

Is a Credit Counseling Service Right for You?



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Attorney General of Texas

Good credit is an essential aspect of life in today's world. Your credit history shows how responsible you have been in paying your bills. It helps determine the amount of credit available to you as well as the interest rate you will pay. Unfortunately, we are not always able to maintain a good credit rating due to hardship, such as unemployment. As a result, an increasing number of consumers are turning to credit counseling agencies for assistance.

What is credit counseling? Credit counseling is advice offered by a non-profit or for-profit organization that is designed to get you out of debt, often with the aid of a debt repayment plan.

Typical debt repayment plans require you to make a monthly deposit to the credit counseling agency, which will then pay off your creditors according to a payment schedule set by your credit counselor. Bear in mind that as part of the repayment plan, you may have to agree not to apply for or use new credit while you are participating in the program.

When considering whether to use a credit counseling service, ask for an estimate of how long the repayment plan will take. The majority of success-

ful plans require you to make regular payments for at least 48 months.

Be sure to find out exactly how much money each service will cost you. Payment costs and requirements vary widely from agency to agency. Some credit counseling agencies are free or charge a small amount for credit management, while others charge a monthly fee that can add up over time. Be aware that some credit counseling agencies are funded partly by creditors.

While a debt repayment plan can reduce the stress associated with dealing with your creditors, you must remain an active participant in your repayment plan. You are responsible for reviewing your monthly statements from your creditors to verify that they have been paid and that other provisions of your plan have been satisfied. You are also responsible for paying debts not included in the repayment plan.

Participating in a repayment plan will not erase your bad credit. Accurate negative information about your credit history can stay in your credit file for up to seven years. In addition, your creditors will report information on accounts that are in the credit management process, which may lower your credit score in the short run.

Debt repayment plans usually only cover unsecured debt. Your car loan and home mortgage are considered secured debts and might not be included. You will have to continue to make payments directly to these

creditors. The reason these kinds of loans are considered secured is that a vehicle can be repossessed or your home foreclosed on if payments are not made. If you are experiencing difficulty in making your car or house payment, contact the creditor immediately.

Consumers should also be careful when considering loan consolidation as a way to pay off creditors. Some companies claim they can guarantee a loan for a fee paid in advance. The fee may be as much as several hundred dollars. If someone guarantees or strongly suggests that they can get a loan or credit for you, remember that it's against the law for them to request or accept payment until you actually get the loan or credit. Legitimate lenders never guarantee or imply that you are likely to get a loan or credit card before you apply, especially if you have bad credit, no credit or a bankruptcy on your record.

Credit counseling services can provide a means for consumers to get out of debt, but they are not for everyone. You should understand that a debt repayment plan is a methodical, long-term solution to debt management. The only way to ensure having good credit in the future is to be diligent in paying bills and debts today.

POINTS TO REMEMBER

CREDIT COUNSELING

- Advance fee loans are illegal
- No service can make your debts go away for a fee
- No legitimate lender guarantees that your application will be approved

For assistance with credit problems, education and counseling:
National Foundation for Credit Counseling
(800) 388-2227
www.nfcc.org

For assistance with credit problems that could result in mortgage default or foreclosures:
Housing and Urban Development
(800) 569-4287
www.hud.gov/foreclosure/index.cfm

For a copy of your credit report:
Experian
PO Box 9532
Allen, TX 75013
(888) 397-3742
www.experian.com

Equifax
PO Box 740241
Atlanta, GA 30374-0241
(800) 685-1111
www.equifax.com

Trans Union
PO Box 2000
Chester, PA 19022
(800) 916-8800
www.tuc.com



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