<cn>Chapter 10</cn>

<ct>The Getting-~~-~~Out-~~-~~of-~~-~~Debt Industry</ct>

Born of people~~'~~'s misfortunes, credit counseling was a sleepy cottage industry for a long time. Now, larger and troubled, it may be more in need than its clients of being set back on the straight and narrow.

—Christopher H. Schmitt with Heather Timmons and John Cady, "~~(~~A Debt Trap for the Unwary,~~(~~"
<i>*Business Week*</i>~~.~~, ~~(~~October 29, 2001~~).~~

We are besieged by advertising on two fronts: h~~H~~ow to get more and cheaper credit, and how to get out of debt. On the one hand, we are lured into taking on more debt through cheap credit; on the other hand, we~~(~~'re warned of being in too much debt.

Federal Reserve Chairman Alan Greenspan pointed~~s~~ out in 2004 that because of low interest rates, we ~~can~~could more easily handle high levels of personal debt.[1] In 2003, ~~E~~economics journalist Robert Samuelson argued~~s~~ that Americans ~~are~~ were already too heavily in debt and the last thing we needed ~~is~~was more "~~(~~cheap credit."~~(~~[2] Despite Greenspan~~(~~'s insouciance, ~~(~~"cheap credit~~(~~" still mounts up and must be paid off. For instance, since 2001 the debt-~~-~~service burden of households has been above 13 ~~percent~~% of disposable income, a level not seen since the Fed began collecting this data in 1980.[3] **[[Does this mean that people owe 13% more than their disposable income?]]** The contradictory messages of ~~(~~"borrow more~~(~~" and ~~(~~"borrow less~~(~~" reflect~~s~~ the simultaneous growth of ~~both~~ the credit and ~~the (~~getting-~~-~~out-~~-~~of-~~-~~debt~~(~~ industries. This chapter examines the multi~~-~~billion-~~-~~dollar **[[You use this term in the next paragraph; how about a synonym here, or just deleting it?]]** consumer credit counseling industry, debt settlement, and ways to rei~~g~~n in runaway credit counseling agencies.

<~~H1~~h1>Consumer Credit Counseling Agencies</~~H~~h1>

Debt management is a multibillion-~~-~~dollar industry. Nearly 9 million people a year in financial trouble have some contact with a consumer credit counseling agency (CCA), and 3 million people nationwide have an active debt-~~-~~management plan [[In a given year?]]~~s~~ (DMP~~s~~). In the early 1990s, there were about 200 debt-~~-~~management agencies; by 2004, that number had jumped to 1,300 or more. By 2004, $5 billion of debt was repaid to creditors through credit counseling agencies.[4]

<h2>The Evolution of the CCA Industry</h2>

The CCA industry emerged in the mid-1960s through the efforts of credit card companies to recover overdue debts. The original nonprofit Consumer Credit Counseling Services (CCCSs) were affiliated with the National Foundation for Consumer Credit (NFCC), the earliest and perhaps most reputable trade organization. Early credit counseling agencies used a social-services model based on face-to-face counseling. However, ~~like~~ as with many underfunded social-~~-~~service~~-~~-type agencies, consumers endured long waiting periods for assistance, were required to attend counseling sessions, and in some cases had to make on-site payments. On the other hand, early agencies provided credit counseling even for those not enrolled in revenue-generating DMPs, consumer education, budget-~~-~~management seminars, and financial-~~-~~advice programs.

The CCA industry is primarily funded through a policy known as Fair Share. Under this arrangement, credit card issuers (CCIs) voluntarily return a percentage of each payment they get through a DMP. Traditionally, CCAs received a 15~~ percent~~% reimbursement on each payment they received, which was used to cover operating expenses. Since the kickbacks were higher than actual expenses, the surplus funded non-revenue-~~-~~generating services such as consumer counseling~~,~~ and public speaking~~ and so forth~~. The CCAs' dependence on creditor funding was rarely disclosed to consumers until the industry reached a settlement with the Federal Trade Commission in 1996.

Entrepreneurs were enticed by the possibilities of the Fair Share plan. For example, a single $15,000 DMP with a 15~~ percent~~% kickback could earn $2,250. Unlike other fringe economy businesses, CCAs carried ~~there was~~ little risk, since reimbursements came from creditors rather than debtors. Entrepreneurs soon realized they could make even more money if they eliminated expensive non-revenue-~~-~~generating services, such as face-to-face counseling~~ and other activities~~.

The CCA industry grew rapidly as newer agencies developed competing trade associations, such as the American Association of Debt Management, the American Federation of Independent Credit Counseling Associations, and the Association of Independent Consumer Credit Counseling Agencies.[5] Newer CCAs were less stodgy than traditional agencies and applied more business-oriented practices.**[[Can you be more specific?]]** They also adopted more consumer-friendly policies, such as flexible hours, phone and Internet counseling, and electronic payments. In turn, older CCAs were forced to become more responsive to clients.

The newer and more aggressive CCAs **[[Are these the same ones you mention in the previous paragraph? They sounded pretty good there, but not so good here. If so, add "also" here?]]**introduced a host of new problems. For example, leaner businesses meant less face-to-face contact with clients and less personalized budgeting advice. ~~It~~ They also meant that agencies would focus exclusively on revenue-generating DMPs rather than on non-revenue-generating financial services. Through aggressive marketing, newer CCAs occasionally crossed the line into deceptive practices, such as falsely claiming that involuntary fees were voluntary~~;~~, providing customer bonuses for referrals~~;~~, and paying for incentive-based telemarketing and spam e-mail. The newer agencies also charged high fees~~(~~—typically a full month~~(~~'s DMP payment~~(~~—to set up an account. In contrast, traditional NFCC member agencies may offer one-on-one budget counseling for $13 a session, and charge a $15-per-month DMP fee plus $25 for setting up a new account.[6]

Because many newer CCAs ~~only~~ deal only with CCIs that pay a Fair Share reimbursement, they ~~only~~ place only a portion of ~~a~~ customer~~(~~s' unsecured debt into a DMP, leaving them to manage other creditors on their own. (Reputable CCAs work with all creditors, regardless of whether they contribute.) Still other CCAs are DMP mills, where ~~(~~"credit counselors~~(~~" are paid a commission based on the number of people they sign up.

Although consumers searching for credit counseling services are often advised to look for accredited NFCC or CCCS agencies, this does not ~~assure~~ guarantee fiscal ~~probity~~integrity. In 2004, state investigators searching for missing funds seized the nonprofit CCCS of Utah, a founding and decades-long member of the NFCC. Regulators also ordered its president, nightclub owner Scott McCagno, to turn over his credit cards and a CCCS-owned BMW. McCagno was eventually fined $45,000 and banned from the credit counseling industry. In 2001, just three months after the NFCC withdrew its accreditation **[[From CCCS of Utah?]]**, the president and treasurer of the Hawaii Credit Counseling (HCC) service were convicted of using clients' funds to launder drug money for heroin dealers.[7] Some lenders and creditors represented on the NFCC ~~Board~~ board have paid hundreds of millions of dollars in Federal Trade Commission fines and other settlements for anti~~-~~consumer practices.[8] The main strategy that~~used by~~ CCAs use to help consumers exit the debt trap is a DMP.

<h2>Debt-~~-~~Management Plans</h2>

Legitimate debt management works in the following way:~~.~~ A consumer who is embroiled in revolving debt ~~and~~ consults a CCA. ~~Their~~ His or her total credit obligation is reviewed, and a plan is created for debt reduction, which may call for credit counseling, consumer education, or a self-administered debt-~~-~~reduction strategy. If the debt is high, the CCA may develop a ~~DMP~~ debt-management plan that consolidates unsecured bills into a monthly payment schedule designed to satisfy creditors. In turn, creditors may lower interest rates and waive certain fees. DMPs can include unsecured debt, such as that from credit cards, personal signature loans, store cards, medical bills, gas cards, and collection accounts. However, DMPs mainly focus on credit card debt. Non-revolving debts, such as mortgages and auto loans, are rarely consolidated.

The proposed DMP is forwarded to the credit company(ies) for approval, which is not necessarily automatic, since they may not easily grant concessions. For instance, creditors may require the CCA~~s~~ to supply a detailed financial snapshot of the borrower, including belt-tightening specifics about where nonessential spending (~~e.g.,~~ entertainment, restaurants, magazine subscriptions, and so forth) will be reduced. To prove their sincerity, borrowers may be put on probation and must **[["be required to" instead of "must"? Or does this apply to all borrowers?]]** successfully make three monthly on-time payments before the concessions kick in.[9] If the DMP is accepted, the credit card companies may waive late and other fees and grant a lower interest rate. Although monthly payments are slightly reduced, the full balance is still owed, and interest continues to accrue during the repayment period. A Consolidated Credit Counseling Services advertisement illustrates the hypothetical difference a DMP can make in debt repayment, as shown in Table 10.1.[10]

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Without ~~C~~consolidation	**With ~~C~~consolidation**
Average interest rate: 18%	Average ~~I~~interest ~~R~~rate: 6.9%
Total ~~T~~time to ~~P~~pay ~~O~~off: 35 years, 9 months	Total ~~T~~time to ~~P~~pay ~~O~~off: 4 years
Total ~~I~~interest: $23,615	Total ~~I~~interest: $2,355

[[This table leaves out an important element, which is the size of the monthly payment. The only way the debt could be paid so quickly with consolidation is if the monthly payments were much higher than without consolidation, which might be impossible for the borrower to manage.]]

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<tn>Table 10.1.**</tn> <tt>** Comparison of repayment methods for $16,000 total debt on ~~S~~six credit cards ~~with a total balance of $16,000.~~ **[[Caption OK?]]</tt>**