

Financial Management

 **Working for Wisconsin Families**

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Getting Help Out of Debt - How to Choose a Credit or Debt Counselor



A frequent concern I hear from consumers is how to choose a credit counselor. The ads on TV and radio make it sound like they will solve your debt problems - Is that true? The following information will help you be informed consumers when utilizing credit counselors.

When you need assistance with your debt management there are reputable and disreputable credit counseling agencies. A reputable credit counselor will help you create a budget and teach you money management skills. If you decide to enter into a Debt Management Plan with a credit counseling organization, the following questions from the Federal Trade Commission (FTC) will help you decide if this is the kind of organization you want to work with.

Questions to Ask When Choosing a Credit Counseling Organization

1. What services do you offer?
2. Will you help me develop a plan for avoiding problems in the future?
3. What are your fees? Are they set-up and/or monthly fees?
4. What if I can't afford to pay your fees?
5. Will I have a written agreement or contract with you?
6. Are you licensed to offer your services in Wisconsin?

The Department of Financial Institutions, Office of Consumer Affairs www.wdfi.org, 800-452-3328 will give you a list of agencies - adjustment service companies - licensed in Wisconsin.

Avoid doing business with agencies that are not licensed in Wisconsin.

7. What are the qualifications of your counselors? Are they accredited or certified by an outside organization? If so, by whom? If not, how are they trained?
8. What assurances do I have that information about me (including my address, phone number, and financial information) will be kept confidential and secure?
9. How are your employees compensated? Are they paid more if I sign up for certain service, if I pay a fee, or if I make a contribution to your organization?

Debt Management Plans (DMP)

Once you have selected a credit counselor you may decide that you need extra help to pay off your debt. If you develop a debt management plan with your credit counselor you will be asked to deposit money each month with the credit counseling organization. They will use your deposits to pay your unsecured debts, like credit cards, student loans, and medical bills, according to the schedule the counselor develops with you and your creditor. Ask the credit counselor about the impact these plans have on your credit report. Verify with your creditors that they have agreed to this plan.



Debt Negotiation Programs.

Debt negotiation is not the same thing as credit counseling or a Debt Management Program (DMP). It can be very risky and have a long term negative impact on your credit report and your ability to get credit. That's why many states have laws regulating debt negotiation programs and services. They may also be referred to as adjustment service companies.

Debt Negotiation Firms are usually advertised as non-profit organizations. This does not guarantee that they are a legitimate business. No matter what promises the debt negotiator makes, it is ultimately up to the creditor to decide if they will agree to accept partial payment of a debt. Do not stop making payments on your debt until an agreement from your creditor has been made and you have the agreement in writing. It is also important to have a clear understanding of the fees involved with a debt repayment plan, such as a fee to establish the account with the debt negotiator, a monthly service fee, and a final fee of a percentage of the money you've supposedly saved.

Consumer—Be Aware!

Consumers may stop payment on their debt prematurely, because the debt counselor told them it was being paid by them, only to discover the debt has not been paid. This can create additional fees, such as late fees and over the limit fees, and the consumer debt could double or triple. Any late payments will also be reported to the credit bureaus resulting in a negative entry on your credit report.

Finally, if a creditor does agree to decrease the amount owed, the Internal Revenue Service may consider any amount of forgiven debt to be taxable income.

FTC STATES “BEWARE OF COMPANIES THAT:”

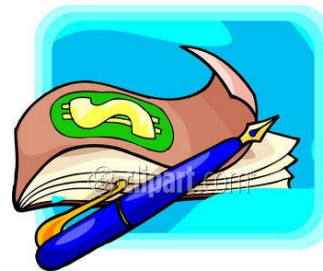
- ◆ Guarantee they can remove your unsecured debt
- ◆ Promise that unsecured debts can be paid off with pennies on the dollar

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Resources: *FTC Facts For Consumers, Fiscal Fitness—Choosing A Credit Counselor*

- ◆ Claim that using their system will let you avoid bankruptcy
- ◆ Require substantial monthly service fees
- ◆ Demand payment of a percentage of savings
- ◆ Tell you to stop making payments to or communicating with your creditors
- ◆ Require you to make monthly payments to them, rather than with your creditor
- ◆ Claim that creditors never sue consumers for non-payment of unsecured debt
- ◆ Promise that using their system will have no negative impact on your credit report
- ◆ Claim that they can remove accurate negative information from your credit report.

If you decide to work with a debt negotiation company, be sure to check it out with your State Consumer Protection Agency 1-800-352-3020, Department of Financial Institutions 800-452-3328, and/or the Better Business Bureau 1-800-273-1002. They can tell you if any consumer complaints are on file about the firm and if they are licensed to work in Wisconsin.

To get free information on consumer issues, visit www.ftc.gov or call toll-free, 1-877-FTC-HELP (1-877-382-4357); TTY: 1-866-653-4261, or contact your local University of Wisconsin-Extension office.



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