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News Release

Debt Management Plans

Reputable credit counseling organizations employ counselors who are certified and trained in consumer credit, debt management, and budgeting. Nonprofit organizations have a legal obligation to provide education and counseling. Be aware that not all credit-counseling organizations provide these services. Some charge undisclosed high fees, or urge people to make “voluntary” contributions that can cause even more debt. Many claim that a debt management plan is the only option before they spend time reviewing a person’s financial situation, and offer little or no consumer education and counseling.

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, monthly deposits are made with a credit counseling organization. The organization uses these deposits to pay an individual’s credit card bills, student loans, medical bills, or other unsecured debts according to a payment schedule. Creditors may agree to lower interest rates or waive certain fees if when repaying through a DMP.

When paying through a DMP, contact all creditors and confirm that they have accepted the proposed plan before sending any payments to the organization handling the DMP. Once the creditors have accepted the DMP, it is important to:

- Make regular, timely payments
- Read the monthly statements promptly to make sure the creditors are getting paid according to the plan
- Contact the organization responsible for the DMP if unable to make a scheduled payment, or upon discovery that creditors are not being paid

If payments to the DMP and creditors are late, any progress made in paying down debt, or the benefits of being in a DMP, is lost. Although creditors may have forgiven late payments made before you beginning the DMP, the creditors may be unwilling or unable to do so if payments are late after enrolling in a DMP. If anyone gets behind on payments, the accounts may not be “re-aged” again (reported as current), even if a new DMP is started with a new counselor. That

means credit reports will have “late” marks and late fees, which, in turn, will lead to more debt that could take longer to pay off.

Important Questions to Ask When Choosing a Credit Counselor

When looking for credit advice and assistance, beyond contacting creditors, or when considering working with a credit counselor for the first time, asking questions like these can help locate the best counselor.

- **What services do you offer?**
Look for an organization that offers a range of services, including budget counseling, savings, and debt management classes. Check to make sure counselors are trained and certified in consumer credit, debt management, and budgeting. Counselors should discuss the entire financial situation and assist with developing a personalized plan to solve money problems now and avoid others in the future.
- **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.
- **Do you offer free information?**
Avoid organizations that charge for information about the nature of their services.
- **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 signing them.
- **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?**
Locate an organization whose counselors are trained by an outside organization that is not affiliated with creditors.
- **Have other consumers been satisfied with the service that they received?**
After indentifying credit-counseling organizations, check them out with the state Attorney General, local consumer protection agency, Alabama Securities Commission, and Better Business Bureau. These organizations can give information concerning consumers that have filed complaints about them. The absence of complaints does not guarantee legitimacy, but complaints from other consumers may indicate problems.
- **What are your fees? Are there set-up and/or monthly fees?**
Get a detailed price quote in writing, and specifically ask what fees the quote covers. If an individual is unable to pay the fees, ask if the organization waives or reduces fees when providing counseling to consumers under extremely difficult circumstances. If an organization cannot help due to inability to pay, look elsewhere for help.

- **How are your employees paid? Are the employees or the organization paid more if I sign up for certain services, pay a fee, or contribute to your organization?**

Employees who are counseling people to purchase certain services may receive a commission by signing up for those services. Many credit-counseling organizations receive additional compensation from creditors by having clients enrolled in a DMP. If the organization will not disclose what compensation it receives from creditors, or how employees are compensated, go elsewhere for help.

- **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 the most sensitive financial information. The organization should have safeguards in place to protect the privacy of this information and prevent misuse.

For More Information

To file a complaint or to 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, or contact Ruth Brock, Regional Extension Agent at the St. Clair County Extension office at 205-338-9416 or e-mail brockru@aces.edu.

Source: Federal Trade Commission