CREDIT COUNSELING

"Credit Counseling in Crisis", a joint effort of NCLC and Consumer Federation of America, exposes the risks debt-burdened consumers face from an unscrupulous new-breed of credit-counseling agencies. "Well-intentioned debtors turn to these agencies for help in paying off debt and instead, when they most need sound advice and counsel, find themselves gouged and misled," said Deanne Loonin, NCLC staff attorney.

Although legitimate organizations exist, an increasing number of credit-counseling agencies provide improper advice, engage in deceptive practices, charge excessive fees, and abuse their non-profit status.

The public's response to this enlightening report has been swift and efforts at reform have begun. The U.S. Senate is considering holding congressional hearings on this issue in the fall. A number of key federal agencies claim to be increasing their scrutiny of credit counseling agencies. Maryland has passed a new credit counseling law that is pro-consumer and other states have contacted NCLC about similar legislation. Attorneys general in several states have filed suit against credit counseling or debt settlement companies and many others are considering legal action.

Typically, the offending agencies may not make timely payments to creditors, may fail to adequately disclose their fees, or may not reveal that their fees are voluntary. Consumers are frequently pressured by credit counseling agencies to enroll in Debt Management Programs for which they may be charged large fees of up to hundreds of dollars. DMPs are often not in the consumers' best interests and may not adequately assist them in resolving their debts.

Moreover, some "non-profit" agencies act like profit-making businesses by aggressively advertising and selling DMPs, reaping high revenues, and paying executives salaries that are normally unheard of in the non-profit sector. At the same time, consumer-friendly services, including budget counseling and community education, have been curtailed or even eliminated by many credit counseling agencies.

Credit card issuers have contributed to this growing problem. Traditionally, credit card issuers paid agencies 15 percent of the debt they recovered from borrowers in DMPs. At present, the average rate of contribution is less than 8 percent. Furthermore, most creditors are unwilling to negotiate reduced interest rates for consumers who have entered into DMPs. As a result, more consumers are forced to drop out of credit counseling and declare bankruptcy.

The full text of "Credit Counseling in Crisis" is available at NCLC's website, www.consumerlaw.org.

"Well-intentioned debtors turn to these agencies for help in paying off debt and instead, when they most need sound advice and counsel, find themselves gouged and misled."
Deanne Loonin, NCLC staff attorney

7 Reasons to Reject a Credit Counseling Agency

1. High Fees –the set up fee for a DMP is more than $50 and monthly fees are more than $25
2. "Voluntary" Fees that Aren't So Voluntary – voluntary fee information is not passed on to you or you are pressured to pay more than you can afford
3. The Hard Sell – agency employees aggressively push debt "savings" or a future "consolidation" loan
4. Employees Paid by Commission – an employee receiving commission for placing you in a DMP is more likely to focus on his own wallet rather than yours
5. It Flunks the "Twenty Minute" Test – any agency that offers a DMP in less than 20 minutes has not spent enough time looking at your finances
6. One Size Fits All – an agency fails to offer educational options, such as classes or budget counseling, in addition to DMPs
7. Aggressive Ads – some agencies are being investigated or sued for deceptive practice. Find out if an agency has been the subject of complaints before making a decision