



## 7 Shocking (and Costly!) Facts About Consumer Credit Counseling

*(NOTE: This information refers to credit counseling other than what is required for bankruptcy pre-filing credit counseling. Talk to the Fonfrias Law Group for approved agencies.)*

**SHOCKING FACT #1: *Credit counselors work for your creditors, not for you.*** A former Assistant Attorney General for the state of Texas said this about Consumer Credit Counseling Services:

"I think that consumer credit counseling service is intrinsically deceptive. They're funded or incorporated by the very people they are truly representing...not the consumer/debtor but the creditors trying to collect the money. I think they're a con; they pitch themselves as serving the consumer's best interest but they don't. Their promotion practices are deceptive and the consumers are being grossly misled. If they were lawyers, they'd get disbarred! Representing one party and acting for the other? Come on! Think about it! If lawyers won't get involved in an enterprise like Consumer Credit Counseling, you know it must be bad."

**SHOCKING FACT #2: *Credit counselors get paid by the credit industry to "help" you pay creditors.*** Your creditor counselor is being paid by the credit card companies. Interestingly enough, this is not a well-kept secret. Information from the National Foundation for Credit Counselors reveals that up to 15 percent of each payment collected is paid to the Consumer Credit Counseling Services office. Although they describe this payment as a contribution from the creditor, in reality, it is a commission. The National Foundation for Credit Counselors' materials state: "The majority of our funding comes from voluntary contributions from creditors who participate in our Debt Management Plans."

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**SHOCKING FACT #3: *Credit counselors' nonprofit status does not mean they are not making money at your expense.*** Consumer Credit Counseling Services makes a point of describing themselves as a nonprofit organization. Most consumers don't realize that nonprofit businesses operate to make a profit. Rather than distributing earnings to stockholders as dividends, the profits are paid to the employees and officers as salary or bonuses. They make money – a lot of money! For example, Consumer Credit Counseling Services in the Greater Dallas area reportedly collected \$103 million dollars in one year alone. And they got a big chunk of that as their commission! Most hospitals are nonprofit organizations too. A company's nonprofit status has nothing to do with whether they are motivated to make money. As reported in the Washington Post, the Office of the Corporation Counsel said: "Consumers should not let down their guard just because a credit-counseling agency calls itself nonprofit. It is easy to set up a nonprofit counseling agency and use the counselors to sell the services of a related for-profit company."

**SHOCKING FACT #4: *Often, credit counselors cannot reduce interest charges on credit accounts.*** Many people believe that the credit counseling service can have finance charges reduced or waived. Information from a Consumer Credit Counseling Service web site makes it clear that they cannot always do this. In fact, the majority of creditors will not waive finance charges.

**SHOCKING FACT #5: *Consumer Credit Counseling will ruin your credit.*** What about your credit? The credit industry wants you to know that filing a bankruptcy can adversely affect your credit. The fact is, participating in a consumer credit counseling program can be just as bad, or even worse, than a bankruptcy. An important fact – often overlooked – is that you would not file a bankruptcy or participate in a Consumer Credit Counseling Services program unless you already had serious credit problems. Anyone who participates in a repayment plan through CCCS will have that fact reported on their credit. As a result, you can expect creditors to close all of your credit accounts. And you can expect to have a very hard time opening any new accounts. The result is pretty much the same as a bankruptcy, except a bankruptcy doesn't cost as much or last as long. Believe it or not, signing up for a CCCS repayment program often gives you a lower credit score than if you had filed bankruptcy. David Butler, in his article *The Complete Guide to Understanding Credit Ratings & Credit Reports*, says this about Consumer Credit Counseling:

"If you ever want to get a mortgage again in the next 7 years, avoid turning your debts over to Consumer Credit Counseling Services or any other debt management service. There used to be a time when this program really made sense, and it still ought to – but now most lenders won't touch you until the CCCS is off of your credit report. You're almost better off doing a Chapter 13 bankruptcy, if you want to start getting credit reestablished anytime in the next 7 years."

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**SHOCKING FACT #6: *In most cases, your credit rating is better 2 years after filing bankruptcy than it is 3 years after you enter a payment plan with Consumer Credit Counseling Services.*** The reason is simple. Immediately after a bankruptcy, which usually takes only a few months, you can start rebuilding your credit.

One of the main reasons lenders look at Chapter 13 less harshly than a Chapter 7 is because in Chapter 13 you are repaying some of your debts. But when you enroll in a repayment plan with CCCS, you can't do anything to reestablish your credit until you successfully complete the four-to five-year payment plan. Even worse, negative information about your repayment plan – which CCCS puts on your credit report – will haunt you for seven years after you complete the repayment plan. CCCS likes to call bankruptcy the "10-year mistake." Clearly, they should call their own program the "12-year mistake."

**SHOCKING FACT #7: *The credit counselors' stated goal is to help your creditors.*** The National Foundation for Credit Counselors, the organization that most Consumer Credit Counseling Services locations belong to, makes their mission clear. Their literature states: "NFCC is committed to developing, promoting and maintaining successful relationships with creditors. At NFCC we work with creditors – one by one – to develop policies to make your customer plans successful. Our nonprofit network of more than 1,300 locations returns close to \$5 billion to creditors every year. NFCC member agencies help your customers avoid bankruptcy." The bottom line is simple. The more you pay...the more Consumer Credit Counseling Services make. Whose side do you think they are on?

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