

**Remarks by Susan C. Keating
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I am honored to speak to you today, and I am looking forward to learning more about new efforts here in Maryland to build financial literacy among young people. Mike Staten, thank you for inviting me today. Mike is a long time friend of the NFCC and serves on our national Advisory Council.

For those of you who don't know, the NFCC is the oldest organization of nonprofit credit counseling agencies. NFCC Member Agencies have been helping consumers address credit problems and providing financial education in communities across the country for 60 years. We have 100 Member agencies at 850 locations across the United States and in Puerto Rico, and our counselors are certified to provide a wide range counseling for credit problems, housing issues, and bankruptcy.

In the long term, our Members also are working to create a national culture of financial responsibility and we believe that schools are a terrific place to begin developing good habits with money. To the teachers here, let me thank you for all you do.

But what I want to focus on today is how to help people from the financial devastation of the past few years. While recent economic data suggests that national recovery has begun, millions of individuals are still out of work, overwhelmed by debt, and financially under water. There is a lot of work to do, and I want to help you understand some of the options, how NFCC Member Agencies approach these issues, and also some of the pitfalls that consumers face in trying to get control of their debt.

The crisis has created a surge of work for credit counselors. Six years ago, NFCC Agencies provided 750,000 counseling and financial education sessions a year. Since then, our work load has increased more than five-fold. We served almost four million people last year, and more than 40 percent of them said their problems were at least partly due to losing their job, a cut in income, or overwhelming medical expenses. And, as you might expect given the nature of our national economic problems, more than half of those who turned to our Members for help asked for assistance related to housing or bankruptcy.

Some of you may wonder what exactly "credit counselors" do. According to our own research, many people confuse us with for-profit companies, such as debt settlement firms, loan consolidators, and credit repair companies.

But unlike those businesses, which tend to offer a single, pre-determined product to every client no matter their circumstances, NFCC credit counselors offer tailored solutions. We begin with at least a session of an hour or more in which we discuss the clients' budget, spending habits, debt challenges, and any other money issues. We explore the available options and work with them to identify the best choice. That could mean a relatively simple adjustment in their spending priorities. It might mean a Debt Management Plan in which concessions by creditors enable consumers to pay off their debts over a longer period of time. Or, in the worst circumstances, the best option might be bankruptcy. Whatever their situation, we help consumers follow the facts to a solution that fits their personal situation. There is no room in our work for one-size-fits-all answers; every circumstance is different and so is the response.

NFCC Agencies offer a range of housing counseling services. We help homeowners identify strategies and loan modification programs to help them avoid foreclosure, and we also provide pre-purchase counseling to help prospective homeowners understand the mortgage process and analyze what they can afford before they buy a home.

Sadly, the biggest demand last year was for counseling related to bankruptcy as the economic downturn has forced a growing number of citizens to take this drastic step in order to wipe out their debts and start over with a clean slate. In our experience, most Americans are reluctant and even embarrassed to take this step and they recognize it will damage their credit record. But, often, it is the wisest course. Our job is to help consumers understand the implications and get through the process when bankruptcy is the right choice.

We also offer financial education services that provide clients the know-how to take charge of their finances and avoid debt problems in the future. We believe empowering consumers with financial literacy is the best long-term answer to debt issues because the damage from uncontrollable events such as the recession is often compounded by mistakes with money management.

For those who are in financial trouble now, I'd like to share a few thoughts on some of what we can do to address debt.

Earlier, I referenced something called a Debt Management Plan, or DMP, which, for several decades, has helped many consumers avoid bankruptcy and limit damage to their credit history. What's more, experience shows that consumers who enroll in DMPs also do a better job of managing their money in the future. We don't know exactly why, but we believe that for many people the DMP process builds discipline and good habits that remain permanently even after the DMP is completed.

DMPs don't work for all consumers because many have too much debt and too little income. But when it makes sense, NFCC counselors work with creditors to reduce

monthly payments, cut interest rates, and design a stretched out repayment program that can help consumers get back on track. These programs also help creditors collect debts that otherwise might be written-off. Over the last three years, DMPs managed by NFCC Member Agencies have generated an average of \$1.8 billion in repayments annually to creditors.

Despite this win-win outcome, many lenders have become less open to the adjustments in interest and fees that make DMPs work. In response, NFCC took the lead two years ago with a “Call to Action” that challenged the top creditors to agree to an updated DMP product that recognized the higher level of hardship created by the recession. While the program is not perfect and some folks are simply too deep in debt to take advantage, I am proud that our country’s top 10 creditors responded by agreeing to additional concessions that enabled more consumers to protect their credit records and avoid bankruptcy. More than 60,000 NFCC clients have averted bankruptcy by participating in these modified repayment programs during their first 10 months of existence, compared to 87,000 who enrolled in standard DMPs. The modified programs also are designed to help participants build a nest egg against future trouble by enabling them to set aside an agreed amount of savings every month.

That’s just one example of how the NFCC is working with creditors and consumers alike to resolve the economic hardships created by debt and compounded by recession.

It also illustrates one of the differences between NFCC Members and a rapidly spreading group of for-profit businesses that purport to help consumers who are burdened by debt.

NFCC Agencies are committed to working with any consumer who walks through our door – even if they can’t afford to pay. We work with each consumer individually to assess their circumstances and identify the options that best fit their personal situation. We have a long-track record of effective service and an ironclad commitment to put consumers’ interest first. In addition, nonprofit counselors such as ours are covered by very stringent consumer protection regulations that include rules for the types of services they offer, the fees charged, and even how agencies are funded. These rules, enacted by Congress just a few years ago with strong support from the NFCC, makes the nonprofit status a safe starting point for consumers who need help.

Unfortunately, for some companies in the for-profit sector, debt-ridden consumers appear to be a money-making opportunity. You’ve probably seen the ads on TV by so called debt settlement companies that claim they can cut consumers’ debts by 50% or more. As you might suspect, the promises are almost always too good to be true. But, as Mike Staten has pointed out, debt settlement companies are one-trick ponies. They offer one solution only, no matter your situation; they don’t provide education to help consumers change bad habits or stay out of future problems; and

even when they provide the service they promise, consumers usually wind up with significant damage to their credit scores.

Indeed, a report released last week by the Government Accountability Office found that large numbers of debt settlement companies are charging large fees before performing services, falsely claiming affiliation with federal stimulus programs, and overstating their ability to reduce consumers' debts. Travis Plunkett of the Consumer Federation of America warns that consumers who work with debt settlement companies often get the exact opposite of what they are promised – “more debt, a ruined credit rating, and a bleak financial future.”

Fortunately, the Federal Trade Commission has proposed new rules to restrict some of the most abusive practices and, thanks to a unified effort by consumer groups including the NFCC and state Attorneys General, legislation to regulate debt settlement companies was introduced in the U.S. Senate just a few days ago. That legislation, co-sponsored by Senator Charles Schumer of New York and Claire McCaskill of Missouri requires full written disclosure of services and fees, limits and caps the fees charged to consumers, and strengthens government enforcement powers against abusive debt settlement companies. In particular, the bill targets one of the worst abuses – the collection of hefty up-front fees before any debts are settled. The Schumer-McCaskill bill says a debt must be settled before the fees are assessed.

There really *is* a difference between nonprofits like NFCC Members and for-profit companies. It's just common sense – when profit is your goal, consumers' interests often come second. At NFCC Member agencies, our mission is service, and consumers always come first.

Still, the emergence of the debt settlement business reflects an unfortunate reality – the debt management plans I referenced earlier don't make sense for about 40 percent of the consumers that come to counseling agencies for help. Many consumers are too deep in debt or have too little income to enter a DMP program. These consumers need additional options, and the NFCC is working hard to identify new approaches. We need to find a responsible way for consumers and creditors to settle debts for less than the full amount without excessive damage to the consumer's credit rating.

In this regard, let me make clear – the debt settlement strategy, in which consumers ask creditors to accept less than a penny on the dollar, can make sense. But there are two things that everybody should understand: first, consumers can approach creditors themselves without paying huge fees to a debt settlement company. Indeed, talking directly to the creditor is the first thing a consumer should do when they have trouble making payments. Secondly, many predatory companies have twisted the debt settlement concept and end up hurting their clients instead of helping them. The problem isn't debt settlement itself, but its abuse by businesses that prey on the vulnerable, promise something they can't deliver, and put profits first.

As part of our ongoing efforts to help consumers, The NFCC is constantly talking to creditors in a collaborative search for win-win solutions beyond DMPs. In that regard, I am encouraged by the recent announcement by Bank of America that it will try to limit foreclosures by reducing homeowners' principal on some mortgage loans. That effort, as well as government programs designed to reduce loan principal, have the potential to address a basic flaw in earlier loan modifications, which simply didn't do enough to change economic fundamentals.

Sadly, for some consumers, bankruptcy is the best option. As credit counselors our job in that situation is to make sure consumers fully understand its implications, including the effect on their credit scores and what it will take to regain access to credit once the bankruptcy process is complete.

For example, the most common type of personal bankruptcy, called Chapter 7, will wipe out credit card debts, but not the debt on a mortgage. If you want to keep your house, you need to keep making mortgage payments even when you are in bankruptcy. Bankruptcy *can* help a consumer keep his or her house by freeing up money to make the monthly payments, but it doesn't end the payments. A bankruptcy filing stays on your credit record for up to 10 years and will make it harder to get credit. Over time, however, credit will be available again – though likely at a higher cost – and some lenders specialize in working with consumers who have filed for bankruptcy.

In addition, NFCC Members also provide financial education to consumers who have filed for bankruptcy to give them a better chance of managing their finances in the future and avoiding new problems with debt. Though it comes with strings attached, bankruptcy offers a fresh financial start. Nobody should have to do it a second time.

But even as the NFCC and its Member Agencies continue to help those in crisis, we want to “fast-forward” and put a new focus on prevention so that the next generation – the students you work with every day -- can do a better job of avoiding financial pitfalls.

At the NFCC, expanding financial literacy has been one of our highest priorities for a long time. We are delighted that Maryland is beginning to move forward with financial education in public schools and we hope that others will follow suit. The NFCC intends to remain a strong advocate for a new national commitment to financial literacy.

There are basic lessons that each of us can learn to live by and pass on to our children. As with everything we learn, classroom work will have to be reinforced with real world experience, but we hope that your students will gain a basic understanding of how to live by a budget, how credit works, and some of the pitfalls to avoid.

I also hope you will discuss with them some of the issues that I've discussed today. You should make clear to them that help is available if they make mistakes with money or get into financial trouble. They need to learn about the various options, how to avoid scams, that organizations such as the NFCC can offer assistance at a very low cost, and to be skeptical of promises that seem too good to be true.

These lessons for students also hold true for the millions of Americans who are still struggling to bounce back from the recession. NFCC Members and other reliable community and civic groups are there to help. But we realize it isn't always easy to figure out whom to trust. I hope my remarks have given you a better idea about the available options and where to go if you or somebody you know is wrestling with financial problems. And, I want to reiterate that NFCC Agencies are a good place to start.

I thank you for your time and attention and I would be delighted to answer your questions.