

Whether You Choose Credit Counseling or are Ordered to Attend, Check out the Agency First

Under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, (BAPCPA), individuals hoping to file a petition in U.S. bankruptcy court now need to attend a credit counseling session from an agency approved by the Office of the U.S. Trustee prior to filing. They'll also require another counseling session before any bankruptcy debts can be discharged.

It is typically up to the Trustee's office to recommend the specific credit counseling service potential filers need to do. The required counseling can take place in person, over the phone, or online on the Web site of the approved credit counseling agency. According to the Federal Trade Commission, pre-bankruptcy counseling typically takes place during a single session, and costs you an average \$50. You'll get a written certificate to turn in to the bankruptcy court.

Bankruptcy-related credit counseling is not a trip to the woodshed. It's intended to help you re-evaluate your spending and prepare for life after certain debts are discharged (wiped from the slate). Your counselor should provide you:

- A personal financial assessment;
- A reasonable and manageable spending plan;
- A detailed action plan;
- Short- and long-term financial goals.

Credit counseling is a valuable service whether you are required to get such advice before a bankruptcy filing or if you are simply trying to organize your finances. However, it might be valuable to consult a financial planner specializing in debt and bankruptcy issues before you do anything – filing for bankruptcy should be done only as an absolute last resort because it will damage your credit rating for the next 10 years.

But in general, here are some important things to know and ask about credit counseling before you make a move.

Consult various agencies, media about reliable credit counseling services in your community: If you're filing bankruptcy, it is generally wise to go with the chosen consumer credit agencies recommended by the trustee. But that doesn't mean you shouldn't check them out. Check which agencies your local media consults when talking about credit counseling, and check in with the local Better Business Bureau (BBB) to see if it has obtained complaints on the agency.

Watch carefully for fees and expensive services: A reputable credit counseling agency should send you free information about its policies and activities without asking you at that point to provide any details about your situation. Check the range of services they offer – the best credit counseling agencies provide budget counseling and savings and debt management classes. The FTC says you should avoid organizations that try to push you into a debt management plan (DMP) as your only option before they get a chance to look over your detailed financial situation.

Know how their staff is paid: Understanding compensation is important. If the agency's staff is paid based on the services they sell, go somewhere else. And if your bankruptcy trustee recommends that agency, let them know so they can be taken off the list.

Understand debt management plans and whether they're right for you: A debt

management plan typically requires you to deposit money each month with the credit counseling organization, and it pays your debts in exchange for a lowering of fees and balances by your lenders. Reputable consumer credit services offer such plans, but since you might be in one for more than two years, you need to understand how they work.

Understand that these organizations can make costly mistakes: If you reach an arrangement to pay future bills through an agency, it is possible they can make a mistake paying your bills on time. You must still monitor due dates on all your outstanding bills and make sure the agency has made the payments on time. If they fail, call the BBB to alert them. A credit counseling agency that fails to pay bills on time will delay any recovery of your credit rating.

Make sure all agreements are in writing: You should know in writing what services the agency will provide you, whether you will attend classes and counseling on specific topics. Always know whether you'll have the opportunity to discuss your situation with a counselor in person. Above all else, understand any charges you are paying.

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