



# Consumer Credit Counseling

## *Factors to Consider and What to Expect*

Consumer credit counseling can help struggling consumers restructure their debt payments to fit within their household budgets. Here are some tips on selecting a credit counseling agency and what to expect from these services.

**Choose in-person counseling when possible.** Credit counseling agencies provide their services through in-person meetings, telephone consultation, or online support. In-person counseling meetings, when geographically possible, offer the best opportunity to develop a relationship with your counselor. Look for a convenient counseling office near work, home, your childcare provider, or other frequently visited location.

**Carefully select a credit counseling agency.** Once 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 and therefore 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 has no pending consumer complaints. Selecting 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 affect 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 or lower payments when a credit counseling agency approaches them 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 a 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 cover 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 while in a DMP. The counseling agency may end its counseling relationship with you if you use credit. In some special circumstances, your credit counselor may let you use 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. Understand how often you will receive an account statement, 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 program, which can cause financial problems or defaults 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 a 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 because 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 important, 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; 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



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score is a direct result of your payment pattern. Paying on time will improve your payment history (35%) and will reduce the debt-to-credit ratio (30%). Over time, both of these credit management behaviors will improve your credit score.

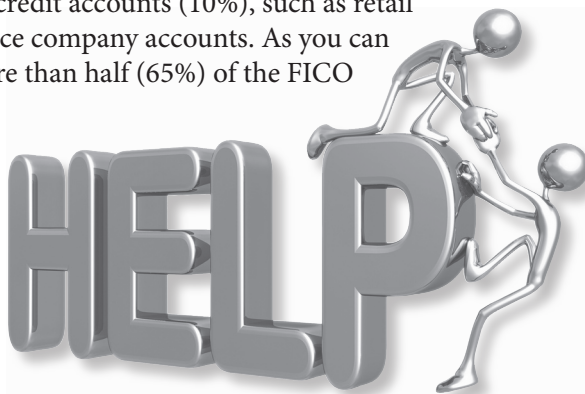
**How to select a credit counseling agency.** The credit counseling agency should be:

- 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 during hours that fit your schedule

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

- Cost of 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 protecting people who become clients



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of consumer credit counseling agencies, visit the following Web site for the Council on Accreditation Standards: <http://www.coastandards.org/>.

Find out more about COA and the accreditation process at [www.coanet.org](http://www.coanet.org).

**State government involvement in oversight and enforcement.** In North Carolina, the Bank of Commissioners establishes the criteria that consumer credit counseling organizations must meet. The North Carolina Department of Justice is responsible for ensuring that 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 56, identified service features characterizing organizations that would be recognized as consumer credit counseling organizations under the statute:

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 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](http://www.nfcc.org/mo/partners/creditors_01.cfm)

NFCC list of services [http:// http://www.debtadvice.org/](http://http://www.debtadvice.org/)

Find a Member Agency:

By Internet <http://www.debtadvice.org/TakeTheFirst-Step/locator.cfm> By Telephone 1-800-388-2227

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>.



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