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Nonprofit credit counselors provide one-on-one help for consumers in crisis

By Paula Woessner

For decades, the nonprofit consumer credit counseling industry has provided financial education in the form of personalized, one-on-one counseling that takes a holistic approach to money management. The industry's counselors work in partnership with individual consumers to design and implement action plans for resolving household debt. As conversations with some of the major nonprofit consumer credit counseling providers in the Ninth Federal Reserve District reveal, the industry's aim is to deliver services that are grounded in knowledge, quality, and compassion, whether in good economic times or bad.

A network of agencies

The nonprofit consumer credit counseling industry took root in the middle years of the 20th century, in response to escalating levels of consumer debt that resulted from the increasingly widespread use of credit cards. In the early 1950s, major card issuers established the earliest independent, nonprofit counseling agencies as a means of reducing the number of defaults among their cardholders. Additional agencies began sprouting up over the next two decades, often as spin-offs of existing social-service organizations.

Today, nonprofit consumer credit counseling agencies serve nearly every corner of the country. Some operate independently, but most are connected by membership networks that provide training and advocacy services. By far the largest, best-known, and longest-established of these networks is the National Foundation for Credit Counseling (NFCC), which represents nearly 100 member agencies that deliver counseling at more than 800 locations throughout the U.S. The NFCC's membership roll includes the largest counseling providers in the industry, such as GreenPath Debt Solutions, Money Management International, and agencies that use the Consumer Credit Counseling Service (CCCS) name.

NFCC member agencies come in different shapes and sizes. Some are standalone entities with just a few employees. Others are regional or national operations with dozens or hundreds of counselors across multiple branches. No matter what form they take, all NFCC member agencies must meet rigorous quality and accreditation standards. In addition, all financial counselors at NFCC member agencies must become certified by passing an industry-standard, six-module course on credit and personal finance. Many counselors complete additional coursework to gain certification in foreclosure, bankruptcy, or reverse mortgage counseling.

Ten NFCC member agencies are currently operating in the Ninth District. Most of them have provided credit counseling for 30 or 40 years, and some have histories as social-service agencies

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How good is the Good Faith Estimate?

By J. Michael Collins

Federal and state policies mandate that lenders disclose an array of timely and potentially useful information during the mortgage application process. The Good Faith Estimate (GFE) and the HUD-1 Settlement Statement are the primary disclosure documents lenders provide to mortgage applicants.[1] As its name implies, the GFE lists the lender or mortgage broker's best estimate, in "good faith," of closing costs. It must be provided within three business days after a borrower applies for a loan. The HUD-1, the companion document to the GFE, is provided one day prior to the loan closing or mortgage settlement and lists the actual costs that the borrower will pay.

Critics of the mortgage application process have long derided the GFE for being inaccurate. A 2002 U.S. Department of Housing and Urban Development report asserted that "three decades of experience has shown that too often the estimates appearing on GFEs are significantly lower than the amount ultimately charged at settlement, are not made in good faith (e.g., a range of $0–$10,000), and do not provide meaningful guidance on the costs borrowers ultimately pay at settlement."[2] Until last year, lenders faced no penalty for providing inaccurate information on the GFE. Critics have often speculated that in the absence of such a penalty, lenders have an incentive to underestimate closing costs in order to lure unsuspecting borrowers into high-cost loans using a bait-and-switch strategy. In other words, lenders might

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Transportation partnership offers economic hope in north central Montana

By Day Soriano and Sue Woodrow

Jacob Ereaux is a regular passenger of the North Central Montana Transit (NCMT) bus service. He travels 81 miles every morning from the rural Fort Belknap Indian Reservation to attend classes at Montana State University-Northern (MSU-Northern) in the micropolitan hub of Havre.[1] Violet Billy lives on the Rocky Boy's Indian Reservation without a car or other means of transportation. She commutes 15 miles to her job in Havre by taking the NCMT bus daily. For Jacob, Violet, and many others in north central Montana, the NCMT bus service, launched in August 2009, provides the means to pursue an education, commute to work, visit family members, or access important services.

A partnership forms

North central Montana is a vast, sparsely populated region of 31,000 square miles where travel by car on two-lane highways is often the only means of transportation. Many counties in this remote corner of the Great Plains have a density of two or fewer persons per square mile. People in the region are more likely to be poor than the average Montanan. For example, poverty rates in Blaine and Hill counties, at the geographic center of the region, are 24 percent and 18.2 per-

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How good is the Good Faith Estimate?

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promise low or no closing costs on the GFE and then charge higher costs at the closing, leaving borrowers to notice the change and either abandon the loan application or go through with the loan and pay higher costs than anticipated.

In January 2010, federal regulators implemented reforms in an attempt to refine the mortgage disclosure process.[3] Among the reforms is a requirement that lenders reimburse borrowers for any costs that exceed GFE estimates by more than allowable margins of error.[4] The new requirement raises a question: Before the reforms took effect, how big a problem was the underestimating of costs? Perhaps not big at all, it turns out. A preliminary analysis based on new research into the accuracy and usefulness of the pre-2010 GFE suggests that the underestimating of costs was not widespread. Instead, the analysis suggests that the GFE, even in the form it took prior to the new regulations, has been an accurate predictor of actual closing costs.

Degrees of divergence

The accuracy of the GFE has not been analyzed extensively in the past, but the existing evidence suggests that estimates on the GFE may indeed diverge from actual closing costs. However, findings about the degree of divergence vary widely. For example, one analysis that was cited in a U.S. Senate hearing suggests that 83 percent of borrowers end up with higher closing costs than those estimated on their GFEs.[5] Another analysis found that estimates on the GFEs were actually larger than closing costs, on average.[6]

The new analysis described here examines the extent to which pre-2010 mortgage disclosures accurately reflect information about loan costs. In the long history of mortgage disclosures, this is the first study to examine differences between estimated costs on GFE forms and actual costs on the HUD-1 while controlling for borrower and loan characteristics. This study tests some theoretical work that suggests how sellers will reveal information to buyers—or, in this case, how lenders will reveal information to borrowers. According to information-economics theory, lenders have an incentive to intentionally underestimate costs to make their loan offer appear more attractive to mortgage applicants. This theory implies that lenders' GFE values would be less than the HUD-1 values for the same loans. However, in theory, this incentive is balanced by the possibility that if lenders underestimate settlement costs by too great a margin, some loan applicants may view the lender negatively, to the point of walking away from a loan offer. In other words, lenders have an incentive to underestimate costs on the GFE, but not by such a large margin that borrowers will reject the loan. Of course, all of this behavior is rooted in the theory that borrowers pay attention to the GFE, which may or may not be an accurate description of consumer behavior.

Defining the data

To determine whether lenders underestimated costs and, if so, how much the underestimates diverged from actual costs, this analysis compares GFE and HUD-1 data from a sample of 619 loans in the National Mortgage Data Repository (NMDR), a data set that the National Community Law Center collected from community-based organizations from 1994 to 2007. The data set is unique in that it tracks all aspects of a loan application, from the initial forms and disclosures to the closing documents. The fact that the data were collected before the introduction of the new disclosure regulations is useful in that all loans in the database were made under a similar regulatory framework. The median loan amount in the NMDR sample is $83,990 and the median borrower income is $45,972. Approximately one-third of the sample—34 percent—is made up of minority-race borrowers. A comparison with Home Mortgage Disclosure Act (HMDA) data from roughly the same time period suggests that borrowers in the NMDR sample are fairly typical of mortgage borrowers overall. Given the long time period covered by the NMDR sample, a direct comparison is challenging, but relative to HMDA data from 2003 (an approximate midpoint of the 1994–2007 time frame), the NMDR sample is similar with respect to income and loan amounts, and it slightly overrepresents minority borrowers (34 percent in the NMDR sample and 25 percent in the HMDA data).

The mortgages in the NMDR sample were collected from 27 states, although the majority (55 percent) of the loans are from Massachusetts. Most of the loans are refinance loans (83 percent). Furthermore, most of the loans are to owners of single-family properties, 90 percent of which the owners claimed to use as their primary residences. While the sample is not broadly representative, differences between GFE and HUD-1 values are nevertheless illustrative of the extent to which problems may have existed under the previous regulations. In turn, the results of the analysis facilitate conjecture about the effects of the new regulations.

The GFE and HUD-1 forms have the same cost categories but different layouts and line item numbers. For example, a lender might list a closing fee under code 803 on the GFE but under code 1202 on the HUD-1. The differences make a side-by-side comparison of the two forms challenging. In order to capture all the costs within each cost category, each line item in the analysis was coded based on key words that appear in the text fields describing the line on the respective form. Costs were coded into origination fees, broker fees, and then the categories of "fixed" and "variable" costs. Fixed costs were defined as items that should be well known and should not vary significantly across loans, such as credit report fees and underwriting fees. Variable costs were defined as items that lenders may not be able to estimate as readily and that are more likely to vary across loans, including appraisal, attorney, flood insurance, survey, title, and title insurance fees.

A good overall predictor

The table on page 3 summarizes the GFE and HUD-1 values across the cost categories. As shown in the table, average total fees were $9,046 on the GFE and $8,686 on the HUD-1. Overall, this result indicates the GFE is a relatively good predictor of final HUD-1 costs. Total fees on the HUD-1 exceeded the estimates on the GFE for 39 percent of loans, which is a considerably lower rate than critics of the GFE have previously indicated. Within individual cost categories, the results vary. Fees defined as variable are greater on the HUD-1 than on the GFE only 30 percent of the time. Fees defined as fixed are greater on the HUD-1 than on the GFE in 52 percent of cases, but the average difference is only $57. Actual lender origination fees on the HUD-1 exceed estimates on the GFE in just 11 percent of cases. Regarding broker fees, the HUD-1 costs exceeded the estimates on the GFE in only 30 percent of cases, but the estimates were off by a large enough margin that the difference between the average underestimated cost and the average actual cost is $535.

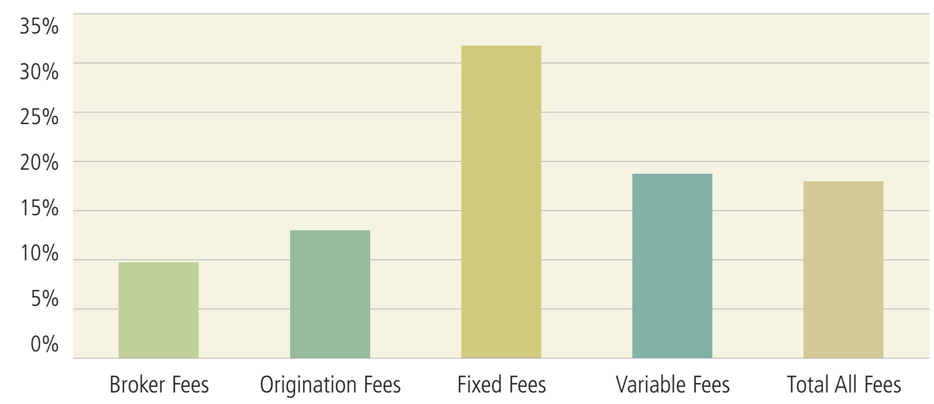
The 2010 regulatory reforms introduced a 10 percent tolerance margin, such that if

Good Faith Estimate (GFE) Values vs. Actual (HUD-1) Closing Costs

Closing Cost Category	Number of GFE Values in Each Cost Category (Out of 619 Total Loans)	Number of HUD-1 Values in Each Cost Category (Out of 619 Total Loans)	Average (Mean) GFE Value of Closing Costs ($)	Average (Mean) Actual Closing Costs from HUD-1 Form ($)	Difference Between Average (Mean) GFE Value and Average (Mean) HUD-1 Value ($)	Percentage of Loans in which the HUD-1 Value Exceeds the GFE Value
Total Fees	619	619	9,046	8,686	-359	39
Variable Fees	604	602	1,305	1,178	-127	30
Fixed Fees	605	602	775	832	57	52
Origination Fees	435	407	8,575	8,568	-7*	11
Broker Fees	159	155	3,848	4,383	535	30

*Denotes a difference that is not statistically significant at generally accepted levels.
Source: Author's tabulations of data from the National Mortgage Data Repository.

Percentage of Cases Where Settlement Costs Exceed Good Faith Estimates by at Least 10 Percent



Source: Author's tabulations of data from the National Mortgage Data Repository.

lenders underestimate costs on the GFE by 10 or more percent of the actual costs on the HUD-1, they could be held liable for the difference. How often do mortgage borrowers see costs that are at least 10 percent larger than estimated? The graph at right shows rates based on the NMDR data used in this analysis. Overall, less than 1 in 5 loans analyzed had total fees that were at least 10 percent higher than estimated on the GFE. The graph also shows that the tolerance margin was exceeded less than 10 percent of the time among broker fees and less than 15 percent of the time among origination fees. Among fixed fees, the rate was higher—just over 30 percent—but, as noted in the table, the absolute cost of these fixed fees is relatively small, on average. Variable fees exceeded the 10 percent tolerance margin in less than 1 in 5 cases. Overall, the evidence does not suggest widespread use of GFE disclosures to lure borrowers into paying unexpectedly large fees at closing.

A statistical analysis[7] of the factors affecting total costs shows that, after controlling for loan, lender, and borrower factors, GFE estimates predict most of the final HUD-1 costs, and few other factors seem to matter. Loan amount, loan type, origination date, and application method are statistically significant in many cases. This is to be expected, as these factors should affect closing costs and fees. But the influence of each of these loan-level factors is relatively small, and even controlling for these factors, the GFE remains a good predictor of the HUD-1. Further analysis indicates that the loan amount is the strongest predictor of HUD-1 costs, as would be expected, since larger loans have larger fees. Borrower characteristics—race, income, education, and age—are not significant in the statistical models.

Statistical analyses show that the GFE is not as strong a predictor of actual HUD-1 costs for variable fees as it is for fixed fees. This finding suggests that these fees are indeed more variable than the other fee categories, as might be expected. Notably, the difference between the variable fee estimate on the GFE and actual variable fees on the HUD-1 declines as income increases. This relationship perhaps suggests that borrowers with higher incomes are more attentive to variable costs and that their attentiveness restrains lenders from inflating variable costs before closing.

While lenders may have an incentive to underestimate settlement costs on the GFE and then charge unexpected fees at closing, there is little evidence of this practice in the data, with the exception of mortgage broker fees. There is no conclusive evidence that borrowers who may be perceived as less financially sophisticated are more likely to encounter cost increases from the GFE to the HUD-1, although income had statistically significant yet relatively small effects on variable costs, as discussed above. The latter finding may be consistent with lower-income loan applicants receiving low initial estimates of variable costs on the GFE, only to see costs rise on the HUD-1 at the closing. This may be due either to lenders sizing up lower-income borrowers' sensitivity to closing costs and then manipulating the GFE estimates accordingly, or to genuine differences in loan applicants and loan application processes that result in unpredictable costs. The use of the GFE and HUD-1 by lower-income borrowers may be worthy of continued observation and analysis.

On reforms and timing

Overall, the analysis reveals that a majority of borrowers (61 percent) paid closing costs that were equal to or lower than estimated on the GFE. The findings indicate the GFE is a useful predictor of actual HUD-1 costs, and few loan- or borrower-level factors are strong predictors of the differences between costs on the GFE and the HUD-1. These findings suggest that the reforms adopted in 2010, including liability for underestimates, may not have much effect on the accuracy of the GFE. The reforms refine the format of disclosure documents and expand the GFE significantly, but it is unclear whether the new formatting will facilitate comparison shopping. However, based on the NMDR data and controlling for loan-level factors, it appears the new regulations may help borrowers obtain more accurate statements regarding broker fees. There also is the potential that less predictable variable costs will be estimated more carefully on the GFE under the new provisions.

The average total closing costs in this analysis ($8,686) represent about 8 percent of the mean loan amount. Obviously, closing costs are a significant expense for borrowers and are worthy of attention and scrutiny. But another important issue—one that was beyond the scope of this analysis—is whether the disclosure process provides information in a timely way so borrowers can actually use it. A borrower who finds out on the day of the loan closing that settlement costs are greater than estimated may be in a difficult position. If the loan is necessary to purchase a home or, in the case of a cash-out refinance, to gain access to needed funds, the borrower may be unwilling to back out of a standing loan offer. In the rush to settle the loan, borrowers may not even recognize cost increases. In future analyses of the disclosure process, the matter of timing warrants careful assessment. cd

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1 The HUD-1 is generally used for a mortgage closing combined with a home purchase; the HUD-1A is for a mortgage refinance. For simplicity, "HUD-1" is used here to refer to both forms.

2 "Real Estate Settlement Procedures Act (RESPA): Simplifying and Improving the Process of Obtaining Mortgages to Reduce Settlement Costs to Consumers," *Federal Register*, Department of Housing and Urban Development, 67 (145): 49133–49174, 2002.

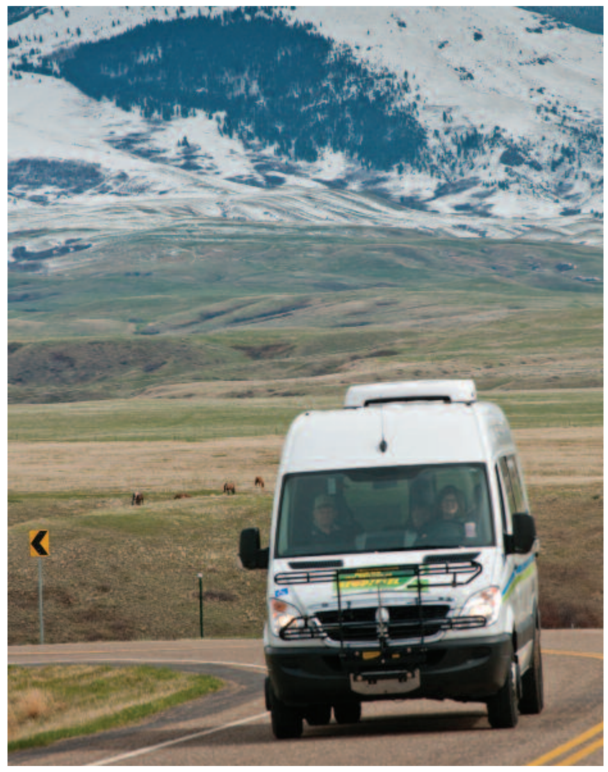
3 For more on these reforms, visit www.hud.gov/offices/hsg/ramh/res/respa_hm.cfm.

4 *Shopping for Your Home Loan: HUD's Settlement Cost Booklet* is available at www.hud.gov/offices/hsg/rmra/res/settlementaug17english.pdf.

5 Lauren E. Willis, "Decision Making and the Limits of Disclosure: The Problem of Predatory Lending," *Maryland Law Review*, 65(3), 2006, p. 707–840.

6 Mark D. Shroder, "The Value of the Sunshine Cure: The Efficacy of the Real Estate Settlement Procedures Act Disclosure Strategy," *Cityscape*, 9 (1), 2007, p. 73–91.

7 The analysis performed was an ordinary least squares (OLS) regression, which is a commonly used statistical method for estimating the degree to which fluctuations of one variable are proportional to movements in another variable (or group of other variables). Further information on OLS regression is available in numerous texts on statistics or econometrics. For example, see *A Guide to Econometrics* by Peter Kennedy (5th Edition, Blackwell Publishing, 2003).



PHOTOS COURTESY OF OPPORTUNITY LINK

(Far left) Passengers enjoying a ride on a North Central Montana Transit (NCMT) bus.

(Left) NCMT's shuttle service connects passengers to bus routes in hub communities.

Transportation partnership offers economic hope in north central Montana

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cent, respectively, compared to a statewide rate of 14.1 percent.[2] Job opportunities can be scarce, particularly within the region's Native communities. On the Rocky Boy's and Fort Belknap reservations, unemployment rates approach 70 percent.[3]

Opportunity Link, a regional nonprofit agency whose mission is to pursue solutions to combat persistent poverty, has identified transportation as an important means of spurring revitalization of the region. For most people in the area, traveling long distances is necessary to get to work, attend college classes and medical appointments, shop for groceries, and access other services and amenities. Driving those distances is out of the question for many residents because the costs of vehicle payments, insurance, maintenance, and fuel are prohibitive. Thus, the need for affordable transportation alternatives is great. But funding public transit services can be challenging. According to the U.S. Department of Transportation's Federal Transit Administration (FTA), on average, fare revenues account for only 40 percent of transit system operating costs, so most public transit systems in the U.S. rely on financial assistance from federal, state, and local governments as well as private sector sources.[4] In remote regions such as north central Montana, transit systems can present an even greater funding challenge because the sparse and relatively poor population provides a small tax base while the great distances between destinations result in high per capita operating costs.

Recognizing the need and challenge, Opportunity Link sought assistance from the Western Transportation Institute[5] in 2007 to conduct an assessment of transportation needs for low-income residents of north central Montana and to lead an effort to determine effective options. Recognizing that community input would be crucial for any effort to succeed, Opportunity Link also identified and convened stakeholders from the region, and a collaboration was launched. Partners included elected officials; major employers; state, county, municipal, and tribal governments; tribal and state post-secondary education institutions; health care providers; and commercial and social services. The Northwest Area Foundation funded a planning process that involved many community meetings and led to the establishment of a permanent advisory committee of stakeholders. Committee members developed a coordination plan for the creation of NCMT, and they continue to oversee the service's operations. Through the Montana Department of Transportation, the NCMT partnership secured operational funding from the FTA, and American Recovery and Reinvestment Act funds were awarded to purchase vehicles. Matching funds were provided by Hill and Blaine counties, the Fort Belknap Indian Community at Fort Belknap Reservation, the Chippewa Cree Tribe at Rocky Boy's Reservation, and MSU-Northern. These NCMT partners continue to provide funding and other support.

Realizing the benefits

Today, NCMT offers daily fixed-route bus service free of charge to riders traveling between Havre, the Fort Belknap and Rocky Boy's reservations, and numerous isolated small towns in between. Routes offer shuttle-to-bus connections at tribal "hub" communities, and a twice-weekly shuttle service runs between Fort Belknap and Great Falls, a distance of more than 100 miles. Routes also include a daily round-trip service between Havre and Fort Belknap that accommodates 24 Havre residents working in Fort Belknap.

NCMT's three intercity routes cover more than 600 miles a day, totaling more than 200,000 miles a year. NCMT ridership, originally projected at 250 rides a month, currently averages 1,600 rides a month. By its first anniversary in August 2010, NCMT had provided 18,136 rides, far exceeding original expectations of 2,000 to 4,000 rides a year. Regular riders include elderly and disabled people, nondrivers, employed commuters, tribal college and university students, medical patients, shoppers, and recreational travelers.

Institutions and individuals in the region are realizing the benefits. "Public transportation is vital to any city, any area," said MSU-Northern Chancellor Frank Trocki during the transit launch in 2009, noting that the service makes it easier for students to get to class. Riders on the Havre-Fort Belknap route say that riding the bus will save each of them thousands of dollars annually that would otherwise be spent on gas and vehicle maintenance.

"Living in rural Montana isn't cheap, especially with the debt I accumulated during my education," says Taylor Dotson, a math instructor at Fort Belknap College. "Not only do I save around a hundred dollars a week taking the bus, but I get to know other people in the community whom I might not otherwise have met." Dotson adds, "The NCMT bus has definitely improved the quality of my life."

The benefits of the NCMT partnership extend to agricultural producers and job seekers in the region. Since January 2010, NCMT has used 5 to 20 percent biodiesel blends in its fleet. The biodiesel is made by MSU-Northern's Bio-Energy Center from oil seeds purchased from local growers and pressed by local processors. And when it came time to replace NCMT's old, energy-inefficient bus garage, Opportunity Link used the setting as a training site for green construction and renovation. Nine trainees, mostly carpentry students from the area's tribal colleges, completed the course and gained important job skills. The organization now has an energy-efficient, solar-powered garage and construction training center.

NCMT is one of four new transit systems Opportunity Link has helped establish in the Hi-Line region of Montana.[6] The others are Fort Belknap Transit, serving the Fort Belknap Reservation; Rocky Boy's Transit, serving the Rocky Boy's Reservation; and Northern Transit Interlocal, serving Toole, Pondera, and

A mission to reduce poverty

Established in 2004 in partnership with the Northwest Area Foundation, Opportunity Link is a nonprofit organization that pursues long-term solutions and promotes public-private collaborations for community-based poverty reduction projects in 11 rural counties and three Indian reservations in north central Montana. For more information, visit www.ncmtransit.org and www.opportunitylinkmt.org, or contact Opportunity Link Executive Director Barbara Stiffarm at bstiffarm@opportunitylinkmt.org or North Central Montana Transit Director Jim Lyons at jlyons@ncmtransit.org, or call 406-265-3699.

Teton counties, which include parts of the Blackfeet Indian Reservation. Combined, the four systems cover more than half of north central Montana.

"We've identified accessible regional transportation as an effective means to empower and grow our local economies," says Barbara Stiffarm, executive director of Opportunity Link. The partnerships that have been fostered to develop and fund the transit service have been crucial. According to Jim Lyons, NCMT director, the overarching goal is to build a transit system coalition across Montana's Hi-Line that will expand the member partners' geographic and ridership reach. NCMT is exploring ideas to achieve financial sustainability within two to three years, including seeking additional funding sources to supplement federal and state subsidies and introducing modest fares for certain routes.

A good problem to have

Opportunity Link's leadership in coordinating multijurisdictional planning among diverse partners to establish the transit services has not gone unnoticed. The organization was recognized by two 2010 FTA Transportation Planning Excellence Awards, one in Planning Leadership and another in Tribal Transportation Planning. Opportunity Link and NCMT also received a commendation for innovation in public transportation from the International Association of Public Transport, based in Brussels, Belgium, and north central Montana has been selected by Easter Seals Project ACTION as one of 12 regions in the U.S. to participate in the 2010 Mobility Planning Services: Accessible Transportation Coalitions Initiative.

"We never imagined this could happen when we first started," says NCMT's Jim Lyons. He adds, "We anticipate that demand will increase, and we are always preparing for it. That's a good problem to have." A good problem indeed, as NCMT is improving lives in notable ways.

"Taking the bus means that I don't have to hitch a ride to work anymore," says Violet Billy. "If not for the bus, I would probably be unemployed and on welfare." cd

Day Soriano is the development director for Opportunity Link.

[1] The U.S. Office of Management and Budget created a Micropolitan Statistical Area (μSA) designation in 2003 to refer to a geographic area containing an urban core with a population of 10,000 to 49,999. The Havre area is one of 577 μSAs in the U.S.

[2] U.S. Census Bureau State & County QuickFacts, 2008.

[3] U.S. Department of the Interior, Bureau of Indian Affairs, 2005.

[4] See www.fta.dot.gov/publications/reports/other_reports/publications_134.html.

[5] The Western Transportation Institute is a research center of Montana State University's College of Engineering.

[6] "Hi-Line" refers to the area in northern Montana that straddles U.S. Highway 2 between the Rocky Mountains and the North Dakota state line.

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that date back much further. For instance, The Village Family Service Center, headquartered in Fargo, N.D., began offering credit counseling in 1975, but its full history dates to 1891, when it was established to help children who arrived in the Northern Great Plains on the orphan trains.

A number of NFCC member agencies in the Ninth District supplement their one-on-one counseling services with other offerings, such as financial education seminars and first-time homebuyer workshops. Some also engage in policy advocacy, coursework development, and other activities in support of consumer financial education. CCCS of Montana, the largest provider of financial counseling in that state, is one example. The organization was one of the main proponents of a recent initiative to cap the interest rates that payday lenders in Montana can charge. Another example is CCCS of the Black Hills, located in Rapid City, S.D. It houses the American Center for Credit Education, a publisher of widely used financial education curricula.

Designing an action plan

Nonprofit consumer credit counseling agencies serve anyone, regardless of income, family status, or other life factors. Historically, the bulk of the clientele has been made up of moderate-income, working-class people.

"The average household income of our clients is probably in the upper $30,000s to mid-$40,000s range, which represents a pretty wide swath of the population in the Midwest," says Dan Williams, program director for LSS Financial Counseling Service, an arm of Lutheran Social Service of Minnesota.

Some clients are in decent financial shape overall and just need help designing a budget. More typical, though, is a client who has substantial credit card debt and little or no savings. The person's income is spread so thin to cover mortgage or rent, living expenses, and credit card payments that any job loss, income reduction, or major life event can be financially disastrous.

Once a client has taken the initial step of contacting an NFCC member agency, the counseling process begins with an hour-long session during which the client and a counselor discuss the client's full financial picture, including all income sources, expenses, and debts. The counseling can take place in person, on the phone, or over the Internet, depending on the client's preference and his or her proximity to the counseling office. The counselor and client work together to identify options and design an action plan for reducing debt. In most cases, the counselor will schedule subsequent meetings to continue the counseling and monitor the client's progress in adhering to the plan. Depending on the client's needs, the counseling relationship can last anywhere from one session to several years. The initial counseling session is offered for a low fee or, in cases of true hardship, free of charge. Subsequent services are offered at little cost—typically, $25–$30 a month.

For some clients with heavy debt burdens, one course of action is to establish a debt management plan, or DMP. Under a DMP, the credit counseling agency negotiates directly with the client's creditors to reduce the payments, interest, and fees on each credit card account. The client makes one payment per month to the counseling agency and the agency then disburses the entire payment to the client's creditors, according to the terms of the restructured agreements. In exchange for the counseling agency's intervention in securing at least some payment on the debt, the creditor pays the counseling agency a fee—usually, 5 to 10 percent of the total monthly payment—known as a *fair share payment*. Fair share payments, counseling fees, and public and private grant money are the primary sources of revenue for nonprofit credit counseling agencies.

A DMP is not an appropriate choice for everyone; some clients don't need any formal intervention, and some lack the income to make any credit payments at all. Across NFCC member agencies, approximately one-third of clients choose a DMP and the remaining clients pursue less formal plans for addressing their financial problems. For those who choose the DMP option, however, the effect can be dramatic. According to Tom Jacobson, director of CCCS of Montana, "If a client goes on a DMP, we can knock down the time they're in debt from 25 or 30 years to an average of 3½ years."

Delivering empathetic services

Many clients have never sought any sort of help from a social-service agency before. They may qualify for public benefits such as energy-assistance grants or state-sponsored health insurance plans and not even know it. One role of the financial counselor is to determine what benefits, if any, a client qualifies for and then connect the individual with the appropriate agencies. Some counseling operations use specialized tools to facilitate the benefit-screening process. For example, CCCS of Montana, working in partnership with the Children's Defense Fund of Minnesota, developed Bridge to Benefits (www.b2bmt.org), a software application that analyzes a client's income, family size, and other variables and determines which federal and state benefits he or she is eligible to receive. The application is in use at CCCS of Montana's seven offices around the state and has been adopted for use in other states, including Minnesota (http://mn.bridgetobenefits.org).

Creating a safe, respectful, collaborative counseling environment is essential. The stigma around financial hardship can be strong; clients may feel embarrassed about their need to seek counseling and may expect to be judged or shamed for their predicaments.

"We're extraordinarily fierce about focusing on a nonjudgmental, nonbelittling delivery of high-quality, empathetic services," says Dan Williams. "When you talk to us, we're not going to judge or ridicule you. We're going to offer an objective, supportive way to figure out your financial situation and come up with a game plan."

Stuart Baker, a counselor with GreenPath Debt Solutions in Marquette, Mich., adds, "We're not some kind of drill sergeant who's going to yell at you for what you've done. It's not about assigning blame. It's about finding the options that will work."

For some clients, the unrelenting stress of financial problems leads to serious health issues.

"We talk to people who say their every thought revolves around their financial problems," says Cherrish Holland, a counselor at LSS Financial Counseling Service's Willmar, Minn., office. "They're depressed, they're not sleeping. They might be having chest pains or can't even get out of bed." Financial counselors are trained to be attuned to signs of depression, anxiety, and

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Nonprofit credit counselors provide one-on-one help for consumers in crisis

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stress-induced physical ailments. If clients exhibit symptoms, counselors refer them to health services in their area.

A matter of visibility

According to many counselors at NFCC member agencies in the Ninth District, the biggest challenge their industry faces is a lack of visibility. Nonprofit credit counseling agencies are lean operations with scant funds for marketing and advertising. Their biggest source of publicity is word-of-mouth referrals; most clients hear about the agencies' services from family members or friends who received counseling in the past. The lack of visibility means some consumers don't know that help is available, or—in the case of consumers who only learn about credit counseling once their debts have become seriously delinquent—don't receive help until late in the debt cycle, when their options have dwindled. Counselors stress the importance of early intervention.

"The earlier you come in, the better choices you have for solving your financial problems. The longer you wait, the more difficult it becomes, in terms of the choices available and the decisions you'll have to make," says Bonnie Spain, executive director and CEO of CCCS of the Black Hills.

The lack of visibility and advertising resources also means legitimate nonprofit counseling agencies have a hard time competing with well-funded, unscrupulous companies that present themselves as kind-hearted debt-assistance providers but are actually out to fleece consumers. These scammers advertise heavily on the Internet and late-night television. They prey on desperate, debt-ridden consumers who are trying to do the right thing.

In the words of Gail Cunningham, vice president of public relations for the NFCC, "The consumers who are hurt by these scams are well-meaning people. These aren't people who hope they never hear from their creditors again. These are people who are really concerned about not being able to pay their debts. They hear an ad on late-night TV and they think, 'This is an answer to my prayer, this is exactly what I wanted.' And they start dialing, only to be duped."

In the 1990s and early 2000s, a prevalent scam involved for-profit entities establishing nonprofit front organizations that posed as legitimate counseling agencies. The nonprofits' "counselors" used high-pressure sales tactics to convince unsuspecting clients to sign up for DMPs. The nonprofits then pocketed the clients' lump-sum debt payments and funneled them to for-profit background organizations instead of paying off the clients' creditors. A 2004 Congressional investigation and subsequent Federal Trade Commission (FTC) ruling led to the dissolution of most of the for-profits-masquerading-as-nonprofits arrangements.

The rise of the debt-settlement companies

Currently, the prevailing debt-assistance scam is one perpetrated by bad apples in the debt-settlement industry. Debt settlement, a negotiation process in which a creditor agrees to settle a debt for a lump-sum payment that is less than the full debt amount, is a valid service that some legitimate companies offer. It can be an appropriate choice for consumers in certain rare circumstances, but it was never meant to be an across-the-board solution for all consumers who have big credit card balances.

"For someone who is in a serious accident, who can't work or pay their debts for a period of time and who then comes into a sum of insurance money from the accident, it might be an appropriate choice to use that money to settle the missed debt payments," says Bonnie Spain, "but those customers would be very, very small in number."

During the run-up to the recent financial meltdown, as record levels of consumer debt helped swell the pool of potential debt-assistance customers, sham debt-settlement companies began popping up in large numbers. By one estimate, as many as 2,000 of these companies are operating in the U.S. They use pervasive and often misleading advertising to present their services as a fix-all for consumer credit problems. Common sales tactics include blurring the lines between themselves and legitimate financial counseling agencies, claiming to have special negotiating relationships with credit card companies, or implying a government affiliation. "We even saw one ad that was set in front of the White House," recalls Gail Cunningham.

For many of the consumers who respond to the ads, the sham debt-settlement companies do more harm than good. The companies collect large, up-front, monthly payments from customers, ostensibly to set up a holding account that will be used to pay a yet-to-be-negotiated settlement to the creditor. Typically, the negotiation process drags on for months with little or no resolution. If a customer chooses to cancel the arrangement, the company often refuses to refund the payments the customer has made. In addition, the companies instruct customers to stop making payments to their creditors during the negotiation process but never disclose that, by stopping payments, a customer could destroy his or her credit, incur fees that will substantially increase the debt, and even be subject to garnishments or other legal actions.

In response to consumer complaints and the efforts of consumer advocacy groups, including the NFCC, federal and state regulators and policymakers are taking action to halt abuses in the debt-settlement industry. As of an August 2010 Senate hearing on debt-settlement practices, the FTC had brought nine actions against debt-settlement companies since 2004. State regulators and attorneys general had filed more than 120 actions, and several state legislatures had moved to outlaw the industry's worst practices. For example, Minnesota and Montana enacted laws in 2009 that, among other provisions, require licensing of debt-settlement companies and limit the fees they can charge.

The most sweeping regulatory response so far is an October 27, 2010, FTC ruling that applies to debt-settlement services sold over the phone. The ruling prohibits these services from carrying up-front fees; speci-

Dan Williams, Program Director, LSS Financial Counseling Service, Duluth, Minn.

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Sheri Ekdom, Financial Resource Center Director, The Village Family Service Center, Fargo, N.D.

"People seem a little more open to talking about things like putting money in savings and making different choices about expenses. I think we might be at a teachable moment, where even people who haven't been directly affected by the housing crisis and job losses are looking around and thinking, 'That could be me,' and 'Am I prepared?' "

fies that any holding accounts set up for the purpose of settling debts be maintained at an independent financial institution; and requires companies to disclose information about the length, costs, and possible negative consequences of the process. Debt-settlement companies that do not comply with the new rules could be fined $16,000 per violation. Regulators and consumer watchdogs are monitoring the industry to assess the recent ruling's effectiveness.

While NFCC-certified financial counselors welcome the FTC ruling and similar actions, they recognize that there may always be some bad apples around to spoil consumers' hopes. As one counselor put it, "When companies like these get their hands slapped, they just change addresses and change their names, and then they move on and do business somewhere else."

A peak and a shift

Not surprisingly, nonprofit consumer credit counseling agencies saw unprecedented demand for their services during the recent economic meltdown. According to Gail Cunningham, NFCC member agencies counseled approximately 2.5 million people in 2007, before the mortgage and financial crises hit full-force. In 2009, the total swelled to approximately 4 million. The number of people counseled for housing issues more than doubled, from 362,527 in 2007 to 827,549 in 2009. The demand for bankruptcy counseling trended upward as well, from 1,099,281 in 2007 to 1,288,065 in 2009. Many NFCC member agencies have seen their client volume double or triple. For example, LSS Financial Counseling Service, which currently has 34 financial counselors at 10 counseling locations across Minnesota, saw demand grow from a steady yearly total of about 5,000 clients in the early to mid-2000s to more than 17,000 in 2009.

"We were in a position where we were booked out; we just didn't have the capacity to serve folks," says Susan Aulie, the agency's senior director of financial services. "People were waiting four to six or even up to eight weeks to get an appointment, and obviously, when people are in a financial crisis, they need the help now, not six or eight weeks from now." A low-interest loan from Thrivent Financial Foundation and the Lutheran Community Foundation enabled LSS Financial Counseling Service to hire additional counselors to meet the demand.

Not only has the clientele at NFCC member agencies grown, there also are signs that its demographic makeup has shifted. Nationwide, the average household income of clients at NFCC member agencies in 2007 was $29,478. In 2009, it was $43,434. Counselors at CCCS of Montana are seeing a greater proportion of clients with white-collar jobs than ever before. Cherrish Holland of LSS Financial Counseling Service reports seeing more clients with high education levels than in years past. At The Village Family Service Center in Fargo, Financial Resource Center Director Sheri Ekdom notes that counselors have seen an uptick in clients in the 35–45 age range—a time of life when people usually become more financially secure, not less so.

According to an annual NFCC survey, in 2009, for the first time ever, job loss was the number one reason consumers sought counseling. The accompanying income losses have been severe. According to Dan Williams, LSS Financial Counseling Service sees many clients whose household income has been cut from a range of $70,000–$90,000 down to $28,000–$40,000.

A gradual drop-off

The peak client numbers that nonprofit consumer credit counselors saw in 2009 appear to be slowly falling. NFCC member agencies in the Ninth District began to see a gradual decrease in client volume in 2010. For example, The Village Family Service Center saw a slight drop-off beginning in June and July. As of September, Sheri Ekdom projected calendar year 2010 would show a 7 to 8 percent decrease in client volume compared to 2009 numbers.

While the decline could be read as a sign that the economy is improving, counselors attribute it to other factors. According to Tom Jacobson of CCCS of Montana, the decline is due in part to competition from dubious debt-settlement companies and in part to recent efforts by credit card companies to circumvent nonprofit counseling agencies. Some credit card issuers have launched in-house credit counseling operations that negotiate directly with selected debtors. The practice has raised concern among some consumer advocates, because credit card companies may have an interest in seeing their own claims paid first, even though that might not be what's best for their customers' overall financial situations.

Another factor in the declining client numbers, according to multiple counselors in the Ninth District, is consumer fatigue.

"I don't have scientific proof of this, but I think there are people who are getting tired and maybe making a choice of not doing anything," says Sheri Ekdom. "We've worked with some people on their housing situations for five, six, seven months, and they're not getting anywhere with the lender. There's a sense of 'Why should I continue?' "

The silver lining

Even if client numbers drop substantially from their recent high, financial counselors anticipate that demand for their services will remain strong. In the relative short term of the next several years, counselors expect many consumers will need assistance with the delayed consequences of the economic downturn.

Dan Williams predicts, "We'll need to put efforts toward helping the people who've been collateral damage in this economy. There's going to be a huge number of families around the country who'll need to rebuild their finances over the next five years, because they've had their credit toasted by a foreclosure or wage garnishment or an interruption in income. They've had unpaid bills in 2009 or 2010 that could come back to haunt them years later, and things like insurance and rental deposits will end up costing them more because their credit is poor."

Counselors concur that in the long term, no matter what economic trends prevail, there will always be a need for the services they provide. Even in good economic times, people will experience job losses, medical emergencies, divorces, legal troubles, or other events that can trigger personal financial crises. And there will always be people who, due to a complex mix of emotional and psychological motives, simply don't manage their finances wisely.

"The dynamics of managing money are more than mechanical," observes Susan Aulie. "It's not just about adding and subtracting and knowing if you have enough money in your checkbook. There are so many external forces around the emotional part of why we buy things. People spend money to fill a void or to keep up with the Joneses. I don't think that's ever going to go away."

One silver lining of the recent financial crisis, from a counselor's perspective, is that it has generated a new awareness and openness about personal financial matters.

"People seem a little more open to talking about things like putting money in savings and making different choices about expenses," says Sheri Ekdom. "I think we might be at a teachable moment, where even people who haven't been directly affected by the housing crisis and job losses are looking around and thinking, 'That could be me,' and 'Am I prepared?' We're finding that they really want to talk about preparing for emergencies. That's a good thing."

Thanks to nonprofit consumer credit counseling agencies, whether someone needs guidance in preparing for a financial emergency or in navigating through one, help will continue to be just a phone call away. cd

Tips for choosing a credit counseling agency

As the article indicates, there's no shortage of unscrupulous, for-profit companies that pose as legitimate, nonprofit credit counseling agencies. However, there are also some for-profit agencies that offer legitimate, high-quality counseling services, and some nonprofit counseling agencies whose services aren't so great. How can a consumer tell the difference between agencies that offer legitimate, high-quality services and those whose services are low in quality or outright scams? The National Foundation for Credit Counseling (NFCC) encourages consumers to shop around and ask agencies a set of questions pertaining to quality standards, accreditation, service offerings, fee structures, and more. Red flags consumers should watch for include monthly fees in excess of $50, initial counseling sessions that last less than an hour, and requirements that all clients go on a debt management plan. The NFCC's full list of tips is available at www.nfcc.org/creditcounseling/counseling_guidelines.cfm.

For more information

American Center for Credit Education
www.acce-online.com

CCCS of Montana
www.cccsmt.org

CCCS of the Black Hills
www.cccsoftheblackhills.com

LSS Financial Counseling Service
(Lutheran Social Service of Minnesota)
www.lssmn.org/debt

National Foundation for Credit Counseling
www.nfcc.org

The Village Family Service Center
www.thevillagefamily.org

News and Notes

CDFI news

U.S. Treasury awards a record amount to CDFIs

The U.S. Department of the Treasury has awarded a total of $104.8 million to 179 community development financial institutions (CDFIs) headquartered in 44 states and the District of Columbia. The amount represents the single largest round of funding the Treasury has ever provided for CDFIs.

A CDFI is a specialized entity that provides loans, investments, training, or other services in underserved or economically distressed areas. The Treasury's CDFI Fund, which certifies and provides support for CDFIs, allocated the record amount of awards through the 2010 round of its Financial and Technical Assistance programs. The CDFI Fund conducted a competitive review to select the 179 awardees from a pool of 408 applicants.

Sixteen of the financial and technical assistance awards, totaling nearly $10 million, went to organizations headquartered in the Ninth Federal Reserve District. Twelve of the awards were in the amount of $750,000, which was the maximum award in the 2010 round of funding. Ninth District recipients are African Development Center, Minneapolis; CommunityWorks North Dakota, Mandan, N.D.; Eastern Dakota Housing Alliance, Fargo, N.D.; First Children's Finance, Minneapolis; Habitat for Humanity of Minnesota, Minneapolis; Impact Seven, Almena, Wis.; Initiative Foundation, Little Falls, Minn.; Lake County Community Development Corporation, Ronan, Mont.; Montana Community Development Corporation, Missoula, Mont.; Montana HomeOwnership Network, Great Falls, Mont.; Neighborhood Development Center, St. Paul, Minn.; Nonprofits Assistance Fund, Minneapolis; Northeast Entrepreneur Fund, Virginia, Minn.; Northeast South Dakota Economic Corporation, Sisseton, S.D.; Rural Electric Development, Madison, S.D.; and South Dakota Rural Enterprise, Sioux Falls, S.D.

Opportunity Finance Network to assist in healthy foods initiative

In other news, the CDFI Fund has selected Opportunity Finance Network (OFN), a national membership and advocacy organization for CDFIs, to conduct capacity-building activities in support of the Healthy Food Financing Initiative (HFFI). The HFFI is a collaboration among the federal departments of Treasury, Agriculture, and Health and Human Services to increase the availability of healthy, affordable foods in low-income communities. Under the initiative, the OFN will provide training and technical assistance to help CDFIs use federal grants, below-market-rate loans, loan guarantees, and tax credits to finance grocery stores and other food-related businesses in "food deserts"—low-income neighborhoods that have limited access to sources of fresh produce and other nutritious foods.

New publication describes Fed foreclosure initiatives

The Board of Governors of the Federal Reserve System (Board) has released *Addressing the Impact of the Foreclosure Crisis*, a booklet that highlights the community-based foreclosure prevention and neighborhood stabilization activities conducted under the Federal Reserve System's Mortgage Outreach and Research Efforts (MORE) initiative. The Board and the 12 Federal Reserve Bank presidents launched MORE in 2009 as a means of using the Fed's expertise in mortgage markets to help policymakers, community organizations, financial institutions, and the public understand and respond to the foreclosure crisis. Activities described in the booklet include sponsoring and distributing foreclosure-related research, bringing key stakeholders together to discuss the foreclosure crisis and develop solutions, and partnering with other agencies and organizations to assist unemployed homeowners who are at risk of losing their homes to foreclosure. To read the booklet, visit www.chicagofed.org/webpages/index.cfm.

CFSI releases guide to prepaid cards

The Center for Financial Services Innovation (CFSI) has released a guide to help nonprofit organizations incorporate prepaid cards into their program offerings. Reloadable prepaid cards, which function like electronic bank accounts but have no checks or overdrafts, can be a convenient, cost-effective money-management option for unbanked and underbanked consumers, provided that appropriate protections are in place for card users.

The Nonprofit's Guide to Prepaid Cards, which was published with the support of the Network Branded Prepaid Card Association, NetSpend Corporation, and the Annie E. Casey Foundation, is designed for nonprofit organizations that work on consumer finance issues and are interested in engaging with prepaid cards. The guide describes several levels of engagement, ranging from educating consumers about prepaid cards to becoming card distributors and service providers, and lists strategic considerations and success tips for each level. The guide's appendices outline legal and regulatory issues related to prepaid cards and offer tips for selecting a prepaid card vendor.

CFSI offers a prerecorded webinar as a companion to the publication. To view the webinar and download the guide, visit www.cfsinnovation.com/nonprofitguide.

Fannie Mae launches site for struggling homeowners

Fannie Mae has launched a web site designed to help struggling homeowners understand and weigh their options for staying in or leaving their homes. The Know Your Options site, located at www.knowyouroptions.com, offers tools and practical information for homeowners who are facing foreclosure. Features include a self-guided options-finder tool called Know Your Options Now; a list of foreclosure-related resources, including videos, online calculators, frequently asked questions, and a glossary of terms; advice on avoiding foreclosure-rescue scams; and downloadable documents for tracking phone calls and other communications with lenders.

Calendar

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Additional information: www.exploringinnovation.org