



10 Tips for Selecting a Reputable Credit Counselor

Regardless of your particular need, selecting the right credit counselor is vital. Unfortunately, some organizations, including some that label themselves “nonprofit credit counseling agencies,” may be more interested in their own bottom line than in helping their clients. An April 2005 report by a U.S. Senate investigating committee observed: “Some new entrants to the industry, however, have developed a completely different business model – a ‘for-profit model’ designed so that their non-profit credit counseling agencies generate massive revenues for for-profit affiliates.”

By contrast, the report lauded the National Foundation for Credit Counseling (NFCC) for its commitment to ethical credit counseling that is provided at low cost to consumers. The report stated that “. . . if applied throughout the industry, these [NFCC] professional standards could significantly address the abusive practices identified in this Report.”

Consumers need to “know the difference” when selecting a credit counselor. And they must know the warning signs. The following information can serve as a valuable guide to help consumers “know the difference” when choosing a credit counseling agency.

- **Find out if the agency belongs to a national organization such as the NFCC to ensure it meets quality and ethical standards.** Also, ask if it is accredited by a reputable third party. To protect consumers and make sure they get the assistance they need from qualified and trained counselors, the NFCC requires its members to adhere to a strict set of quality, financial, and ethical standards.
- **Ask the Better Business Bureau and other third parties about the agency.** A number of independent or government organizations work to protect consumers by collecting complaints and making the information public.
- **Watch out for large up-front or monthly fees.** On average, the NFCC’s member agencies charge about \$15 for credit counseling services; some offer these services for free (fees vary by location). Debt Management Plans (formal debt restructuring plans also known as DMPs) should probably cost no more than about \$50 to set up and about \$25 a month thereafter.
- **ALL payments sent to the agency as part of the Debt Management Plan should go to creditors and be disbursed in a timely manner.** Some agencies may take the entire first month’s payment and call it a “fee” or “donation.” Consumers should ask whether this is the agency’s policy. It is also a good idea to ask whether the agency holds payments or disburses them shortly after receipt. The success of a DMP relies upon full and timely payment to creditors to reduce a client’s debt.

- **Be skeptical of BIG PROMISES.** Some organizations claim they can “fix” a bad credit report or credit score. Others say they can settle a consumer’s debts for relatively little money. If the promises sound too good to be true, they probably are. Reliable credit counselors help people manage their money better and, if appropriate, can set up a realistic repayment plan that is acceptable to creditors.
- **Make sure counseling sessions are substantive.** The length of a counseling session will vary from agency to agency, but consumers need to make sure the counselor takes enough time to really understand their personal situation. On average, NFCC agencies spend about 90 minutes in an initial counseling session.
- **Does the agency provide a full range of services, or is it just trying to push a profitable Debt Management Plan?** Consumers should seek out an agency that provides a full range of services and tailors plans to each consumer’s personal circumstances. Clients of NFCC member agencies receive comprehensive budget reviews and recommendations based on their individual needs.
- **The full amount of Debt Management Plan repayments should go to creditors.** Some agencies may take a portion of a consumer’s debt repayment and call it a fee or “donation;” others may even take the entire first month’s payment. Consumers should find out how much of each monthly payment is going to creditors and how much is going to the credit counseling agency. The full amount of those payments should be paid to creditors to reduce the client’s debt.
- **Make sure the agency will work with all of your creditors.** Before entering a DMP, consumers should make sure the agency will work with all of their creditors. Some agencies may refuse to work with creditors unless the creditor agrees to a certain level of financial support for the agency. No agency can require creditors to recognize a DMP program, but the agency should be willing to reach out to every creditor.
- **How does the agency protect consumers’ money?** Consumers need confidence that any funds they hand over to an agency for debt repayments are secure. Consumers need to ask for evidence that an agency is bonded or has insurance that protects their money from fraud or the agency’s own financial difficulties.

“Knowing the difference can make all the difference” when selecting the right credit counseling agency to get your finances and personal life back on track. To find out more about the National Foundation for Credit Counseling or to locate an NFCC member agency in your community, call **1-800-388-2227** or visit www.nfcc.org.