

## **INSTRUCTIONS FOR USING THE CORE ANALYSIS TOOL (CAT)**

In order to be eligible for exemption as a section 501(c)(3) organization, a credit counseling organization that provides services to the public at large must be furthering an educational purpose. The Core Analysis Tool (CAT) is intended to help an agent or determination specialist develop the facts in a credit counseling organization case efficiently. Once the CAT is completed, an agent or determination specialist will be able to place the credit counseling organization in one of three categories:

- (1) Facts are sufficient to establish that credit counseling organization is furthering an educational purpose.
- (2) Facts are sufficient to establish that credit counseling organization is not furthering an educational purpose.
- (3) Facts are mixed on whether credit counseling organization is furthering an educational purpose.

The CAT is organized to collect information on three factors that are relevant in determining whether the organization furthers an educational purpose: counseling sessions, counselor education and training, and outreach and advertising. For each factor, there are sub-elements that look for specific facts that are to be developed during the examination, the review and development of the exemption application or the response to the compliance check. A credit counseling organization will fall into category 1 if it shows evidence of having all the sub-elements in the column of the CAT labeled "Factors Showing Organization Furthers Educational Purpose." A credit counseling organization will fall into category 2 if it shows evidence of having all the sub-elements in the column labeled "Factors Showing Organization Not Furthering Educational Purpose." A credit counseling organization will fall into category 3 if it shows evidence of having some sub-elements from the first column and some sub-elements from the second column. It will also fall into category 3 if it shows evidence of having some, but not all, sub-elements from the first column, even if it does not have any sub-elements from the second column.

In the following section, you will find a guide to developing the information you will need to complete the CAT. Once the CAT is completed, and you have determined which category the organization is in, your factual development on the question of educational purpose is complete. Your next step in the case will be determined by the category into which the case fits and the presence or absence of other issues needing attention. Here is a summary of what the next step should be:

## Determination Cases

Category 1 – Exempt purpose is established. Complete processing of balance of application.

Category 2 – Exempt purpose is not established. Deny application.

Category 3 – There are three options: grant application, deny application, or develop application further. The agent or tax law specialist and manager should decide which option is appropriate.

## Examination Cases

Category 1 – Close case no change unless separate issue has been developed (e.g., private benefit, inurement, political activities). If separate issue has been developed, process case in accordance with development of that issue.

Category 2 – Confirm that credit counseling is a substantial part of the organization's activities. (Given techniques used to classify cases, credit counseling should be a substantial part of the activities. Nevertheless, credit counseling might be one of a range of social services an organization provides. If credit counseling is less than a substantial part or organization's activities, consult with your manager and Counsel.) If so, prepare to revoke organization based on failure to operate in furtherance of an exempt purpose. If other issues have been developed, notice of revocation should cover those as well, to the extent noncompliance has been found.

Category 3 – There are three options: no change with advisory, closing agreement, or revocation. The agent and manager should decide which option is appropriate and consult with Mandatory Review

## Compliance Check Cases

Category 1 – No further action needed.

Category 2 – Refer for examination.

Category 3 - There are three options: advisory letter, closing agreement (analogous to a walk-in closing agreement in that it would not be proceeded by an examination), or refer for examination. The agent and manager should decide which option is appropriate and consult with Mandatory Review.

Finally, you will see that the CAT is divided into Part I and Part II. If a case falls into category 1 or category 2 and the facts are sufficient to establish an educational purpose or to establish lack of an educational purpose, then you do not need to complete Part II. However, if the case falls into category 3, and the facts are inconclusive, you must gather the facts to complete Part II of the CAT. The information contained in Part II may be useful to you and your manager in determining the appropriate resolution of the case.

## **DEVELOPING FACTS REQUIRED FOR COMPLETION OF CAT, PART I**

### **CAT PART I**

#### **COUNSELING SESSIONS**

Information about what counselors do in sessions with clients can generally be found from a number of common sources. In an exam setting, the most detailed and probative information will come from tapes or transcripts of the actual sessions and client files showing the information collected on specific individuals. Also helpful can be generic scripts or questionnaires intended for use generally with clients, instructions given to clients on what to bring to an interview, other forms used with clients, training materials that instruct counselors on what to ask, and interviews with counselors or their supervisors describing what they are expected to ask.

Sub-element 1. Counselors ask clients to provide detailed information about the type, amount and source of all significant items of income, assets, liabilities (including secured and unsecured debt), and expenses.

Sub-element 2. Counselors interview clients about their budget and finances, discussing topics including their employment, education, buying habits, significant expenditures, and any significant past or anticipated changes in their earnings, assets, expenses and liabilities, including the reason or cause for those changes.

When considering whether counselors collect complete financial information, look for evidence in the organization's forms, transcripts of telephone calls, and elsewhere that clients are asked to provide detailed information about:

- The type, amount and source of current and expected future income
- Their assets
- Their monthly and annual expenses
- Secured debt such as mortgages and car loans debt

- All kinds of unsecured debt, including student loans as well as credit cards
- Other liabilities such as child support, alimony, tax liabilities.
- Their employment
- Their education
- Buying habits
- Significant past or anticipated changes in earnings, assets, expenses, and liabilities, including the reason
- Health and other life issues that may affect their financial situations.

Sub-element 3. Based on this information, counselors develop and present to clients a number of options and strategies for addressing their debt problems, including creating and maintaining a budget, establishing debt management payment plans with creditors, negotiating directly with creditors on payment or interest rate relief, and filing for bankruptcy.

When considering whether counselors present a full range of options to credit counseling clients, seek evidence from training materials, transcripts of counseling sessions, and other sources that the counselors:

- Coach clients on negotiating directly w/ creditor in appropriate cases.
- Discuss mechanics and advantages of creating and maintaining a budget.
- Recommend changing buying habits or strategies for saving money.
- Discuss custom-designed payment plans.
- Present advantages and difficulties of all options including bankruptcy, DMPs, self-administered payment plans.

Sub-element 4. The counselors will discuss the advantages and disadvantages of each of these options with clients and will make recommendations for which options are best suited to meet the clients' individual needs, goals and circumstances.

When investigating the criteria that counselors use to formulate recommendations to potential clients, ascertain that counselors routinely:

- Analyze all information collected

- Use objective criteria to recommend options best suited to meet clients individual needs, goals and circumstances

Sub-element 5. Counselors also provide referrals to other organizations for appropriate support services, such as employment, training, and psychological counseling.

To ascertain whether counselors routinely provide specific and appropriate referrals to social service organizations for problems identified during discussions (for help with such problems as employment, training, substance abuse, improving literacy and psychological issues):

- Look at training materials
- Evaluation criteria
- Scripts
- Transcripts of actual calls
- Whether counselors are provided with standard referral contacts at other organizations
- Statistics kept by organization

## **COUNSELOR EDUCATION AND TRAINING**

Information on this factor is likely to be found in qualifications used in job postings, training materials and manuals, curricula for training courses, credentials of instructors or authors of materials, tests or exams counselors must pass before working with clients, information about how counselors are supervised when they are new and as they gain experience, criteria for employee evaluations, individual employee evaluations, and criteria for pay, bonuses and raises. Information on the amount of time spent on training and on employee turnover may also be useful.

Sub-element 1. Counselors receive comprehensive training in counseling skills, personal finance, budgeting, and credit and debt management in live or interactive training sessions and through detailed written manuals.

To assess the training given to counselors in substantive issues of personal finance, budgeting, credit, and debt management, obtain:

- Video recordings of the organization's in-person training program
- Or copies of written materials used
- Or detailed description of access to training given by another entity

Sub-element 2. Counselors also receive training on how to develop options and recommendations that address the particular circumstances of each client.

To determine whether counselors are trained to develop options and recommendations that address the particular circumstances of each client:

- Analyze the above sources or
- Interview past or current counselors

Sub-element 3. Counselors are trained in identifying underlying personal problems (such as illness, loss of employment) that might contribute to financial problems and on making appropriate referrals.

To determine whether counselors are trained to identify underlying personal problems such as illness, job loss, suicidal risk that cause or accompany credit problems, and to make appropriate referrals:

- Analyze the above sources or
- Interview past or current counselors

Sub-element 4. Counselors are evaluated on how thoroughly and effectively they develop and present options to match the particular circumstances of each client. They are not evaluated or compensated based on whether their clients enroll for additional services such as debt management plans.

As an indication of whether the organization is actually operating according to the exempt standards, investigate the way that counselors are evaluated:

- Are individual performance evaluations based on how thoroughly and effectively the staff develop and present options to match the particular circumstances of each client?
- Are individual performance evaluations based on numbers of DMP's sold, the amount of debt in the DMP, the number of clients who make first or third payments, or whether clients purchase any additional services sold by the organization or any other maker for profitability or sales?
- Are any bonuses or raises based upon markers for profitability or sales?

## **OUTREACH/ADVERTISING**

Information on this factor will be found generally on the organization's web site, in the materials it mails or otherwise distributes to the general public, in client files that reflect the source of the referral, in statistics the organization may keep on referrals, on any correspondence with community organizations soliciting

referrals, and in responses to questions asking whether the organization ever purchases mailing lists, telephone lists, or other sources of referrals.

Sub-element 1. The organization uses the Internet, mass media and direct mail to advertise its counseling and debt management services. The advertisements primarily focus on counseling services (based on visual prominence and relative amount of time and space devoted). Debt management plans are mentioned as only one possible option for addressing debt problems.

Analyze the way that the organization uses its Website, as a reflection of the way that it wants to be viewed by the public and potential clients:

- Copy and analyze the initial page.
  - Does it require registration
  - Does it request contact information for those interested in DMPs?
  - Does it primarily focus on counseling services or on DMPs as measured by visual prominence and relative amount of time and space devoted to each?
- Copy and analyze the educational pages of the website:
  - Can they be accessed without providing contact information
  - Do they provide objective and useful information on personal finance, credit, and budgeting?

To analyze advertising used by the organization, obtain copies of advertising in mass media and direct mail to determine:

- Whether it primarily focuses on counseling services or DMPs as measured by visual prominence and relative amount of time and space devoted to each.
- Whether it mentions DMPs as one possible option for addressing debt problems or as universal solution to the financial problems of all individuals.

Sub-element 2. The organization receives referrals from employers, union leaders, clergymen, community organizations or creditors, but does not purchase lists of, and pay for referrals of, debtors.

Determine and document the way that the organization obtains its clients as an indication of whether the organization is genuinely focused on providing education to those who have indicated a specific desire for it or whether it is selling its services to the maximum number of people that it can reach:

- Potential clients are referred to the organization by employers, union leaders, clergy, community organizations or some other person or organization that knows the client?

- Does the organization purchase lists of debtors from credit card companies or from other sources?
- Does the organization pay for referrals to Internet advertisers, telemarketers, credit card companies or others?

## **CAT PART II**

**Remember that you need to develop the facts for Part II ONLY if the results of Part 1 show some sub-elements in the educational purpose column and some sub-elements in the lack of educational purpose column.**

### **GOVERNANCE**

Is there a community-based board that is independent of creditors, with a majority of representatives from a variety of segments of the community, such as religious organizations, civic groups, labor unions, business groups, and educational institutions?

To assess the composition of the board, ask for resumes of the directors and officers.

### **FUNDING SOURCES**

Contributions and grants, including “fair share” payments, may come in some instances from credit card companies and other creditors.

The organization should provide financial statements that show the sources of its funding. Ask additional questions in order to be able to identify:

- Funds (whether as contributions, grants, fees, or something else) from entities who provide services to the organization, such as administration of debt management plans.
- Fees for referrals or for marketing the goods or services of other entities with a commercial interest in the clients of the organization.