
Consumer Credit Counseling

If you are in financial trouble and are not able to work a repayment plan with your creditors on your own, a credit counseling service may be able to help. The most common of these services are members of the National Foundation for Credit Counseling (NFCC) with 155 members and 1,425 offices known as Consumer Credit Counseling Services (CCCS). There are about 47 credit counseling services (or “adjustment services companies” as they are technically called) licensed to offer services in Wisconsin. This includes agencies with local offices as well as phone and Internet-based services.

What they offer. Credit counseling services provide individual budget counseling and assistance in arranging a payment plan with creditors, usually called a debt management plan (DMP). This is a monthly program that often reduces your bills and consolidates them into one monthly payment.

When you sign up for the debt management plan, you deposit money each month with the credit counseling service and they pay your creditors according to a payment schedule developed by the counselor. A successful repayment plan requires you to make regular, timely payments, and could take as long as 48 months or longer to complete. As part of the repayment plan, you may have to agree not to apply for or use any additional credit while you're participating in the program. Most credit counselors will ask you to surrender or cut up your credit cards.

Cost. The costs are often based on a sliding scale, based on your ability to pay. Typical fees include a start-up fee plus a monthly fee for each month you are in the debt management plan. Wisconsin laws limit the initial budget setup fee to \$50 or \$25 for clients that sign up for a debt management plan. However monthly fees vary, so you do need to check costs before signing any agreement. Some companies charge a flat monthly fee; others base their monthly fee on the number of accounts in your repayment plan. In Wisconsin the maximum monthly fee cannot exceed 10% of the money sent to creditors or \$120, whichever is less.

Most credit counseling services are funded, in part, by contributions from creditors, particularly credit card companies. The credit card companies agree to pay a fee to the counseling service equal to a percentage of the payments sent them each month. In the industry, this kickback is known as “Fair Share Contribution” and is limited to 15 percent in Wisconsin.

Advantages:

Because of their contacts with the credit industry, credit counselors are generally able to negotiate better repayment terms with creditors than you could do on your own. Once you are following a repayment plan, you'll only make one monthly payment to the counseling service. Most people can get out of debt in three to five years on one of these plans (not including secured debts such as a mortgage.)

Once creditors accept your debt management proposal and receive your monthly payments on time, they are often willing to lower interest rates, waive past late fees and even “re-age” your past due accounts to reflect a current “paid-as-agreed” status. However, some creditors may report to the

credit bureaus that your account is being repaid through credit counseling, or that you are late, since technically, you are not making your originally agreed-upon payments. Ask the counselor for specific information about how each of your individual accounts will be reported to the credit bureaus.

While a debt repayment plan can eliminate much of the stress that comes from dealing with creditors and overdue bills, it does not mean you can forget about your debts. You still are responsible for paying any creditors whose debts are not included in the plan. You also need to review the monthly statements from your creditors to make sure your payments have been received. If your repayment plan depends on your creditors agreeing to lower or eliminate interest and finance charges, or waive late fees, you are responsible for making sure these concessions are reflected on your statements.

Disadvantages: Since credit card companies largely finance these services, the debt repayment plans usually cover only unsecured debt. Secured debt—like your auto and home loans—may not be included. You must continue to make payments to these creditors directly.

In many cases, a person who has debt problems has gotten into that situation involuntarily, due to a job loss, high medical expenses or other circumstances beyond their control. Often their debt load exceeds their monthly income. The advice to give a person with debt problems is different in each case. Sometimes filing for bankruptcy may be the best option.

Also, in these difficult situations, first priority must be given to the necessities of life—shelter, food, and transportation. Therefore it is usually essential to insure that payments required to maintain these necessities—housing and vehicle payments—are made on time and in full. That may mean that some creditors, like credit card companies, are not paid for several months.

Impact of credit history. A debt management repayment plan does not erase your credit history. Under the Fair Credit Reporting Act, accurate information about your accounts can stay on your credit report for up to seven years. In addition, your creditors will continue to report information about accounts that are handled through a debt repayment plan. For example, creditors may report that an account is in financial counseling, that payments may have been late or missed altogether, or that there are write-offs or other concessions. However, a demonstrated pattern of timely payments may help you obtain credit in the future.

Choosing a counseling service. With an explosion in the number of credit and debt counseling agencies today, it's not surprising that consumers are sometimes confused about their options. It can be difficult to distinguish between organizations providing a high level of service and education, and those that operate more like collection agencies for creditors by pushing consumers into repayment plans. The services that the counseling agencies provide vary widely. Some are much better than others, so choose carefully. Don't work with a counseling agency if you feel pressured or uncomfortable. You want a counseling agency that will help you successfully conquer your bills—not get you deeper in debt.

Any reputable credit counseling agency should provide you with free information about itself and the services it provides without requiring you to provide any details or your situation. If not, consider that a red flag and go elsewhere for help.

Here are some questions to ask:

Services and Fees

- ✓ What services do you offer?
- ✓ Do you have educational materials? If so, will you send them to me? Are they free? Can I access them on the Internet?
- ✓ 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? Do I have to pay anything before you can help me? Are there monthly fees? What's the basis for the fees?
- ✓ What is the source of your funding?
- ✓ Will I have a formal written agreement or contract with you?
- ✓ How soon can you take my case?
- ✓ Who regulates, oversees and/or licenses your agency? Is your agency audited?
- ✓ Will I work with one counselor or several?
- ✓ What are the qualifications of your counselors? Are they accredited or certified? If not, how are they trained?
- ✓ What assurance do I have that information about me (including my address and phone number) will be kept confidential?

Repayment Plan

- ✓ How much do I have to owe to use your services?
- ✓ How do you determine the amount of my payment? What happens if this is more than I can afford?
- ✓ How does your debt repayment plan work? How will I know my creditors have received their payments? Is client money put in a separate account from operating funds?
- ✓ How often can I get status reports on my accounts? Can I get access to my accounts online or by phone?
- ✓ Can you get my creditors to lower or eliminate interest and finance charges or waive late fees?
- ✓ Is a debt repayment plan my only option?
- ✓ What if I can't maintain the agreed-upon plan?
- ✓ What debts will be excluded from the debt repayment plan?
- ✓ Will you help me plan for payment of these debts?
- ✓ Who will help me if I have problems with my accounts or creditors?
- ✓ How secure is the information I provide to you?
- ✓ What do you report to credit bureaus?

For more information, contact the Federal Trade Commission toll-free at 1-877-FTC-HELP (877-382-4357), TTY 1-866-653-4261 or the Department of Financial Institutions, Wisconsin Consumer Credit Act Section 1-800-452-3328.

For a list of credit counseling (adjustment service companies) that are licensed to do business in Wisconsin, see the Department of Financial Institutions web site at http://www.wdfi.org/fi/lfs/licensee_lists. A copy of the state regulations that govern adjustment service companies can be found at http://folio.legis.state.wi.us/cgi-bin/om_isapi.dll?clientID=167442&infobase=code.nfo&jump=ch.%20DFI-Bkg%2073.

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