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# Consumer Facts for Older Americans

## Tips on Choosing A Reputable Credit Counseling Agency

There have been a lot of problems with credit counseling agencies in recent years. For example, the vast majority of credit counseling agencies are non-profit organizations, yet many behave like for-profit businesses. These non-profits in disguise spend huge amounts of money on advertising and aggressively try to sell "debt relief" products to consumers.

You should be careful if you think you want to go to a credit counseling agency for help with credit card debt. Credit counseling can be very useful in some cases. Unfortunately, not all credit counseling agencies are acting in your best interests. Below are a few tips to help you decide whether credit counseling is right for you and to help you find a reputable agency.

### Do You Need a Credit Counseling Agency?

#### 1. Are You In Financial Trouble?

Some warning signs of financial trouble are clearer than others. For example, if you are consistently late in paying bills or are already behind in paying some debts, you probably know that you need help. Other warning signs of financial trouble are not so obvious. If your total debt payments, excluding your mortgage and car, are between one-quarter and one-half of your after-tax income, you could benefit from credit counseling or other forms of financial assistance. You should consider seeking assistance even if you are current on all bills.

#### 2. What Are Your Options?

Credit counseling isn't for everyone. Make sure you consider other options, including developing a reasonable and affordable household budget and savings plan and negotiating individually with your creditors. Most important, you should understand what types of debts you have. Are you having trouble with secured debt (such as a home mortgage or car loan) or mainly with your unsecured credit card debt?

Most credit counseling agencies offer debt management plans (also known as debt consolidation plans). Through a debt management plan, you send the credit counseling agency a lump sum, which the agency then distributes to your creditors. In return, you should get a break from your creditors, usually agreements to waive fees or lower interest rates. A reputable agency will not push you into one of these plans.

**Credit counseling and debt management plans won't help lower your secured debts. However, a debt management plan might help you lower your unsecured debts, making your home and car payments more affordable. If you are in danger of losing your home or car, bankruptcy may be your best option.**

### FINDING A REPUTABLE CREDIT COUNSELING AGENCY

- 1. Take the time to shop around.** You do not need to provide personal financial information in order to find out the basics about an agency. Ask friends and family for referrals or consult the Yellow Pages. Be careful about claims made in advertising. Many ads are exaggerated and some are even untrue. It is a good idea to call your local Better Business Bureau and the consumer protection office of your state Attorney General's office and rule out agencies that have been the subject of multiple complaints. **Consider visiting an agency in-person before signing up.** Although it is sometimes embarrassing or inconvenient to talk face-to-face with counselors, it often leads to a more thorough and direct discussion of your finances than is possible by phone or Internet.
- 2. Look for a variety of services.** Seek out an agency that will offer you a range of counseling options, not just enrollment in a debt management plan. The more options the agency offers, the more likely they will be able to offer you assistance that will fit your needs.
- 3. Check out all costs.** Most agencies offer similar "deals" from creditors to cut your debt, but their fees can vary significantly. Find out what the agency charges to set up your account (get a specific dollar amount) and for a monthly fee. Ask them if any of the fees are voluntary and if they offer lower fees for customers in serious financial hardship. Get a specific quote in writing.
- 4. Non-profit status or an affiliation with a particular trade group does not guarantee quality.** Non-profit status does not guarantee affordable fees. Nearly all credit counseling agencies are non-profit, including those that take advantage of consumers.

5. **Demand good customer service.** Ask questions about employee training. Make sure the employee spends a good deal of time carefully evaluating all of your debts, not just your credit card bills, and looks at your pay stubs and bills before recommending a counseling plan to you. Find out if the agency provides assistance after you enroll in a debt management plan, such as one-on-one counseling.
6. **Ask about privacy.** Make sure the agency does not sell or distribute any information about your account to others without your permission.
7. **Find out about employee compensation.** Ask employees directly if they are paid more if they sign you up for a debt management plan. Consider going elsewhere if they say yes.
8. **Get the specifics on credit concessions.** Ask the agency if it will deal with all of your unsecured creditors, not just those that pay the agency a fee. Find out exactly how much lower your monthly credit card balance will be and how long it will take to pay off your bills.
9. **Keep an eye on the agency after you sign up.** If you sign up for a debt management plan, don't stop paying your bills until the plan has been approved by your creditors. Make sure that the agency's payments schedule allows your debts to be paid before they are due each month. Call each of your creditors the first month to make sure they have been paid on time by the agency.
10. **Ask about how credit counseling will affect your credit report or score.** Although some creditors disclose to credit reporting agencies whether a customer is participating in a debt management plan, this won't necessarily have a negative effect on your ability to get credit in the future. Fair, Isaac and Company, the developer of credit scoring software used by all major credit reporting agencies, says that it does not negatively score a consumer's participation in a debt management plan. On the other hand, individual creditors that pull your entire credit report may consider your participation as a negative factor if you apply for credit after you enter the plan. Moreover, if you are considering credit counseling because you have already fallen behind in paying your debts, your credit score has likely already been negatively affected. As the situation varies significantly depending on your current credit situation, talk to your credit counseling agency and creditors about what will happen to you if you enter a debt management plan.

## WARNING SIGNS: SEVEN REASONS TO REJECT A CREDIT COUNSELING AGENCY

1. **High Fees.** Beware high fees! If the agency is vague or reluctant to talk about specific fees, go elsewhere.
2. **“Voluntary” Fees that Aren’t So Voluntary.** Some agencies publicly claim that their fees are voluntary, but don’t pass this information on to consumers. Others will tell you that their fees are voluntary, but will put a lot of pressure on you to pay the full fee, even if you can’t afford it. When you ask about what the agency charges, be sure and ask if they consider any fees to be voluntary.
3. **The Hard Sell.** If the person at the other end of the line is reading from a script and aggressively pushing debt “savings” or the possibility of a future “consolidation” loan, hang up.
4. **Employees Paid by Commission.** Most credit counseling agencies are non-profit organizations that are supposed to consider your best interests when offering you counseling options. Employees that receive commissions for placing consumers in debt management plans are more likely to be focusing on their own wallets than yours.
5. **They Flunk the “Twenty to Thirty Minute” Test.** Any agency that offers you a debt management plan in less than twenty to thirty minutes hasn’t spent enough time looking at your finances.
6. **One Size Fits All.** The agency should talk to you about whether a debt management plan is appropriate for you rather than assume that it is. If the agency doesn’t offer any educational options, such as classes or budget counseling, consider one that does.
7. **Aggressive Ads.** Many agencies that advertise treat consumers fairly. However, some are being investigated or sued for deceptive practices. Many others charge unreasonable fees or offer no real counseling. Avoid choosing an agency based on advertising alone. Get referrals from friends or family, find out which agencies have been subject to complaints and talk to a number of agencies before making a decision.

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