

FTC Facts

For Consumers



FEDERAL TRADE COMMISSION
FOR THE CONSUMER

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For People on Debt Management Plans: *A Must-Do List*

Reputable credit counseling organizations employ counselors who are certified and trained in consumer credit, money and debt management, and budgeting. Those organizations that are nonprofit have a legal obligation to provide education and counseling.

But not all credit counseling organizations provide these services. Some charge high fees, not all of which are disclosed, or urge you to make “voluntary” contributions that can cause you to fall deeper into debt. Many claim that a debt management plan is your only option before they spend time reviewing your financial situation, and offer little or no consumer education and counseling. Others misrepresent their nonprofit status or fraudulently obtained nonprofit status by misrepresenting their business practices to regulators.

The Federal Trade Commission (FTC), the nation’s consumer protection agency, and some state Attorneys General have sued several companies that called themselves credit counseling organizations. The FTC and the states said these companies deceived consumers about the cost, nature, and benefits of the services they offered; some companies even lied about their nonprofit status. Several of these companies are now going out of business. Similar companies also may be shutting their doors,

even though they haven’t been sued by the FTC or the states. That could be of special concern if you have a debt management plan with one of these companies.

MUST-DOS FOR ANYONE WITH A DMP

Organizations that advertise credit counseling often arrange for consumers to pay debts through a debt management plan (DMP). In a DMP, you deposit money each month with a credit counseling organization. The organization uses these deposits to pay your credit card bills, student loans, medical bills, or other unsecured debts according to a payment schedule they’ve worked out with you and your creditors. Creditors may agree to lower interest rates or waive certain fees if you are repaying through a DMP.

The FTC has found that some organizations that offer DMPs have deceived and defrauded consumers, and recommends that consumers check their bills to make sure that the organization fulfills its promises. If you are paying through a DMP, contact your creditors and confirm that they have accepted the proposed plan before you send any payments to the organization handling your DMP. Once the creditors have accepted the DMP, it is important to:

- make regular, timely payments.
- always read your monthly statements promptly to make sure your creditors are getting paid according to your plan.
- contact the organization responsible for your DMP if you will be unable to make a scheduled payment, or if you discover that creditors are not being paid.

You need to be aware that if payments to your DMP and creditors are not made on time, you could lose the progress you've made on paying down your debt, or the benefits of being in a DMP, including lower interest rates and fee waivers. Although creditors may have forgiven late payments that you made before you began the DMP, the creditors may be unwilling or unable to do so if payments are late after you have enrolled in a DMP. If you fall behind on your payments, you may not be able to have your accounts "re-aged" again (reported as current), even if you start a new DMP with a new counselor. That means your credit report will have "late" marks and you will rack up late fees, which, in turn, will lead to more debt that could take longer to pay off.

IF YOUR CREDIT COUNSELOR HAS GONE OUT OF BUSINESS

What happens to your DMP if the credit counseling company that managed your debts shuts down? A counseling agency that is going out of business may send you a notice telling you that your DMP is being transferred to another company. Or it may tell

you that you need to take some action to keep your financial recovery on track. If a government agency has filed an action against your credit counseling company, you may get a notice from a third party. If you discover that the organization handling your DMP is going out of business you need to:

- contact your bank to stop payment if you are making your DMP payments through automatic withdrawal.
- start paying your bills directly to your creditors.
- notify your creditors that the organization

handling your DMP is going out of business. Consider working out a payment plan with your creditors yourself. Ask if they will give you a reduction on your interest rate without a DMP.

- order a copy of your credit report. Check for late payments — or missed DMP payments — that may result from the company going out of business. If you see "late" notations you don't expect, call the creditor immediately and ask that the notation be removed. Understand that they have no obligation to do it.

If payments are late because the organization handling your DMP has failed to make scheduled payments, the consequences can be just as devastating as if you failed to make payments to the DMP. If you do not act quickly to make arrangements with your creditors, you could incur late charges that increase your debt, lose the lower interest rates associated with the DMP, and have "late" marks on your credit report.

If your DMP has shut down, consider working out a payment plan with your creditors yourself.

IMPORTANT QUESTIONS TO ASK WHEN CHOOSING A CREDIT COUNSELOR

If the organization you were working with shuts down, you may be able to work a payment plan on your own directly with your creditors. But if you decide that you need additional credit advice and assistance, or if you are considering working with a credit counselor for the first time, asking questions like these can help you find the best counselor for you.

1. What services do you offer?

Look for an organization that offers a range of services, including budget counseling, savings and debt management classes, and counselors who are trained and certified in consumer credit, money and debt management, and budgeting. Counselors should discuss your entire financial situation with you, and help you develop a personalized plan to solve your money problems now and avoid others in the future. An initial counseling session typically lasts an hour, with an offer of follow-up sessions.

Avoid organizations that push a debt management plan as your only option before they spend a significant amount of time analyzing your financial situation. DMPs are not for everyone. You should sign up for a DMP only after a certified credit counselor has spent time thoroughly reviewing your financial situation, and has offered you customized advice on managing your money.

Do not hire an organization that has not fulfilled the requirements for your state.

If you were on a DMP with an organization that closed down, ask any credit counselor that you are considering what they can do to help you retain the benefits of your DMP.

2. Are you licensed to offer your services in my state?

Many states require that an organization register or obtain a license before offering credit counseling, debt management plans, and similar services. Do not hire an organization that has not fulfilled the requirements for your state.

3. Do you offer free information?

Avoid organizations that charge for information about the nature of their services.

4. Will I have a formal written agreement or contract with you?

Don't commit to participate in a DMP over the telephone. Get all verbal promises in writing. Read all documents carefully before you sign them. If you are told you need to act immediately, consider finding another organization.

5. What are the qualifications of your counselors? Are they accredited or certified by an outside organization? If so, which one? If not, how are they trained?

Try to use an organization whose counselors are trained by an outside organization that is not affiliated with creditors.

6. Have other consumers been satisfied with the service that they received?

Once you've identified credit counseling organizations that suit your needs, check them out with your state Attorney General, local consumer protection agency, and Better Business Bureau. These organizations can tell you if consumers have filed complaints about them. The absence of complaints doesn't guarantee legitimacy, but complaints from other consumers may alert you to problems.

7. What are your fees? Are there set-up and/or monthly fees?

Get a detailed price quote in writing, and specifically ask whether all the fees are covered in the quote. If you're concerned that you cannot afford to pay your fees, ask if the organization waives or reduces fees when providing counseling to consumers in your circumstances. If an organization won't help you because you can't afford to pay, look elsewhere for help.

8. How are your employees paid? Are the employees or the organization paid more if I sign up for certain services, pay a fee, or make a contribution to your organization?

Employees who are counseling you to purchase certain services may receive a commission if you choose to sign up for those services. Many credit counseling organizations receive additional compensation from creditors if you enroll in a DMP. If the organization will not disclose what

compensation it receives from creditors, or how employees are compensated, go elsewhere for help.

9. What do you do to keep personal information about your clients (for example, name, address, phone number, and financial information) confidential and secure?

Credit counseling organizations handle your most sensitive financial information. The organization should have safeguards in place to protect the privacy of this information and prevent misuse.

FOR MORE INFORMATION

The FTC publishes a series of free publications on credit and financial issues, including *Fiscal Fitness: Choosing a Credit Counselor* and *Knee Deep in Debt*. They are available at ftc.gov/credit, or by calling toll-free: 1-877-FTC-HELP.

The FTC works to prevent fraudulent, deceptive and unfair business practices in the marketplace and to provide information to help consumers spot, stop and avoid them. To file a complaint or get free information on consumer issues, visit ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261. Watch a video, *How to File a Complaint*, at ftc.gov/video to learn more.

The FTC enters consumer complaints into the Consumer Sentinel Network, a secure online database and investigative tool used by hundreds of civil and criminal law enforcement agencies in the U.S. and abroad.

*Federal Trade Commission
Bureau of Consumer Protection
Division of Consumer and Business Education*