

With the new bankruptcy law taking effect next month, nonprofits will be handed a greater role in the process

# Credit counselors brace for onslaught

By EILEEN ALT POWELL

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**N**EW YORK — Separated from her husband and struggling to buy food and other necessities for herself and two daughters, Bridget Glover watched in horror as her credit card bills mounted. She thought filing for bankruptcy would be the only way out.

"I even got second jobs, but that wasn't enough," recalled Glover, a benefits coordinator from Wheatley Heights, N.Y. "Every time I had to pay bills, I would pull out my checkbook and cry. I couldn't answer the phone because I knew it was bill collectors."

Instead of bankruptcy, Glover sought help from a nonprofit credit counseling agency and worked out a debt repayment program. Three years later, she's nearly finished; her next step will be applying for a mortgage for a new home.

Stories like Glover's are a reason nonprofit credit counselors are being given a greater role in the bankruptcy process.

## New federal law

Under a new federal bankruptcy law that takes effect Oct. 17, debtors must take part in a credit counseling session in the six months before filing bankruptcy applications, paying as much as \$50 for a 90-minute session. The law also mandates that many complete a financial education course before their bankruptcies are final, and some of these courses will be handled by credit counselors.

The counseling requirement

is expected to double to

3 million the number of Americans seeking help each year from nonprofit credit counselors, straining an industry already grappling with funding problems and investigations into whether some agencies abused their not-for-profit status.

Joel Greenberg, president and chief executive officer of Novadebt in Freehold, N.J., which helped Glover, said it remains unclear how many people will be able to avoid bankruptcy through counseling.

"We expect that many of

these people will be in very deep trouble by the time they come to us," Greenberg said.

And many financially troubled consumers have never developed money skills, said Howard Dvorkin, president of Consolidated Credit Counseling Services in Fort Lauderdale, Fla. "For many of these people, this could represent the most time they've ever spent in their lives focused on their personal finances," Dvorkin said.

Counselors will help them analyze their spending and work out a budget. Some people are likely to need the counselors' help in negotiating with creditors to get a manageable debt repayment program going.

Still, Dvorkin acknowledged, "it's going to be a huge challenge to deliver these services effectively and efficiently" to those coming in just one step ahead of bankruptcy.

## Face-to-face best

Ideally, credit counseling should be done in face-to-face sessions. But because of the increased load, the new law also will allow phone and Internet counseling.

This has led some consumer advocates, like Liz Pulliam Weston, author of *Deal With Your Debt*, to suggest Americans facing bankruptcy will be subjected to "drive-through counseling" that will do little to re-educate them about good spending and borrowing habits.

"If you want to change attitudes and outcomes, you need face-to-face contact," Weston said. "And you need time."

But that kind of counseling can be expensive, and many of the counseling agencies already have funding problems. Credit card companies and other lenders have reduced the amount of money they give agencies that work out repayment programs for debtors, and the agencies also are competing for donations with other worthy nonprofits.

Susan Keating, head of the National Foundation for Credit Counseling in Silver Spring, Md., an association of nonprofit counselors, said she believes the law "is recognizing publicly for the first time the value of counseling and education for consumers."

The intent, she added, is for in-depth counseling "so that ultimately the consumers will be able to make a more informed decision about what route is best for them."

## Industry investigations

At the same time it's

preparing to deal with the new law, the counseling industry is dealing with several investigations. The Federal Trade Commission has gone after a number of agencies for deceptive practices, including failure to pass on money they collected from debtors to creditors. The Internal Revenue Service has pulled the tax-exempt status of at least four agencies and is reviewing dozens more.

Travis Plunkett, legislative director of the Consumer

bankruptcy relief have to jump over to get it," Plunkett said.

David Jones, president of the Association of Independent Consumer Credit Counseling Agencies, based in Fairfax, Va., said the regulations require that fees be reasonable and that the U.S. Trustee Program has suggested that up to \$50 for the required 90-minute session would be acceptable.

"But we are nonprofits, and that means we also have to accept anybody who can't afford to pay," Jones added.

There are some who remain skeptical of the whole concept of mandatory counseling and education, including financial planner Ric Edelman, author of *The Truth About Money*.

"Does it help to send people to drunk driving class after they're arrested for DWI?" Edelman asked.

"These things can be helpful when people are there voluntarily. But if they're mandatory, they may consider it punitive — something to get through — and just put in the time."

**Seen as punitive?**

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—HOWARD DVORKIN  
president,  
Consolidated Credit  
Counseling Service

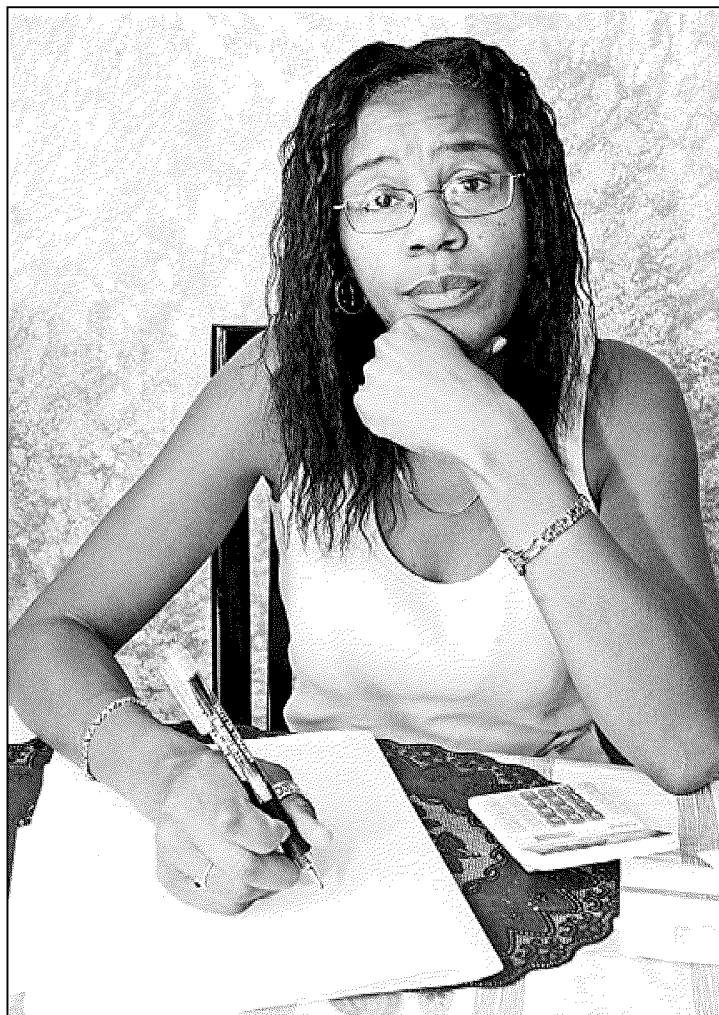
Federation of America advocacy group in Washington, D.C., said that since the Executive Office for U.S. Trustees must certify the credit counseling agencies involved in bankruptcy cases, "only agencies on the up and up" are expected to be involved.

The U.S. Trustee Program, a division of the Department of Justice, is responsible for overseeing bankruptcy cases. The list of agencies that have been approved so far is on its Web site, [www.usdoj.gov/ust](http://www.usdoj.gov/ust), and also will be available to

consumers from bankruptcy court clerks.

Plunkett said he's concerned about what the mandatory counseling will cost debtors.

"We don't want this credit counseling requirement to be yet another hurdle that consumers who really need



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**AVOIDING BANKRUPTCY:** Bridget Glover sought help from a credit counseling agency, worked out a debt repayment program and was able to get her finances in order without filing for bankruptcy.