

Credit Counseling Agencies: Friends or Foes?

Despite the economic gloom — or, more accurately, *because* of it — one industry is thriving: the largely unregulated credit counseling industry. According to Georgetown University, more than two million Americans sought assistance from such agencies in 2001. And the agencies are aggressively looking for more customers, courting people with debt problems via advertising, telemarketing and e-mails promising debt relief for “one low monthly payment” — the very come-on used by creditors.

Before doing any in-depth research on this topic, my assumption was that credit counseling agencies could be thought of as another tool in the toolkit of Good \$ense ministry counselors. However, reading numerous horror stories associated with such agencies has made me very cautious about giving them a blanket recommendation. Here’s what you need to know about the industry — the good, the bad, and the sometimes-ugly truth.

Credit counseling agencies offer two main services: money management counseling and debt management programs, or “DMPs.” Money management counseling is a primary function of the Good \$ense ministry, so I see no need to steer people to credit counseling agencies for that purpose. DMPs, on the other hand, *may* be worth considering for the most difficult cases. However, even then, the best advice is to be extremely cautious.

With a DMP, the agency negotiates with creditors to lower interest rates and minimum payments. The agency’s client sends one check to the agency, which then disperses portions of the money to the debtor’s various creditors. The agency gets paid through creditor kickbacks of a portion of the debtor’s payments, and from fees paid directly from the debtor. Here’s where many of the problems associated with credit counseling agencies have shown up.

Among complaints the Better Business Bureau has been inundated with: Some people have signed on with agencies only to be hit with an upfront fee of as much as \$3,000; others have found that the agency they chose failed to pay creditors on time, generating late fees and other penalties, thereby leaving the person even more deeply in debt.

One way to lessen the likelihood of such problems is to steer people only to agencies certified by either the National Foundation for Credit Counseling, whose affiliates are usually known as Consumer Credit Counseling Services, or the Association of Independent Consumer Credit Counseling Agencies. Both offer certification programs to local agencies that involve counselor training and a set of operational guidelines, such as a cap on fees.

Member agencies charge fees ranging from nothing to \$75 as a set-up fee, and \$12 to \$50 per month for maintenance fees. However, even with certified agencies, fees can go much higher. Some have been known to charge a mandatory set-up fee equal to the client’s total monthly debt payment and monthly fees equal to 10 percent of that amount. The high fees are needed, according to the agencies, because the amount that creditors are sending back to the agencies has been declining.

What’s a Good \$ense counselor to do? First, look at credit counseling agencies only as a last resort. If the person you are working with has truly pruned their budget as much as possible and still can’t pay the monthly minimums, there’s one more step

you can take before recommending a credit counseling agency: Contact the creditors yourself and see if they will be willing to negotiate a lower interest rate directly with you or the person you are helping. If not, now is the time to seriously consider steering the person to a credit-counseling agency.

The Good \$ense Counselor should stay involved in the following ways: First, advise the counselee to only work with an agency certified by one of the two above-mentioned national organizations. Second, have them check with the Better Business Bureau to see if any complaints have been lodged against the agency they are considering. Third, see to it that they get a clear explanation of the fees involved and get the terms in writing. Lastly, stay in touch with the person to be an encouragement to them, and, of course, pray for and with them.