not be appropriate if the accounts are in arrears and new payment terms need to be negotiated with creditors.

State Government involvement in oversight and enforcement.

In North Carolina, the Bank of Commissioners establishes the criteria that must be met by organizations offering credit counseling to consumers.

The North Carolina Department of Justice is responsible for enforcement to ensure organizations comply with the Bank of Commissioners criteria and the statutes established by the North Carolina General Assembly.

In 2007, the North Carolina General Assembly, in Chapter 14, Article 256, identified service features characterizing organizations that would be recognized as a consumer credit counseling organization under the statute. It reads "an organization that provides credit counseling, education, and debt management services to debtors if the organization also does all of the following:

- a. Provides individualized credit counseling and budgeting assistance to the debtor without charge prior to the debtor's enrollment in a debt management plan provided by the organization.
- b. Determines that the debtor has the financial ability to make payments to complete the debt management plan and that the plan is suitable for the debtor.
- c. Disburses the debtor's funds to creditors pursuant to a debt management plan that the debtor has paid for with no more than nominal consideration and has agreed to in writing.
- d. Provides to the debtor, periodically and on no less than a quarterly basis, an individualized accounting for the most recent period of all of the debtor's payments and disbursements under the debt management plan and all charges paid by the debtor.
- e. Does not directly or indirectly require the debtor to purchase other services or materials as a condition to participating in the debt management plan.
- f. Does not receive a payment, commission, or other benefit for referring the debtor to a provider of services.
- g. Is accredited by an accrediting organization that the Commissioner of Banks approves as being independent and nationally recognized for providing accreditation to organizations that provide credit counseling and debt management services. (1963, c. 394, s. 4; 2005-408, s. 1; 2007-79, s. 1.)

The statute allows the credit counseling organization to receive "nominal consideration;" which means a fee or a contribution to cover the cost of administering a debt management plan not to exceed forty dollars (\$40.00) for origination or setup of the debt management plan and ten percent (10%) of the monthly payment disbursed under the debt management plan, not to exceed forty dollars (\$40.00) per month.

Resources

Consumer Credit Counseling:
National Foundation for Credit Counseling
<http://www.nfcc.org/mo/partners/index.cfm>

Accreditation Information: The National Foundation for Credit Counseling is accredited by the *Council on Accreditation Standards*. Visit:
http://www.nfcc.org/mo/partners/creditors_01.cfm

NFCC list of services <http://www.debtadvice.org/>

Find a Member Agency:

By Internet <http://www.debtadvice.org/TakeTheFirstStep/locator.cfm>

By Telephone 1-800-388-2227

BrightScore

BrightScore develops a personalized plan for the consumer to use as a guide to self-manage a debt reduction program.

<http://www.brightscore.com/Features/index.aspx>

Telephone: 800.889.1512

9:00am to 6:00pm EST, Monday - Friday

The Federal Trade Commission (FTC), the nation's consumer protection agency, developed a fact sheet called "For People on Debt Management Plans: A Must Do List." The fact sheet contains questions to ask the credit counseling agency before establishing a relationship and what to do if your credit counseling agency goes out of business. Visit <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre38.shtm>.