



Managing Debt: Getting Help from a Credit Counselling Agency

What are credit counselling agencies?

Credit counselling agencies provide a range of services for people in financial difficulty. One of the most common services they offer is help with finding the best strategy to pay off your debt through a debt management program.

Credit counselling agencies can also offer you one-on-one counselling, group courses and seminars on topics such as:

- how to make a budget and stick to it,
- how to use credit wisely,
- how to improve your credit report and credit score.

You may have to pay fees to a credit counselling agency for their services. The amount of these fees varies from agency to agency. Before you use their services, do some research to make sure you know what costs are involved and what services you will receive.

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

Debt management programs

A debt management program is designed to help you pay off your debt. Once you are enrolled in such a program, a credit counsellor will contact the companies to which you owe money (called your creditors), and ask for their cooperation. Creditors usually agree to cooperate in putting your debt management plan to work. In some cases, your creditors may agree to reduce or eliminate the interest rate and/or fees on your debts.

To sign up for a debt management program, you will usually have to sign a contract with the agency. The contract will say that you will make regular payments to the agency. The agency will use those payments to pay off your creditors according to the plan.

It is important to understand that not all types of debt are covered by this type of program. For example, secured debts (those guaranteed with an asset, like a car loan or a mortgage), are generally **not** covered because the asset that secures the loan can be repossessed by the creditor if you don't make the required payments. Make sure that any credit counsellor explains exactly which of your debts the program will cover.

Entering into a debt management program is completely voluntary. You should not feel pressured to participate without considering all of the implications.

What happens to my credit report?

A credit report is a snapshot of your credit history. It lists your debts with your creditors. Your creditors send this information on a regular basis to credit reporting agencies to show whether or not you are making your payments on time.

While you are on a debt management program, there will be a note on your credit report to show that you are making regular payments to creditors through a special arrangement with your credit counsellor. **During this time, you will usually not have access to more credit.**

After you have completed your debt management program, you will be able to access credit again. However, for the next two or three years, 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 creditors, landlords or employers permission to access and view your credit report, they will also see this information.

For more information on credit reports and credit history, see FCAC's publication *"Understanding your Credit Report and Credit Score."*

Know your options

Before you seek the services of a credit counsellor:

- **Discuss your financial situation directly with your creditors and with your financial institution.** They may be able to offer you a lower interest rate product or offer to consolidate your debts into one loan instead of several.
- **Seek advice from reputable sources**, such as financial advisors, trustees in bankruptcy or insolvency lawyers. They may suggest that you explore other community and professional services before making a final decision.

Find a reputable credit counselling agency

If you've considered your options and you think you could benefit from the services of a credit counselling agency, **do your research to find a reputable organization and a qualified counsellor**. Here are some helpful ways to help you find a reputable credit counselling agency and counsellor:

Look carefully at the company's advertising

- Beware of any agencies who claim they can fix credit or repair your credit report. It's **impossible** for them to change or erase accurate information in your credit report. The only way to improve your credit rating is to show your creditors that your payment habits have improved and you are being responsible with paying back your debt.
- Be very cautious about companies that claim that they can negotiate a deal with your creditors so that you will only have to pay part of your debt. This process is often called "debt settlement" or "debt negotiation". **Be aware that some companies may misrepresent the services they offer as being part of a government program. This is not accurate.**

Some companies promoting debt settlement as your best option may tell you that they can solve your debt problems quickly and that you will pay less than half of what you owe. If it sounds too good to be true, it probably is. **Don't sign anything or agree to any service of this type before researching the company and checking with sources you trust.** Your provincial or territorial government's office that deals with consumer affairs is a good place to start.

Find out about the credit counselling agency's reputation and qualifications

- You can find out if an agency is a recognized member in good standing of a provincial or national association such as **Credit Counselling Canada** (www.creditcounsellingcanada.ca), the **Canadian Association of Credit Counselling Services** (www.caccs.ca) or the **Ontario Association of Credit Counselling Services** (www.oaccs.com), which all require their members to maintain specific standards of practice.
- You can also check with the **Better Business Bureau (BBB)** (www.bbb.org/canada) or **l'Office de la protection du consommateur** (in Quebec) (www.opc.gouv.qc.ca/) to find out whether there have been any 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 legally required to have any specialized training, but many credit counsellors have some. Be sure to ask about your counsellor's qualifications, including education, specialized training and years of experience.

Find out about services and costs

The services that credit counselling agencies offer can vary greatly and so can the costs. Here are some questions you can ask to help you find an agency that is right for you.

Services

- Is the first consultation free?
- What services does the agency provide?
- Will the agency provide a proposal in writing describing how they will help you personally?
- What type of support does the agency give to help you learn better money management?
- Do they provide you with monthly statements of payments?

Costs

- Which of the following fees do they charge when you enter a debt management program:
 - initial set-up fee
 - monthly maintenance fee
 - application fee
 - membership fee
 - upfront fee or fee for each creditor?
- Will they reduce or eliminate fees if you cannot afford to pay them?

If the credit counselling agency seems to meet your needs, ask to meet with a credit counsellor so you can see if there is a good fit. **Any reputable credit counselling agency will not charge for this.**

Other things to consider

Here are some other key things to think about if you are considering getting help from a credit counselling agency:

Comfort level with the credit counsellor

Make sure you are comfortable with the counsellor and that you trust his or her opinion and judgement. If you are not comfortable with the person assigned to you, ask if there is another counsellor that can help you with your situation.

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.
- Carefully read and fully understand the contract before you sign it, and ask questions if you don't understand any of the terms and conditions. Make sure you have your own copy of the contract to keep.

While on a debt management plan

Your creditors may help you reduce your debt by giving you a lower interest rate – which will save you money. But the agency may charge you for its services. Compare the agency's fees with what you would save in interest if you were on the debt management plan. If the agency's fees are more than what you can save, you could be better off seeking help from other sources.

Monitor your payments and progress.

- Ask the agency for regular written status reports (such as every month or two). Your creditors may stop sending you monthly statements for your debts while you are on the debt management plan. If you still receive statements, review them carefully to make sure that the agency is paying your creditors on time, and to avoid any late fees or negative entries on your credit report.
- To monitor your progress, you can order a free copy of your credit report from time to time. You can order a free copy of your credit report from the credit reporting agencies, Equifax Canada and TransUnion Canada. This will give you the opportunity to review the information it contains to make sure it is accurate.
- Report any errors or missing information to the credit reporting agency and insist they be corrected immediately.

Where are credit counselling services available?

Provincial governments, not-for-profit organizations and for-profit companies all offer credit counselling services. For a list of some of the services available across Canada, visit these websites:

- Credit Counselling Canada (www.creditcounsellingcanada.ca)
- Canadian Association of Credit Counselling Services (www.cacccs.ca)
- Ontario Association of Credit Counselling Services (www.oacccs.com)
- Canadian Association of Independent Credit Counselling Agencies (www.caicca.ca)

Other FCAC information of interest

Tip Sheets

- Before You Sign Any Contract: 10 Things You Need To Know
- How to Beat that Debt
- Making a Budget and Sticking to it

Publications

- Understanding Your Credit Report and Credit Score

Notes

About Financial Consumer Agency of Canada (FCAC)

With educational materials and interactive tools, the Financial Consumer Agency of Canada (FCAC) provides objective information about financial products and services to help Canadians increase their financial knowledge and confidence in managing their personal finances. FCAC informs consumers about their rights and responsibilities when dealing with banks and federally regulated trust, loan and insurance companies. FCAC also makes sure that federally regulated financial institutions, payment card network operators and external complaints bodies comply with legislation and industry commitments intended to protect consumers.

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