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QUICK DEBT RELIEF: IF IT SOUNDS TOO GOOD TO BE TRUE, IT PROBABLY IS

(BALTIMORE) Consumers with serious money or mortgage problems often focus on one thing: Relief. Faced with collection or foreclosure notices and limited financial resources, it's easy to feel that there is no way out, and it's easy to be tempted by commercials that promise you'll be debt free in just a few months or after paying only pennies on the amount you owe. If you're in this situation, do some homework to insure that you are dealing with a reputable, nonprofit organization. It's important to get help as early as possible, but making an uninformed decision could cost you time, money, and peace of mind and sabotage your chances for getting out of debt.

Not all organizations that offer personal finance help are alike. **Debt settlement is not the same as credit counseling.** Do you know the difference?

Debt settlement is also sometimes called debt negotiation or arbitration. It is a process through which creditors agree to accept less than the full amount owed, yet consider the balance paid. Unscrupulous debt settlement companies often advertise that they can negotiate reductions of 50 percent or more of the debt you owe. While this scenario sounds tempting, it may not be true.

- Settlement companies often charge fees that may range from 13 to 35 percent of your total debt. In some cases, they may take these fees upfront before they begin paying off your creditors.
- Some may even request that you stop paying your creditors and instead begin making deposits into a third-party account. If you do not quickly accrue enough money in this account to pay your debts and the settlement company, you may end up owing additional interest and late fees or even face legal actions such as wage garnishments from your creditors.
- If a debt is paid through settlement, it generally will show up as "Paid by Settlement" on your credit report. This may affect your ability to get loans or credit cards in the future.
- You may owe taxes on forgiven debt you did not pay.

In its *Focus on Credit FTC Facts for Consumers* bulletin, the Federal Trade Commission notes that "debt negotiation differs greatly from credit counseling and DMPs (debt management programs). It can be very risky, and have a long-term negative impact on your credit report and, in turn, your ability to get credit."

Reputable nonprofit credit counseling organizations emphasize free financial education through counseling. Their counselors are trained and certified, and they offer services through local offices, over the Internet, or by phone.

- During a counseling session, a credit counselor helps you assess where you stand financially and set up a personal budget.
- The counselor also will help you develop a strategy for paying off your bills and provide advice on how to reduce your living expenses and/or increase your income.
- If you need further help, your counselor may give you the option to enroll in a debt management program or "DMP." Under this plan, they work with you and your creditors to set up a realistic

plan for paying off your debts. Once you are enrolled, you pay a specific amount to the credit counseling agency each month, and they distribute this money to your unsecured creditors. You may be asked to pay set up or maintenance fees if you enroll in a DMP.

If you decide to seek help from a credit counseling service, it still pays to do some research, because they are not all the same. To determine if a credit counseling service is reputable, first ask:

- **How long has the agency been in business?** Organizations with a long history of helping consumers are more likely to be reputable. Check with the Better Business Bureau or State Consumer Protection Division to see if any complaints have been lodged against the agency.
- **Is the organization a certified 501(c)(3) nonprofit?** For-profit companies may view education and assistance as a “product.” They may charge higher fees and may not provide the same level of consumer protection as required for nonprofit 501(c)(3) agencies.
- **Is there a cost for service?** Ask how much the agency charges for consultation, setup, or monthly maintenance.
- **Are the agency's counselors certified?** Counselors that are trained and tested on their knowledge of financial education and debt management are more likely to provide accurate and professional advice.
- **What debts are included in the DMP?** This is important, because you will be responsible for repaying those debts not included in the DMP. All unsecured debt should be included in the program.
- **Is the counseling service affiliated with a national trade association such as the National Foundation for Credit Counseling (NFCC)?** Membership signifies that agencies meet the highest quality standards including maintaining a 501(c)(3) non-profit status.
- **Is the counseling service independently accredited?** Organizations that are accredited by groups like The Council on Accreditation are required to maintain rigorous quality and professional performance standards.
- **Is the agency in compliance with your State's debt management regulations?** For example, the Maryland Debt Management Services Act requires agencies that provide debt management services to Maryland residents to be licensed and bonded. The law also limits the amount of fees that can be charged to a maximum of \$50.00 for the initial consultation and monthly maintenance fees of no more than \$8.00 per creditor in the debt management program with a \$40.00 cap.

If you have serious debt or mortgage foreclosure problems, get help now. Waiting too long to resolve these issues may leave you with very few options. The time you take to research and select a reputable organization will save you money, time, and aggravation in the end.

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Consumer Credit Counseling Service of MD & DE, Inc. (CCCS) is an accredited 501(c)(3) nonprofit agency that has served the local community since 1966. CCCS promotes the wise use of credit through education and confidential budget and money management counseling. We are dedicated to helping individuals and their families gain financial literacy and resolve their debt and housing problems.