WORKING PAPER 2023-04

Credit Counselling and Debt Management Services in the United States

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the SDGs for the United Nations (ASD)*

January 2023

This scoping paper is prepared for the development of a future project on personal and household debts under UNRISD's Alternative Economies for Transformation Programme (2021–2025) and is coordinated by the following partner organizations: The Credit Counseling and Recovery Service (CCRS) and the Association for Supporting the SDGs for the United Nations (ASD).

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Abstract

This scoping paper outlines credit counselling and debt management structures in the United States and their effectiveness in improving consumers' financial management status. First, various public and private credit counselling systems are explained with a focus on each institution's roles and functioning areas. Second, the overall results of credit counselling are assessed using reports from the National Foundation of Credit Counseling's *Sharpen Your Financial Focus Initiative* and non-profit credit counselling agencies located in multiple states. Due to the diversity of economic statuses in various states, state-level financial management structures are also incorporated. Additionally, several non-profit credit counselling agencies are assessed to identify the commonalities of good practices among money advice services. This scoping paper finds that while the United States' credit counselling service evaluation outcomes do help consumers resolve debt problems overall, a stricter evaluation and feedback process is required and measures to prevent deceptive actions by for-profit credit counselling agencies is critical. The lack of existing information concerning the effectiveness of credit counselling and consumer feedback after going through such services raises difficulties when defining the qualitative data and suggesting credit counselling and debt management system application methods. For a more valid analysis and strategy suggestion, a transparent information system and legislatures are needed.

Contents

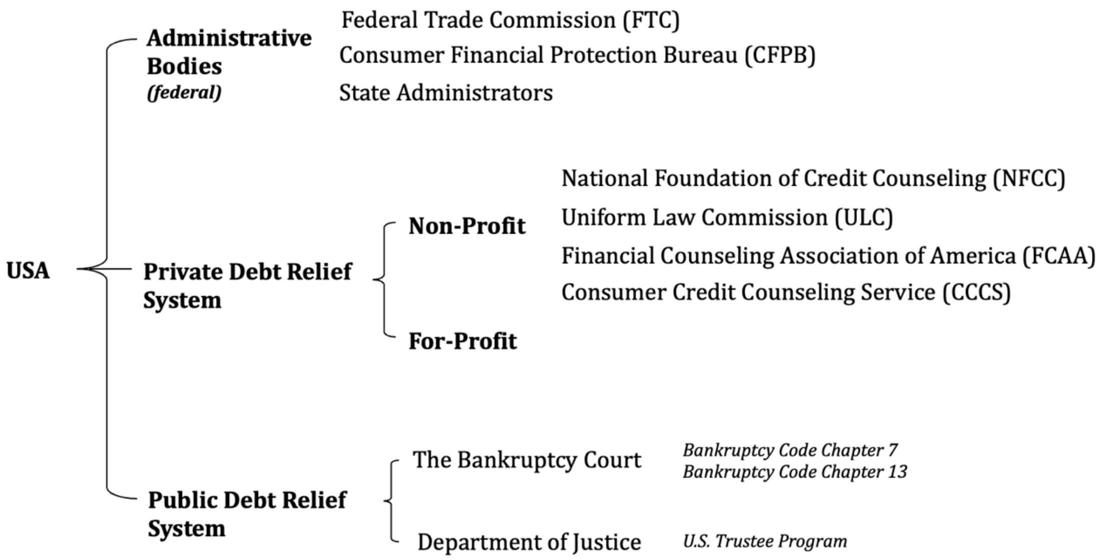
1. Background

Credit counselling services for solving problems of consumer financial management in the US have developed since the 1960s and are now spreading internationally. This scoping report explains the emergence of the US credit counselling agencies, services, and their unique characteristics to lay the ground for future research. It also describes state- and federal-level regulations on protecting consumers and various types of debt relief measures such as debt management plans, debt settlement, and debt consolidation. Lastly, it explains personal bankruptcy and its applicable standards laid out under debt management plans as subsequent measures of consumer credit counselling.

The US credit counselling service provides state-specific application plans given the varied consumer debt situations in each state. Aligned with each state's economic status and related statutes, the number of credit counselling agencies as well as counselling sessions show differences. Also, certain changes in consumer behaviors have been identified, such as increased awareness and knowledge of financial management, higher participation in counselling, and consistency in debt repayments.

Figure 1 below is a schematic of the US financial service systems. As you can see in the sections below, in addition to individual bankruptcy procedures, private debt relief measures are also conducted mainly by for-profit and non-profit institutions. Several governmental bodies oversee the implementation of regulations and laws related to credit counselling procedures.

Figure 1. Structure of Financial Services in the US

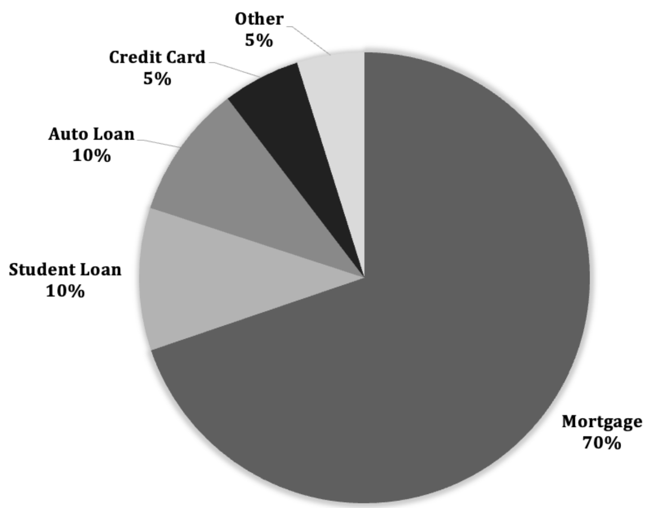


Source: Figure created by author

The Causes of personal or household debts can vary ranging from low income, underemployment, high cost of living, and credit card overuse, to business failures or scams. The analysis by researchers and empirical studies categorizes the reasons for the US financial crisis and debt accumulation in macro or microeconomic terms (Boshkoska et al., 2018). The expansive monetary policies, foreign capital inflows, and heavy indebtedness of the US real estate buyers are some of the macroeconomic factors, while household debt, absence of banking regulations, or inadequate assessment of credit risk are microeconomic factors that need credit counselling for American consumers.

The Quarterly Report of Household Debt and Credit released from the Federal Reserve's New York district noted that the US consumer debt has reached $16.15 trillion as of August 2022, the majority of which is comprised of home mortgages, followed by student loan debt, auto loans, and credit card debt (Cox, 2022). Regarding mortgage debt, the average sales price of houses in the US is $525,000 as of 2022, which is a drastic increase from $374,500 in 2020 (FRED, "US Average House Price"). Also, the US Census Bureau announced the homeownership rate in 2022 to be 65.8% and increasing, which implies that more Americans are gaining mortgage debts than before.

Figure 2. 2021 Q4 US household debt balance



Source: Figure modified by author. Data from New York Fed Consumer Credit Panel/Equifax (2021)

In addition, the increasing college enrollments, fees, as well as structural changes in the economy, are putting more financial burden on youths and their family members compared to the previous generations (Letkiewicz et al., 2018). Thus, the US debt hitting new records each year, along with the increasing debt per capita, educational expenditures, mortgages, and living expenses call for improved money management and debt relief services for American consumers.

When evaluating the services' effectiveness and room for improvement to address debt problems, in particular personal and household debts, a specific focus on non-profit agencies is necessary since the government's role in service delivery is limited. Looking through cases of companies, states, and legislations, the overall credit counselling and debt relief in the US show positive outcomes but limitations exist in government jurisdiction and regulations. Furthermore, government efforts to support socially disadvantaged groups such as immigrants, youths, or low-income households do exist but are also restricted by the lack of accurate processes or regulations. Although some federal organizations oversee the practices of for-profit and non-profit agencies, their impacts show insufficiencies.

2. Private debt relief (for-profit & non-profit services)

2.1. Credit counselling industry in the US

The credit counselling service in the private sector began in the mid-1960s when bond banks and credit card companies initiated the Credit Counseling Agencies (CCAs) to limit individuals' reckless bankruptcy filings and avoid potential losses. Mostly comprised of community-based and non-profit companies, they help consumers who are in trouble paying their credit card bills through personal meetings and detailed analysis of individual incomes, budget requirements, and expenses. These services are proceeded by credit counselors by taking into account the debtor's overall financial situation to design a personalized plan and provide services, as well as education for money management. Also, they assist consumers to better understand their financial situations, manage debts, and avoid bankruptcy. The recent trend, however, shows numerous CCAs transforming into for-profit organizations, such as companies that offer credit repair services. Regarding the nationwide operation and management of these agencies, three main private institutions have been in place: NFCC, FCAA, and AICCCA (Bale, 2012).

The National Foundation for Credit Counseling (NFCC) was established in 1954 and is America's largest independent non-profit private credit counselling association recognized by the US courts. Since the creation of CCAs, NFCC was the central organization that oversaw most credit counselling agencies and serves as the coordinating body of member organizations in the 50 states of the US. To operate and fund non-profit CCAs, the NFCC established more than 350 local offices in each state called the Consumer Credit Counseling Service (CCCS). This gave CCAs the freedom to offer education and credit services without charge. The core services provided by the NFCC are: debt management plan, credit report review, homeownership counselling, reverse mortgage advice, anti-seizure counselling, bankruptcy counselling, and small business owner financial coaching. Meanwhile, to become a member of the NFCC, the institution must be a non-profit organization and meet the NFCC Member Quality Standard outlined in the Council on Accreditation (COA), which is also a non-profit third-party private organization established in 1977 (Author, 2021).

The Financial Counseling Association of America (FCAA), established in 1993, is the second largest non-profit association in the US whose primary function is to provide regulatory information and counselling to its members regarding consumer credit, housing, student loan, bankruptcy, debt management, and a variety of financial education services. The main functions are to check members' licensing status in each state, letting its members be informed of legislative changes, creditor policies, and related news. Notable differences in membership and counselor requirements are that FCAA allows non-profit and for-profit credit counselling agencies to become members and that the counselors can be certified by other approved certification programs.

The Association of Independent Consumer Credit Counseling Agencies (AICCCA) is an independent non-profit credit counselling service agency established in 1993. Its roles are similar to that of the NFCC but have a narrower scope and put more emphasis on counselling for financial problems.

Similar to COA, AICCCA also maintains membership standards to which its members must adhere, but are comparatively less restrictive.

The American Bankruptcy Institute notes that to provide quality credit counselling services, it is recommended to check the list of member counselling agencies affiliated with NFCC and AICCCA, and then select an agency that meets some of the member counselling criteria in the list. The criteria are that it must be an accredited non-profit organization, carry out authenticated services, hire certified counselors, provide practical counselling and training, offer one or more debt management options, require a reasonable fee or free consultation[1], and disclose information on services, fees, and revenues.

Although the above credit counselling agencies have lots of similarities in terms of their functions and service coverage such as service provision to all 50 states and US territories, agencies perform different functions to address different concerns across states and territories.

2.2. Regulations to protect consumers

When non-member CCAs sued NFCC in 1994 based on antitrust claims and settled the suit by agreeing to not grant its creditors the seats on the national board of directors, a major incentive for joining the NFCC disappeared and resulted in a huge decrease in NFCC member agencies. The new entrants in the credit counselling market were mostly profit-driven, offered no one-on-one counselling, and deceived their customers. As a result, the lack of overseeing bodies and regulatory frameworks for new agencies led to unjust practices. To solve this problem, various state and federal measures were created and applied.

Federal regulations

Although many states have credit counselling laws, state-level regulation is often ineffective due to the circumstances and conditions of various states. It is also true that many states lack laws directly applicable to the credit counselling industry. In these states, general laws against false advertising and fraud are nearly the only regulations that can protect consumers using credit counselling services. Thus, with the lobby of the National Conference of Commissioners on Uniform State Laws (NCCUSL) the *Uniform Debt-Management Services Act (UDMSA)* was enacted in July 2005. The law applies to both consumer credit counselling services and debt settlement services. This provides a comprehensive set of rules and regulations on debt counselling and settlement services, as well as related guidance and regulations. It is, among other things, a statute that provides rules for registration requirements, the maintenance of bonds, one-on-one counselling, and extensive reporting to consumers.

Furthermore, the two main agencies, The U.S. Internal Revenue Service (IRS) and The Federal Trade Commission (FTC) are aware of the major problems within the credit counselling industry and have been protecting consumers. These two key agencies each enforce the *U.S. Internal Revenue Service tax laws* and the *Federal Trade Commission Act*, which are attempts to reduce the harms caused by for-profit agencies charging abusive fees to consumers, or redundant

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1 The fee should not exceed approximately $50. The monthly fee for managing a DMP is usually a percentage of the monthly payment, up to a maximum of about 10%, and fees may be waived if the debtor cannot afford it.

counselling. The IRS allows the federal government to establish rules for non-profit organizations and is in charge of collecting taxes, as well as administering the Internal Revenue Code, which is the core of the federal statutory tax law. In addition, the FTC is an independent US government agency that enforces civil antitrust laws and promotes consumer protection. Sharing jurisdiction with the Department of Justice Antitrust Division, the Commission strengthens regulations regarding aggressive marketing or information disclosures by for-profit agencies.

One of the major roles of the FTC is resolving fraud reports of debt collectors' illegal conducts. A debt collector is usually a person or company that regularly gathers debts collected by others. This could be a collection agency, a lawyer who collects debt as part of its business, or a company that buys overdue debt and then tries to collect it. The Fair Debt Collection Practice Act (FDCPA) enforced by the FTC strictly prohibits debt collectors from forcibly collecting debts from debtors using unfair or deceptive practices.[2]

Lastly, the *Consumer Financial Protection Bureau (CFPB)*, which holds jurisdiction over banks, credit unions, securities firms, and debt collectors in the US, monitors how such organizations use social media and algorithms to target customers. The primary focus of CFPB is to provide accountability for enforcing federal consumer financial laws while protecting consumers in the financial marketplace. Currently, the hard efforts of CFPB's law enforcement have allowed the number of for-profit agencies to largely decrease, from more than 1,000 to around 50 (Hurst, 2005).

State-level regulation

Most states hold statutes regulating credit counselling services ever since the US Supreme Court first upheld a state statute prohibiting credit counselling. As such, the common methods used by states were: forbidding credit counselling with the exception of non-profit agencies, forbidding fee collections, or combining both measures. However, as each state possesses different qualification requirements, most states give licenses to both for-profit and non-profit organizations. But without supplementing federal or national statutes, state laws are not effective enough. In this case, states may use the requirements outlined in the UDMSA on agency applications, service regulations, or fraudulent acts. On this basis, the State Administrators in each state decide the debt settlement business approvals, which have to be renewed annually. Also, such State Administrators are required to be the beneficiaries of Security Bonds of more than $50,000 for agencies' capital requirements set by the UDMSA.

2.3. Debt relief services

Debt relief is the restructuring of debt to provide the debtor with full or partial deferred action. There are several ways to pay off debt, which include the reduction in outstanding principal (partial or full), putting lower interest rates on maturity loans, and the extension of the loan term. In general, creditors are willing to consider debt relief measures only if the debtor or party's defaults are so severe that debt relief is perceived as the best alternative. These measures can

[2] Federal Trade Commission "Fair Debt Collection Practices Act" https://www.ftc.gov/legal-library/browse/rules/fair-debt-collection-practices-act-text.

extend to debt-heavy parties, from individuals and small businesses to large corporations, municipalities, and even sovereign states. Three types of debt relief measures are commonly used: Debt Management Plan, debt settlement, and debt consolidation.

- Debt Management Plan (DMP) - DMP is the most popular credit counselling option for consumers at non-profit organizations, which allows paying off debtors' unsecured debt in three to five years. It can lower the debtor's debt interest rates and eliminate fees on registered accounts, which is possible with creditors' cooperation. If the consumer meets the criteria, an authorized credit advisor may enroll the consumer in the DMP program. To initiate a DMP, a consumer authorizes a credit advisor to contact each of the consumer's unsecured creditors (primarily credit card companies). The counselor then negotiates with creditors to lower the consumer's monthly payments and interest rates to waive outstanding late fees. All of the consumer's lowered monthly payments are then consolidated into a single payment. In this way, the credit counselor adjusts the debt through direct negotiations with the creditors, then distributes the monthly payments to the credit counselling agency to pay the creditors.

  Thus, the DMP allows counselors to negotiate with creditors to cut interest rates or waive commissions, thereby making an individual's overall debt situation more sustainable while increasing the success rate of debt repayment. Also, DMP relieves the burden on individuals by allowing them to transact with only one agency rather than multiple creditors which relieves the debtor's mental stress by avoiding debt collection calls. Finally, consumers no longer have to memorize each debt's complicated maturity date and various payment requirements.

- Debt settlement - Debt settlement is an agreement between a creditor and a consumer to allow reduced total debt balance or fees, as well as payments in lump sums. It is used between a lender and a borrower that makes a large, one-time payment on an existing balance in exchange for the relief of any remaining debt. As the aim is to reduce the debtor's obligations rather than the number of creditors, the biggest advantage of debt settlement is that consumers can eliminate debts without paying the full balance. If consumers are considering filing for Chapter 7 bankruptcy proceedings as a last resort when they are in serious financial trouble, debt settlement can be an attractive alternative to debtors. However, creditors are not obligated to accept the offer to proceed with the negotiations. Also, to offer a settlement to creditors, a debtor must have enough cash to pay the agreed-upon amount. Debtors can work with debt relief agencies or credit counselling services as such institutions renegotiate the borrower's current debt with the creditor.

  There are two general types of debt settlement. The first is *Do-It-Yourself (DIY) debt settlement*, in which consumers themselves negotiate with creditors without the engagement of a third party. Another type is *professional debt settlement*, in which consumers work with for-profit organizations that manage debt reduction strategies that seek to receive a 'principal reduction' that satisfies creditors even with fewer payments.

Unfortunately, these measures are highly risky options that seldom work in the consumer's favor. For one, it can take a toll on the debtor's credit score and the success rate of debt settlement is very low. Also, the fees are not cheap either. In general, the fees consumers pay to for-profit organizations are between 15% and 25% of their debt.

- Debt consolidation - Finally, debt consolidation combines multiple debts into a single debt or multiple liabilities into a consolidation loan. This allows paying off debts once a month at a single interest rate, which is useful for reducing the total number of creditors owed by consumers. Consolidated loans are offered through financial institutions, including banks, credit unions, and online lenders, and all debt repayments are made through new lenders in the future. It is important to note that debt consolidation loans do not erase the original debt. Instead, they simply change the consumer's loan to another lender or loan type. Consolidating debt in this way can give debtors psychological benefits as they relieve the stress of having to pay off debt multiple times each month. Consolidation loans can also reduce consumers' total monthly payments or lower the average interest rate on debt.

3. Public debt relief (bankruptcy)

Bankruptcy is a federal law that offers both individuals and businesses an opportunity to eliminate or restructure their debts by repaying on a conditional basis or restructuring repayment plans. In other words, it is a process that provides a legal means of financial start-over when people cannot afford to pay off their debts.

When the process is initiated, the bankruptcy judge will first decide whether a debtor is eligible to file for bankruptcy. Through counselling with an approved non-profit credit counselling agency within six months of filing, consumers can take action when they fully acknowledge the advantages, disadvantages, and alternatives of bankruptcy. Once completed the counselling sessions, consumers will receive a certificate. If a debtor is approved for bankruptcy, they generally receive protection from creditors as long as the debtor complies with the terms of the bankruptcy agreement. When all conditions are met, the remaining debts included in the bankruptcy filing are discharged. One noticeable point is that bankruptcy judgments are recorded on the debtor's credit report for 7 to 10 years, depending on the type which could affect the opening of a new credit card or getting loans.

Bankruptcy cases are run by the federal court system under the Department of Justice (DOJ) and go through special bankruptcy courts. There is at least one bankruptcy court in each state, with a total of 94 courts nationwide. In most bankruptcy cases a Trustee, who is a federal official enforcing civil bankruptcy laws, is automatically appointed upon filing and acts as a watchdog for bankruptcy cases by reviewing the documents. Such Trustees are appointed by the US Attorney General and administered by the Executive Office for US Trustees (EOUST).

Among the six types of personal bankruptcy laid out in the US Bankruptcy Code, *Chapter 7* and *Chapter 13* are the most common types for consumers. Both types of bankruptcy may allow getting rid of unsecured debts, stopping foreclosures or repossessions, as well as providing exemptions to keep certain assets.

3.1. Chapter 7 bankruptcy

Chapter 7 bankruptcy, which is also called straight bankruptcy or liquidation bankruptcy, is the most common type of bankruptcy in the United States. It eliminates most of the debt depending on the court's decision and process. The court appoints a trustee to oversee the case, whose principal task is to acquire ownership of the debtor's assets to sell and distribute the proceeds and later use them as funds for repaying debt. Under Chapter 7, certain personal items and real estate may be kept depending on each state law and applicable federal laws. Generally, exemptions include residence/farmhouses, automobiles, certain retirement accounts, and properties essential to sustaining livelihood.

In most Chapter 7 bankruptcies, debtors are unable to pay off almost all of their debts because they don't hold enough money to cover them after calculating the exempt property. These outstanding balances become abandoned and the debtor no longer has to repay the debt. The immunity granted to the debtor, in this case, is a court order that exempts the individual from the legal obligation to repay the debt. However, several liabilities, such as child support and some taxes, are not exempt and are non-indemnified liabilities.

3.2. Chapter 13 bankruptcy

Chapter 13 bankruptcy, also called a wage earner’s plan, is a procedure whereby debtors with regular income can set up plans to repay all or part of their debt. Chapter 13 avoids foreclosure and allows debt repayment schedules to be coordinated with the bankruptcy trustee. This process consolidates debt into one payment plan and prevents debt collectors and creditors from directly contacting debtors. In addition, the plan lasts from three to five years, depending on the length of the monthly payment plan the court has authorized to the debtor. The plan also includes overdue priority claims such as alimony, child support, or recent income tax.

The advantages of Chapter 13 are that debtors are offered the opportunity to save their homes from foreclosure and cure delinquent mortgage payments over time. Also, it allows individuals to reschedule debts and extend them over the Chapter 13 plan. Finally, it may protect co-signers through a special provision that protects third parties who are liable to the debtors on consumer debts.

4. Cases and Outcomes

4.1. Overall results

The overall effectiveness of credit counselling may be seen through the following consumer behaviors: (1) increased awareness and knowledge of the financial situation (2) improved consumer responsibility (3) structural changes in debt (Roll & Moulton, 2016). In this regard, several findings on credit counselling explain the effectiveness and positive outcomes.

First of all, the long-term effect of non-profit credit counselling in the US can be seen through the evaluation of the NFCC Sharpen Your Financial Focus program's 90,000 clients carried out by researchers from the Ohio State University (Moulton & Roll, 2018). The 2018 report on the program indicates that 68% of its clients reported that the program helped them manage their money better and 73% said they are paying their debt more consistently. Also, the results show that consumers begin counselling at times of substantial financial distress, as indicated by higher rates of account delinquencies and declines in credit scores around the time of counselling.

Figure 3. Change in revolving debt

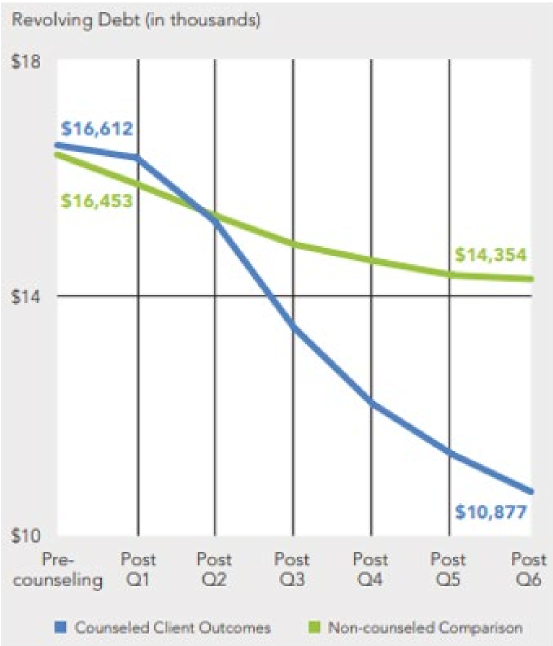


Figure 4. Changes in overall debt levels

Source: National Foundation for Credit Counseling (NFCC)

During the 18 months following counselling sessions, Sharpen clients' revolving debt decreased by $6,000, which is $3,600 more than that of the comparison group. The total debt also decreased by $9,000, whereas a slight increase in debt levels was shown in the comparison group during the same period. Furthermore, consumers' low credit rating and repayment status returned to pre-condition levels after a year of consultation and showed a significant decrease in debt. As such, the services provided under NFCC's Sharpen initiative serve as a good example of increasing consumer awareness of financial activities and effective management of debts.

4.2. Agency practices

Among the various non-profit credit counselling agencies in the United States, several are considered reliable and reputable, as not all agencies titled as non-profit are providing legitimate services. Evaluating the top credit counselling agencies announced by research institutes, the below five agencies are considered the most credible.

Table 1. Evaluation of top credit counselling companies in the US

Agency	Accreditations	Fee	BBB rating*	Details
Cambridge Credit Counselling	Non-profit FCAA approved NFCC member	Enrollment: $40 Monthly: $30	A+	High user satisfaction Transparent fees Offices only in 2 states
Consolidated Credit	Non-profit FCAA approved	Enrollment: $0-49 Monthly: $40	A+	Largest non-profit agency in the US Has more than 500 partnerships
GreenPath	Non-profit NFCC member	Enrollment: $0-50 Monthly: $0-75	A+	Hods 28 branches in 21 states Only 5 complaints in 3 years
InCharge	Non-profit NFCC member COA accredited	Enrollment: $75 Monthly: $33	A+	Transparent about fees Has account management app Only one location in Florida
Money Management International	Non-profit NFCC member	Enrollment: $33 Monthly: $24-50	A+	Holds branches in 25 states Free counselling sessions 45-60 min Does not pre-disclose DMP fees

*BBB rating: Better Business Bureau rating grades represent the degree of confidence in the businesses' operation in good faith. The ratings are from A+ to F, A+ being the highest.

Source: Figure created by author. Data from Max Fay (2021), Debt Mitch Strohm (2022), and Holly Johnson (2022)

The listed agencies have lots of similarities in being nominated as providing one of the best credit counselling services. For one, they are non-profit organizations that are accredited by the NFCC and/or FCAA, which implies that agencies are considering their consumers' benefits as priorities rather than the organization's financial profits. Such good practices are further approved by the BBB rating, which shows the trustworthiness and legitimacy of agencies. Additionally, transparency in fees is mostly guaranteed to consumers even before taking free credit consultation sessions. This enables consumers to be informed of the various choices they have in choosing the right agencies for their individual needs.

An exemplary result of credit counselling and debt relief service can be seen by Cambridge Credit Counseling, which was recognized as the 'Non-profit of the Year' by BBB in 2019. Regarded as promoting the highest ethical business practices for customer satisfaction, Cambridge Credit Counseling has offered a reduction in credit card interest rates by an average of 14 points, from 22% down to just 8%. Also, their clients' average savings of $142 per month were created due to the decrease in interest rate. Along with the financial assistance, the company provided free financial literacy seminars for various people of age to re-enter communities. By 2018, more than 400 seminars were conducted for around 1,000 local participants. Their holistic approach to helping not only their clients but also needy people in numerous communities has led them to partner with several membership organizations like the Connecticut Education Association or the AAA Club Alliance to educate citizens and professionals on financial management. Such practices have resulted in gaining long-lasting trust from their clients as well as related community organizations.

Nevertheless, there are still numerous credit counselling agencies that are labeled as non-profit but receive heavy amounts of fees from their customers in search of more economic gains. Here, the efforts of overseeing regulatory organizations such as NFCC, FCAA, or FTC are of significant importance. In particular, the FTC, which is a governmental organization, is constantly establishing new rules and scrutinizing for fraudulent acts to restrict agencies seeking illegal benefits from extorting money from their clients.

One of the biggest fraudulent cases of credit counselling/debt management brought to the course by the FTC was a settlement in 2005 with AmeriDebt, which carried out deceptive marketing strategies for luring about 460,000 consumers qualified for redress to obtain a DMP. Misrepresenting itself as a non-profit agency, AmeriDebt funneled profits with affiliated for-profit entities such as DebtWorks and Andris Pukke, and failed to provide consumers with privacy notices. Due to the FTC filing, the final order announced that the agency return $12.7 million to consumers and shut down its operations by transferring all DMPs to third parties.[3] Regarding regulatory acts, the FTC is currently pursuing programs like the 'Stop Senior Scams Act' by bringing together an Advisory Group comprised of federal agency partners, consumer advocates, and industry representatives to find solutions to prevent fraud and scams directed at older adults (Miranda, 2022).

4.3. State-level practices

As mentioned above, research on overall credit counselling in the US points to a positive outcome. However, as the 50 states show different average debt amounts and economic statuses, related legislations and measures may differ accordingly. Among the states, New York, California, and Massachusetts are evaluated to find the differences in the credit counselling and debt relief systems. The three states were selected based on the World Population Review's ranking of the US per capita debt by the state in 2022.[4] As states' per capita debt is a plausible standard when considering government policies in general or the ability to pay debt service costs, comparing the states ranked among the highest per capita debt will allow outlining the differences in credit counselling and debt relief systems. Due to the lack of information on credit counselling outcomes in each state or by agencies, the analysis of the three states is based on the data mainly collected by Consolidated Credit, which is the oldest and largest non-profit credit counselling organization in the US.

3 US District Court for the District of Maryland, Civil Action No. PJM 03-3317
4 World Population Review. *Debt by state 2022*

Table 2. Analysis of credit counselling and debt management status in three states

	California	New York	Massachusetts
Population	39.2M	20.1M	6.9M
Per capita income	$71,480	$75,548	$79,721
Cost of living index*	146.12%	148.3%	135.2%
Credit card debt	$5,120	$5,414	$5,141
Credit score**	716	722	718
Student loans	$4,640	$6,160	$6,190
Unemployment rate	7.6%	7.7%	4.9%
Credit counselling clients (2021)***	18,004	13,495	3,329
DMP clients (2021)	882	816	204
Debt-free clients (2020)	1071	778	252
Bankruptcy filings	**69,432**	20,566	4,287

*Cost of living index: Compares expenses between geographic regions. The national average is 100%
**Credit score: Number that rates credit risk. It ranges from 300 to 850, in which a higher score refers to less credit risk. A good credit score ranges from around 670 to 739. US national average: 714
***Credit counselling and DMP clients mentioned are cases from Consolidated Credit.

Sources: Figure created by author. Data from Bill Fay (2022), Consolidated Credit Debt Relief Guide

The above table lays out each state's debt status and credit counselling outcomes. Despite the credit counselling and debt relief clients only comprised of Consolidated Credit consumers, the numbers provide feasible grounds for evaluating the effectiveness of credit counselling, as well as regulatory setbacks. For instance, the percentage of clients adopting debt management plans after taking free credit counselling sessions are 4.8%, 6.0%, and 6.12% respectively. Although DMP is considered the most widely used debt relief measure, the extent of usage is relatively low compared to the number of credit counselling clients. For such counselling and agencies to be reckoned effective, the proportion of clients moving on to debt management plans should be higher in number. Specifically, California and New York show similarities in economic status and living standards with only differences in population. However, debt relief measures seem more effective in New York as the number of DMP clients is rather alike even though the number of counselling clients is higher in California. This analysis may be related to California's high rate of bankruptcy, which is usually the last resort in the debt relief process. California is indeed a Golden State high in population and living expenses, but aligning with the status of New York, the numbers are still very high.

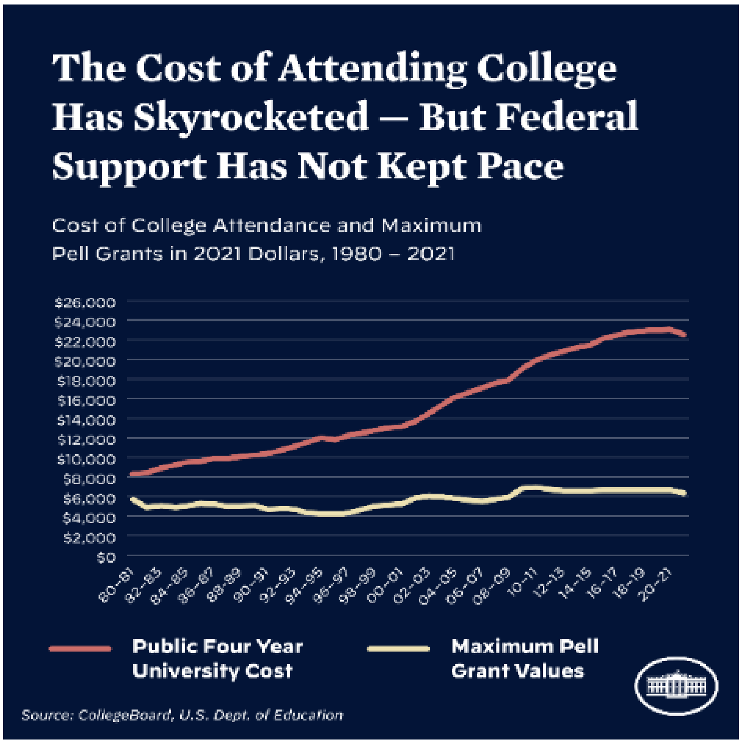
A possible explanation for the increasing number of bankruptcy filings and a relatively low debt relief application could be the lack of jurisdiction of federal institutions such as the FTC over non-profit agencies. An agency must be demonstrated as pursuing profits through business, acting as a mere instrument of for-profits, and being part of a common enterprise to be considered a for-profit agency for regulation and management (Hurst, 2005). Also, agencies' disproportionately high fees and lack of adequate counselling do not always implicate unfair and deceptive commercial practices, therefore making it more difficult for regulatory institutions to restrict illicit behaviors.

In sum, the rather low percentage of debt management service clients and the lack of available information by agencies suggest a need for a more effective and transparent evaluation system, as well as methods for accurate assessments.

4.4. Practices for the socially disadvantaged

The Census Bureau estimated the number of Americans living in poverty in 2021 as 37.9 million, which is 11.6% of the total population. Thus, since the Covid-19 breakout, the nation's financial focus has been directed toward low-income families or people living in poverty. However, some socially disadvantaged groups such as immigrants, underprivileged communities, or youths with a lack of credit backgrounds are also facing huge challenges.

Figure 5. University costs and Pell Grants in the US



Source: The White House[5]

On August 2022, President Joe Biden announced the government's student loan forgiveness plan which will cancel up to $20,000 in federal student loans for borrowers with incomes less than $125,000. Nevertheless, just as numerous deceptive credit counselling agencies are

5 https://www.whitehouse.gov/briefing-room/statements-releases/2022/08/24/fact-sheet-president-biden-announces-student-loan-relief-for-borrowers-who-need-it-most/

providing illegitimate services, complaints and reports of scams targeted at student loan borrowers are already filling the scam tracker sites in the Better Business Bureau (BBB). These reports include agencies asking for processing fees or advanced payments, which in practice is not required (Conroy, 2022). As clear application procedures or bylaws are not yet presented by the Department of Education, deceiving letters and emails are sent out to students who have insufficient information and tools to verify the scammers. Furthermore, staffing at federal student aid offices or loan services has significantly decreased over the pandemic (Ceron & Hawkins, 2022). Hence, though government implementations of new debt regulations are being announced, the shortage of regulatory frameworks or reliable institutions is hindering consumers from acquiring adequate services.

For those with racial disparities, immigrants, adults with invisible credit, and various obstacles in building credit or debt repayment, credit counselling itself may not be a viable option due to limited or no credit status. In those cases, options are to turn to predatory lenders with high-interest rates, which leads to harder times qualifying for a mortgage, renting, employment, or insurance premiums (Gailey, 2022). For these people, applying for credit counselling or debt relief services would not be the primary solution as it is the case that they do not hold any established credit history to further the process. Therefore, some financial solutions are presented by government institutions: ▲Federal Student Aid ▲US Department of Agriculture Food and Nutrition Services (USDA FNS) ▲Low Income Home Energy Assistance Program (LIHEAP) ▲National Low-Income Housing Coalition Resource Library.

5. Concluding Remark

The 20th century United States consumers have faced great financial crises, leading to the development of non-profit or governmental organizations to aid consumers' money management. For the United States, non-profit credit counselling agencies emerged under major institutions such as the National Foundation for Credit Counseling (NFCC). In addition, federal institutions started engaging in the practices of credit counselling agencies to sort out fraudulent or deceptive acts by for-profit agencies or set regulatory standards. Specifically, non-profit credit counselling and debt management services are for a large part managed by the NFCC, along with organizations such as the Consumer Credit Counseling Service (CCCS) and the Financing Counseling Association of America (FCAA). Also, the Federal Trade Commission (FTC) and the Consumer Financial Protection Bureau (CFPB) work as the major institutions for supervising for-profit agencies.

In identifying the structures and effectiveness of credit counselling services in the United States, the NFCC's Sharpen Your Financial Focus Initiative provides a firm ground with feedbacks from 90,000 clients. The overall numbers showed significant debt level decrease and awareness enhancement. However, the rate of clients' movement toward debt management plans after receiving free credit counselling was comparatively scarce, along with the lack of usable information for further evaluation. Also, accessibility of services is limited when it comes to youths or socially disadvantaged groups, due to perpetual fraud and lack of clear regulations.

Such results indicate a hasty need for more money advice for individuals and a strict evaluation process for both quantitative and qualitative data for further improvements in credit counselling services. Furthermore, better information provision is required for young people and the disadvantaged, as well as increased monitoring for unjust counselling practices.

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