

Debt? One answer is counseling

Nonprofit credit advisers will have a greater role in the bankruptcy process.

By Eileen Alt Powell

ASSOCIATED PRESS

NEW 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," said 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 is 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.

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 those courses will be handled by credit counselors as well.

The counseling requirement is expected to double to three 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 re-

mained unclear how many people would 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.

Many financially troubled consumers have never developed money skills, said Howard Dvorkin, president of Consolidated Credit Counseling Services Inc. 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.

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

This has led some consumer advocates such as 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 reeducate 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 repay-

ment programs for debtors, and the agencies are competing for donations with other nonprofits.

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

At the same time it is preparing to deal with the new law, the counseling industry is grappling 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 that were actually operating for-profit shops and has been reviewing dozens more.

Travis Plunkett, legislative director of the Consumer Federation of America advocacy group in Washington, 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" were 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 at www.usdoj.gov/ust and also will be available to consumers from Bankruptcy Court clerks.

Plunkett said he was concerned about what the mandatory counseling would cost debtors.

"We don't want this credit-counseling requirement to be yet another hurdle that consumers who really need bankruptcy relief have to jump over to get it," Plunkett said.

David C. Jones, president of the Association of Independent Consumer Credit Counseling

Agencies, based in Fairfax, Va., said that the regulations required 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,” Jones added, “and that means we also have to accept anybody who can’t afford to pay.”



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Bridget Glover goes over bills at her home in Wheatley Heights, N.Y. She is among in-debt consumers helped after they consulted a credit-counseling agency and worked out a debt-repayment plan.