



# Tips for Dealing with Credit Counselling Agencies



## WHAT IS A CREDIT COUNSELLING AGENCY?

Credit counselling agencies provide a range of services to help consumers who are having difficulties with managing their money and handling their debts. Some agencies focus specifically on assisting consumers to repay their debt, while others also offer counselling and financial education to help people learn to use money and credit wisely. There may be fees associated with using a credit counselling agency. The amount of these fees varies from agency to agency. Before you use their services, it's a good idea to do some research. What types of assistance programs are available? What are the fees? How does the agency operate – is it a for-profit organization or a not-for-profit? Be sure to understand these important issues.

Provincial and territorial governments are responsible for regulating credit counselling agencies and investigating consumer complaints.

### *Debt management programs*

Credit counselling agencies offer programs, such as debt management programs, that are intended to help consumers repay their debts. Before entering into a program, most agencies will require you to sign a contract, which states you will make regular payments to their agency. The agency then distributes your payments to your “creditors” – organizations to which you owe money. The agency will contact these creditors on your behalf to obtain their acceptance of your debt management program – which they may choose to accept or decline. If possible, they may also try to reduce or eliminate the interest rate and/or fees on your debts.

Debt management programs usually cover unsecured debts; for example, credit card debt or lines of credit. Secured debts such as car loans and mortgages are not normally covered because the creditor can repossess your car or home if you don't make the required payments.

When you enrol in a debt management program, creditors may indicate an “R7” status on your credit report. A credit report is a “snapshot” of your credit history. It lists all the financial transactions creditors have made with you. Creditors send this information to “credit reporting agencies” on a regular basis. Credit reporting agencies, also known as “credit bureaus”, are businesses that collect, organize and maintain credit information about any individual in Canada who has borrowed money or used credit. An “R7” rating indicates that you are making regular payments to creditors through a special arrangement. This rating will likely prevent you from accessing more credit for a period of time. Entering into a debt management program is completely voluntary and you should not feel pressured to participate without considering all of the implications.

For a period of two or three years after you complete your debt management program, your credit report will indicate that you used the services of a credit counselling agency to help repay your debts. During this period, if you give your permission to any creditor, landlord or employer to access and view your credit report, they will also see this information.

## *Credit education*

Many credit counselling agencies offer credit and money management education for consumers with financial problems. It may be part of one-on-one guidance by the counsellor responsible for the file. Or the agency may provide courses and seminars covering topics such as how to budget and manage your cash flow, how to use credit effectively or how to survive through tough economic times and unexpected changes to your income (such as a job layoff). Tools offered may include budget templates, debt calculators, tip sheets and other reading material.

## *Dealing with credit counselling agencies*

### KNOW WHAT OPTIONS EXIST

It is important to understand the options available to you. Openly discuss your financial situation directly with your creditors and your financial institution first. You may wish to consider a debt consolidation loan as opposed to seeking the services of a credit counselling agency. It is a good idea to get opinions from at least two other sources such as a reputable credit counsellor, a financial advisor, a trustee-in-bankruptcy, or an insolvency lawyer. Meet with them and review your options, including debt consolidation, bankruptcy and debt management programs appropriate to your circumstances. They may suggest a referral to other community and professional services.

### DO THE RESEARCH AND SHOP AROUND

Be sure to check out several credit counselling agencies before you make your choice.

Find out if the agency is a recognized member in good standing of a provincial or national association such as Credit Counselling Canada, which requires its members to maintain specific standards of practice. Also, see if the organization is a member in good standing of the Better Business Bureau. In Quebec, you can check with *l'Office de la protection du consommateur*. Find out if there are serious and/or unresolved complaints about the agency, such as late payments to creditors or false advertising.

### ASK ABOUT COUNSELLOR QUALIFICATIONS

Credit counsellors are not required by law to have specialized training, though many do. You should choose a recognized agency whenever possible, and always ask about your counsellor's qualifications, including education, specialized training and years of experience.

### FIND OUT ABOUT THEIR FEES

For-profit and most non-profit credit counselling agencies will ask their clients to pay an initial set-up cost and a monthly maintenance fee for debt management programs. These fees can vary greatly between agencies. Some agencies may have additional charges, including an application fee, a membership fee, a large upfront fee or a fee for each creditor. It is important to shop around and find out what fees you will be required to pay before entering into a contract.

## COMPARE COSTS

Credit counselling agencies may be able to help reduce the total amount of money you will pay to your creditors. How? By negotiating with them to get a lower interest rate. Be fully aware of the fees the agency charges for its services – you may not save money if the total costs add up to more than what you would save through the debt repayment plan. Compare the costs.

## LOOK FOR EASY-TO-UNDERSTAND CONTRACTS

A contract for a debt management program should clearly state how much you will pay in fees, when the agency will process your payments, what your responsibilities are and what you can expect from the agency. You should also know what will happen if your financial circumstances change and you can no longer make payments. Ask for a copy of the contract, and ask questions if you need them to explain any of the terms and conditions. Carefully read and fully understand the contract before you sign it.

## BEWARE OF FALSE PROMISES

Beware of any agencies that claim they can fix credit or repair your credit report. It's not possible for them to change or erase accurate information in your credit report. The only way you can improve a poor credit rating is to show that your payment habits have improved and you are being responsible with repaying your debt.

## MONITOR YOUR PAYMENTS

Ask the agency to provide you with status reports on a regular basis, such as every month or two. Ensure you can get a written report at any time. Many creditors will stop sending monthly statements when you are on a debt management program. For those creditors who continue to send monthly statements, review them carefully for accuracy and keep a close eye on your credit report to make sure the agency has paid your creditors on time. If they have not, this will result in late fees and negative entries on your credit report.

## KEY QUESTIONS TO ASK YOUR AGENCY:

- Will they provide a proposal in writing as to how they will help you?
- What services does the agency provide?
- What are the agency's qualifications and are they properly licensed?
- What are the qualifications of the credit counsellors?
- What are the fees and charges? Will fees be reduced or waived if you cannot afford to pay them?
- Do they provide you with monthly statements of payments?
- What type of support is given to help you learn better money management?
- Do they belong to the Better Business Bureau (BBB)? Is the agency accredited by Credit Counselling Canada or a provincial association?

Ask for a consultation so you can see if there is a good fit. Any reputable credit counselling service will not charge for this.

### *Where to go for more information*

The Financial Consumer Agency of Canada (FCAC) provides timely, objective information to help consumers choose the right product and service for their needs. FCAC also informs Canadians of their rights and responsibilities when dealing with financial institutions and makes sure that banks and federally regulated trust, loan and insurance companies respect the laws and agreements that protect consumers.

To learn more about credit issues, see our publication ***Understanding Your Credit Report and Credit Score***, which you can view on line or order and have sent to you by mail. You can reach us by phone through our Consumer Contact Centre at 1-866-461-3222 (our TTY number is 613-947-7771; the toll-free TTY number is 1-866-914-6097), or by visiting our Web site at **[www.fcac.gc.ca](http://www.fcac.gc.ca)**.

You can also contact FCAC to find out information on provincial and territorial government organizations that are responsible for regulating credit counselling agencies and investigating consumer complaints.