Credit counselors offer budgeting advice. Sometimes they also offer debt management plans. The difference between a debt management plan and debt settlement is that a debt management plan requires you to pay all of your debt. While you usually get a discount on the interest rate and late fees, you are still paying the full bill. It may take years to pay off your credit card debt under a debt management plan—are you prepared to continue to make payments to the credit counselor for that long a period? In addition, most credit counselors require you to stop using any of your credit cards that have not already been cancelled. Some counselors will allow you to keep one card only for emergencies.

You must also still pay a monthly fee to the credit counselor, but this should be far less than what debt settlement companies charge. Legitimate credit counselors only charge small fees and are nonprofit organizations. They do not make grand promises; they offer budgeting assistance; and they provide consumer financial education. If you cannot afford their fee, a legitimate credit counseling agency will help you for free. Sometimes they recommend a debt management plan, but only if you can afford it. Shop around; do not go with the first company you see and certainly do not go with the first company that reaches out to you or that you see in advertising. You might even go to an agency in person to see what it looks like.

Nevertheless, even legitimate credit counselors work closely with credit card companies and may even receive funding from those companies. They may not be quick to recommend a bankruptcy option even when that makes sense for you, and are unlikely to consider the fact that you should pay your rent, mortgage, and car payments ahead of credit card debt. Typically, they offer you no help on these other types of debt, although sometimes a credit counselor will be affiliated with a housing counselor.

Being a nonprofit organization is not enough to make a credit counselor trustworthy. Avoid any credit counseling agency that charges high fees or promises you it has special methods to reduce your debt that no one else has. Even when advertised as nonprofits, these agencies are not legitimate credit counselors and are trying to make as much money off you as possible. They will not help you in the long run. Another tip-off for a shady credit counselor is if it only offers to work out a payment plan with your credit card company and does not offer budgeting or financial education services.

Even a legitimate credit counseling agency is not for you if you are having trouble paying your rent or mortgage, car payments, utilities, student loans, or other higher priority debt. Most credit counselors only help with credit card debt and require you to make payments that only go to the card companies. You shouldn’t devote money to credit card debt when you have more important obligations to deal with.

On the other hand, if all you are worried about is credit card debt, a legitimate credit counselor may make sense. They should help you work out a realistic budget that meets your living expenses and higher priority debt before they recommend a debt management plan. If you cannot pay your basic expenses and high priority debt, do not sign up for a debt management plan.

Source: National Consumer Law Center, Surviving Debt [50th NCLC Anniversary Edition], updated at www.nclc.org/library
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