



Consumer Credit Counseling Service of Central Oklahoma

Credit Wise Newsletter

What Does This IRS Scrutiny Mean for Credit Counseling?

You may have heard the recent news stories about the IRS revoking the 501(c) 3 tax-exempt status of 41 credit counseling agencies. If you are a currently a credit counseling client or considering becoming one, you're probably wondering what this means to you. I just returned from the National Foundation for Credit Counseling (NFCC) Spring Conference where we heard 2 speakers regarding these IRS actions. I can attempt to put things in perspective.

First, I'll start with a little background on the credit counseling industry. About 12 years ago, there were approximately 200 credit counseling agencies. All were members of the NFCC. These NFCC members are held to high member standards and focus on educating consumers to become better money managers. Then, the market was opened up to non-NFCC agencies. While some other non-NFCC agencies may be legitimate, many are not. The Debt Management Plan (DMP) offered by credit counseling agencies was seen as a huge money making opportunity to the "new entrants" into the industry. DMP clients agree to repay their creditors and in return, could receive lower interest rates, waived fees, and lower payments. Since DMP clients are repaying their debts instead of not paying or filing bankruptcy, many creditors pay a contribution to the credit counseling agency based on the amount that clients pay back. These "new entrants" applied for tax-exempt status under the IRS 501(c) 3 code just like the NFCC agencies and applied to become non-profit agencies. The 501(c) 3 designation requires agencies to operate for educational purpose.

When the IRS was flooded with applications years ago, they did not closely scrutinize all of the agencies that were

applying. They had approximately 1100 agencies apply for the 501 (c) 3 status that would allow them to operate as non-profits and educational entities.

The problem is that many of these "new entrants" did not have education as their focus. While some may have entered the market to educate consumers, far too many saw the credit counseling industry as fertile ground for making money. Cha-ching!

Some major players such as the now bankrupt Ameridebt faced serious Senate scrutiny 2 years ago. The Senate investigations found that many "new entrants" were more interested in pushing clients into profitable DMPs instead of spending time educating them. Instead of counseling consumers on financial issues, they would figure out if they were DMP candidates in a few minutes on the phone. Unscrupulous agencies paid their management huge salaries (some more than \$400,000 per year) and many of these "non-profits" had business relationships with for profit agencies. Some would steer DMP clients into a more profitable loan with a for-profit partner, often owned by a relative of the CEO of the non-profit credit counseling agency. Others charged high fees to already financially strapped consumers. The Senate uncovered just how serious these problems were in the credit counseling industry and the IRS took notice.

The IRS realized that maybe they should have scrutinized those 1100 applications more closely. Since 2003, the IRS has approved only 3 applications to become a 501 (c) 3 credit counseling agency. They virtually stopped adding new agencies that did not have consumer education as their legitimate purpose. What could they do about the ones they had already approved? Well, that is the

reason for the current IRS review.

Earlier this year, the IRS audited 63 credit counseling agencies. Just last week, they announced that they were revoking the 501 (c) 3 status of 41 of those agencies. The results of the other 22 audits are pending. It is important to note that none of the revoked agencies are NFCC members. The IRS revoked their tax-exempt status for numerous reasons ranging from not enough educational purpose to serving their own self interest. Most other credit counseling agencies were given "compliance surveys" to ensure their educational purpose. Based on these surveys, more audits may follow. After the IRS gives the green light to some agencies based on the survey results, they plan to launch a website of approved credit counseling agencies in the coming months.

While much of this media attention on credit counseling may leave you wondering if there are any good agencies left, let me assure you that there are a lot of good ones out there. A good one will educate you and will not pressure you into a repayment plan. A good one will teach you something. A true educational agency operates with a mission and purpose to help people. You can usually tell this in the way the counselors talk to you with kindness and compassion. Most true non-profit agencies do not pay their employees extremely high salaries. Those employees are working for that agency not because they are motivated by money but because they wake up every day with a desire to make a positive difference in someone's life.

Many of the legitimate counseling agencies have been around since the 1960's. They were here before the "new entrants" came in and I believe they will be here long after they are gone.

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How Can You Tell if a Credit Counseling Agency is Legitimate?

Finding a good agency isn't as tough as you might think. Here are a few things to look for:

Accreditation: If an agency is accredited, it may speak to their legitimacy. Accreditation is an extensive process that scrutinizes the operations of a credit counseling agency to ensure that they are operating with strict quality guidelines. The most common accreditation for credit counseling agencies is COA.

Member of National Industry Organization: Some credit counseling industry

organizations hold their members to high standards. The National Foundation for Credit Counseling (NFCC) has been the gold standard since the 1960's.

Better Business Bureau: Look up the agency with the BBB. Many unscrupulous ones have complaints against them. You can research them by going to www.bbb.org

Non-profit and 501© 3 status: While this should not be used as a rubber stamp seal of approval right now, it's best to deal with a 501c3 non-profit. When this IRS

finishes their agency review and posts their website of approved credit counseling agencies, this will mean that they have been examined and were given the IRS seal of approval.

United Way Agency: This means that they have gone through another examination process by the United Way and were deemed to be a charitable organization. It also means that they are probably very active in your community.

Location: While some consumers are fine with being

served by an out-of-state agency, many prefer to stay local. Local agencies may better understand the unique needs of you and your community. They may also offer in-person counseling and community education thus allowing you to form a more personal relationship with their experts. CCCS agencies abide by a strict confidentiality policy so none of your neighbors or employer will know you were seeking help. Why not take advantage of the services offered by one of the caring agencies in your own community?

Bankruptcy Update

In figures released recently by the American Bankruptcy Institute, Oklahoma is ranked #5 in households per bankruptcy filings. The national average means that 1 in every 60 households in the U.S. has filed bankruptcy. In Oklahoma, the number is 1 in every 40 households. So, what does this mean for our state? In order to reduce these numbers, there are some steps that we can take.

First, we need to get serious about education. With 18-25 year olds being one of the

fastest growing groups of bankrupt consumers, we need to supply the educational tools necessary to succeed. If we can teach young people to make smart financial decisions, how to save money for emergencies, and how to plan for their financial future, we can better equip them to solve financial issues. For more information about groups that support financial literacy efforts in Oklahoma, such as The Oklahoma JumpStart Coalition, please visit www.jumpstart.org

Next, encourage financially strapped friends and family members to seek help before it's too late. Many local credit counseling agencies offer free or low cost budget, credit and debt counseling. They offer community financial education and debt management plans to help consumers get out of debt and become more savvy money managers. They can teach you about credit reports, practical budgeting tips, rapid debt repayment, saving, and much more!



For great budgeting tips and money management information visit

www.betterbudgeting.com