



PAYING BACK

Credit Counseling

Credit Repair

Debt Management Plans

Debt Settlement and Negotiation



United Way for Greater Austin

INTRODUCTION

United Way for Greater Austin (UWATX) is an innovative, impact-driven organization that addresses critical social issues by bringing people and resources together to create opportunities for individuals, families, and neighborhoods to prosper.

United Way collaborates with hundreds of local nonprofit organizations, and corporate and public sector partners to provide financial, volunteer, and advocacy support for the community. We convene community leaders from across all sectors to identify and implement strategies to address today’s pressing social challenges.

THE FINANCIAL TOOLKIT

This toolkit provides simple, useful information to help individuals understand the financial resources, products, and services in the community.

DISCLAIMER

United Way for Greater Austin gratefully acknowledges South Texas Alliance for Economic Inclusion, Texas Appleseed, and the Boston Alliance for Economic Inclusion for providing their resource guide to be adapted for use in Texas.

By working together across the country, we leverage our resources to help consumers make positive decisions about financial products. This publication was made possible by a grant from the FINRA Investor Education Foundation through a partnership with United Way Worldwide.

The intent of the guide is to assist individuals in making positive choices about financial products. This guide does not purport to be exhaustive, but rather aims to provide basic guidelines. Individuals should consult with a professional for specific advice.

Neither UWATX, nor South Texas AEI, nor any other agency or entity involved in the development of this Guide assumes any legal liability or responsibility for the accuracy, completeness, or usefulness of any information, product, or process disclosed in these examples. Reference herein to any specific commercial product, process, service by trade name, trademark, manufacturer, or otherwise does not constitute or imply its endorsement, recommendation, or favoring by UWATX, South Texas AEI, or any entities thereof.

The views and opinions of the originators expressed herein do not necessarily state or reflect those of UWATX or South Texas AEI.

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AT A GLANCE: NON-TRADITIONAL FINANCIAL SERVICES

SERVICE / PRODUCT	PROBLEMS	ALTERNATIVE OPTIONS
CHECK CASHING	<ul style="list-style-type: none"> High fees 	<ul style="list-style-type: none"> Direct deposit for immediately available funds at no fee Shop around for lowest check cashing fees
PAYDAY LOANS	<ul style="list-style-type: none"> High loan fees with short repayment period Most borrowers cannot pay back in two weeks Can exceed 500% APR 	<ul style="list-style-type: none"> Borrow from friends or family Charitable organizations Local bank or credit union Low fee credit card advance Build savings for next short-term cash need
AUTO TITLE LOANS	<ul style="list-style-type: none"> High loan fees with short repayment period Fees often equal 25% of loan principal each month, over 300% APR Risk losing vehicle 	<ul style="list-style-type: none"> Loan from friends or family Loans from local bank or credit union Charitable organizations Low fee credit card advance Build savings for future needs
PAWN SHOPS	<ul style="list-style-type: none"> If the loan is not repaid, the collateral becomes the property of the pawn shop Lose value in excess of loan 	<ul style="list-style-type: none"> Secure a part-time job for extra cash Pay advance from employer Loan from family or friends
RENT-TO-OWN	<ul style="list-style-type: none"> Items overpriced Many fees Missed payment means losing item and money 	<ul style="list-style-type: none"> Save first, then purchase Layaway plans Garage sales, second-hand stores and the classified ads
SUBPRIME CAR FINANCING “BUY HERE PAY HERE”	<ul style="list-style-type: none"> High interest rates, upwards to 32% APR Over-valuation of vehicles Autos often repossessed after one missed payment 	<ul style="list-style-type: none"> Use public transportation and save for a vehicle Credit counseling to improve credit and access prime rate loans
SUBPRIME CREDIT CARDS	<ul style="list-style-type: none"> High interest rates Excessive fees Lower credit limits No grace period Application and setup fees 	<ul style="list-style-type: none"> Secured credit card Improve credit through financial education and counseling
REFUND ANTICIPATION LOANS & REFUND ANTICIPATION CHECKS	<ul style="list-style-type: none"> High fees Refund Anticipation Loan (RAL) APRs 60% to 700% 	<ul style="list-style-type: none"> Community Tax Centers or Voluntary Income Tax Sites provide free professional tax filing services To locate resources, dial 2-1-1 to reach the United Way Navigation Center

CREDIT COUNSELING

Credit counseling provides consumers with advice on managing money and debt, as well as developing a budget. Certified counselors confidentially discuss the person's financial situation and help develop a personalized plan to solve problems.

THE PROBLEM

People may lack the knowledge or skill to choose a reputable credit counseling agency or service.

- May pay high fees or receive poor service.
- Be wary of claims that sound too good to be true. There are companies that want to profit from your desperation.
- May only be able to receive services via the internet or telephone, with no personal contact.

FOR EXAMPLE

A typical fee is \$50 for a one-hour, over-the-phone credit counseling session. Advice can be obtained for free in the community. Apply the \$50 to debt instead.

ALTERNATIVE OPTIONS

- Try to negotiate directly with creditors before enlisting outside help. This can be done for free.
- Reputable credit counseling centers can provide guidance at little or no cost. Visit nfcc.org or call 1-800-388-2227 for the location of the nearest center.
- The Federal Trade Commission offers information on selecting a reputable agency and how to implement self-help at www.ftccomplaintassistant.gov/ or call 1-877-382-4357. They also offer brochures on many related topics.
- Before signing a contract or agreeing to services, check the companies' reputation with The Better Business Bureau at BBB.org or call 512-445-2009.
- Once a year you can access your three credit bureau reports free at annualcreditreport.com.
- The United Way Navigation Center, locally managed by United Way for Greater Austin, offers personalized assistance.

IMPORTANT TERMS

- **Credit Counseling** – A process that involves a counselor providing education on repaying debts. Typically a debt management plan will be created. The counselor may negotiate repayment terms with your creditors.

MORE INFO & HELP

Foundation Communities provides free financial coaching which includes the topic of fixing credit. They also provide free credit reports. Call 512-610-4026 or visit foundcom.org for more information.

For information on credit counseling centers visit: nfcc.org or call 1-800-388-2227.

For consumer protection information visit: The Texas Attorney General at oag.state.tx.us/consumer.

For help with questions, call: Dial 2-1-1 from any phone in Texas to receive personalized referrals free of charge.

CREDIT REPAIR

Providers offer to repair credit for a fee by disputing inaccurate or incomplete information on the consumer's credit report. People use credit repair options because they are looking for a fast and easy way to "clean" their credit report.

THE PROBLEM

The person seeking help is paying a fee for a service they can do themselves. Use caution, as credit repair claims are often deceptive. Accurate information will stay on a credit report for the allotted time frame and no provider can prevent that, regardless of their claims.

- No one can legally remove accurate but negative items such as bankruptcies, judgments, liens and bad loans.
- Money spent for a credit repair service might be better spent to reduce or pay outstanding debt.
- Be wary if the company suggests that you try to invent a "new" credit identity – and then, a new credit report – by applying for an Employer Identification Number to use instead of your Social Security number. Even if you unknowingly follow illegal advice, you can still be held responsible for violating a federal law.
- Consumers can do the same job as a paid provider at no cost.

FOR EXAMPLE

Services cost \$60-100 per month, but they can't do anything that you can't do. You can access your credit reports for free and dispute errors. They can't remove accurate but negative information.

ALTERNATIVE OPTIONS

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- Once a year you can access your three credit bureau reports free at annualcreditreport.com.
- The Federal Trade Commission offers information on selecting a reputable agency and how to implement self-help at ftc.gov/bcp/menus/consumer/credit/debt.shtm or call 1-877-382-4357. They also offer brochures on many related topics.

IMPORTANT TERMS

- **Credit Repair** – Process of fixing a bad credit report. This may involve fixing mistakes on a report or changing an individual's financial habits.
- **Credit Report** – A record of an individual's past borrowing and repaying history. Includes information about late payments and bankruptcy. This information is used by lenders to determine your credit worthiness, which affects whether or not you will be approved for a loan, and also what interest rates you will qualify for.

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DEBT MANAGEMENT PLANS

Debt repayment programs are commonly referred to as Debt Management Plans (DMP). A DMP is designed to help consumers consolidate and payoff unsecured debt. A DMP is one of the services offered by credit counseling agencies.

THE PROBLEM

- Consumers need to have enough money in their spending plan to meet the payment required.
- Fees are charged and can range from low to high.
- A DMP typically requires a “set-up” fee, as well as a monthly fee.
- Some agencies pressure consumers to sign up for a DMP they can’t afford.

AN EXAMPLE OF DEBT CONSOLIDATION

Let’s say you have \$6,000 in unsecured debt, including a two-year loan for \$2,000 at 12%, and a four-year loan for \$4,000 at 10%.

Your monthly payment on the 2k loan is \$103, and \$117 on the 4k loan, for a total payment of \$220 a month.

The debt consolidation company tells you that they have lowered your monthly payment to \$128 a month and lowered your interest rate to 9% by negotiating with creditors and consolidating the loans into one. You’re paying \$92 a month less, and the interest rate is lower. Sounds great right?

What they aren’t telling you is that the loan will now take six years to pay off. You will pay a total of \$9,216, whereas before your total was \$8,088. This consolidation will cost you an additional \$1,128 over the life of the loan.

ALTERNATIVE OPTIONS

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IMPORTANT TERMS

- **Debt Management Plan (DMP)** – A repayment plan offered by consumer credit counseling service agencies. Typically involves consolidating unsecured debts and / or negotiating with creditors to lower interest rates and fees.
- **Collateral-based Loans (Secured Debt)** – A loan guaranteed by something of value, such as a house, or property of a vehicle.
- **Unsecured Loan** – A loan based on the promise of the borrower to repay it. These loans are not secured by collateral.

MORE INFO & HELP

Foundation Communities provides free financial coaching which includes the topic of fixing credit. They also provide free credit reports. Call 512-610-4026 or visit foundcom.org for more information.

For information on credit counseling centers, visit: nfcc.org or 1-800-388-2227.

For consumer protection information, visit: The Texas Attorney General at oag.state.tx.us/consumer.

For help with questions, call: Dial 2-1-1 from any phone in Texas to receive personalized information free of charge.

DEBT SETTLEMENT AND NEGOTIATION

Debt settlement providers claim that unsecured debt (usually credit card debt) can be paid off for a small percentage of the balance owed.

People use debt settlement/negotiation for the following reasons:

- Overwhelmed with large amounts of debt and looking for a solution.
- Do not have enough money to qualify for a Debt Management Plan.

THE PROBLEM

Some companies claim to be able to have your debt paid off at 30% to 70% of the balance owed, but there are no guarantees. There are substantial fees for this service – typically a set-up fee, a monthly fee, and a final fee, which is usually a percentage of the money reportedly saved.

- The amount of “forgiven” debt can be added to the debtor’s taxable income.
- Consumers may continue to be contacted by creditors or collectors.
- Late fees and interest may continue, causing debt levels to increase.

As of October 27, 2010, for-profit debt relief companies who make telemarketing calls or are called by a consumer in response to debt relief advertising are prohibited from collecting fees for their services until:

- The company successfully negotiates, settles, reduces, or otherwise changes the terms of at least one of the consumer’s debts.
- The consumer makes at least one payment to their creditor after the successful negotiation or settlement.

FOR EXAMPLE

Most debt settlement companies will claim to be able to settle your debt for about half of what you actually owe:

If you owe \$7,000 on the account and the creditor agrees to accept \$3,500 as payment in full, it will take you 18 months at \$200 per month to have accrued enough cash in your trust account to pay off just that one credit card bill.

But remember, your first three payments to the debt settlement company only paid the \$750 admin fee. That means your first credit card isn’t really settled until 21 months after you started sending them money! So what is the problem? It’s really very simple—your creditor won’t agree to accept half of your actual debt amount in settlement unless, or until, that amount can be paid in full. Otherwise, they’ll expect you to make your normal monthly payments.

ALTERNATIVE OPTIONS

- Try to negotiate directly with creditors before enlisting outside help.
- Reputable credit counseling centers can provide guidance at little or no cost. Visit nfcc.org or call 1-800-388-2227 for the location of the nearest center.
- Before signing a contract or agreeing to services, check the companies’ reputation with The Better Business Bureau at BBB.org or call 512-445-2009.
- Once a year you can access your three credit bureau reports free at annualcreditreport.com
- The Federal Trade Commission offers information on selecting a reputable agency and how to implement self-help at ftc.gov/bcp/menus/consumer/credit/debt.shtm or call 1-877-382-4357. They also offer brochures on many related topics.

IMPORTANT TERMS

- **Debt Settlement** – An approach to debt reduction in which the debtor and creditor agree on a reduced balance that will be regarded as a payment in full.
- **Debt Management Plan (DMP)** – A repayment plan offered by consumer credit counseling service agencies. Typically involves consolidating unsecured debts and / or negotiating with creditors to lower interest rates and fees.
- **Collateral-based Loans (Secured Debt)** – A loan guaranteed by something of value such as a house, or a vehicle.
- **Unsecured Loan** – A loan based on the promise of the borrower to repay it. These loans are not secured by collateral.

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For help with questions, call: Dial 2-1-1 from any phone in Texas to receive personalized information free of charge.

FINANCIAL EDUCATION RESOURCES

Cornerstone Financial Education

3011 N. Lamar Blvd.
Austin, TX 78705
512-263-0532
www.CSFEDU.org

Provides various education and counseling programs. Programs are designed to assist individuals to better understand how money and credit work. Individual and group presentations are available in the following areas: budgeting, goal setting, credit, personal finance, home buying, foreclosure mitigation, and debt management. HUD-approved.

Core Bank On Partner, please inform that you are part of the Bank On program.

Foundation Communities

2600 W. Stassney Lane
Austin, TX 78745
512-610-4026
www.foundcom.org

Helps individuals and families develop sound money management skills through one-on-one financial coaching. The program topics include setting financial goals, budgeting, reducing debt, increasing credit scores, and using financial institutions wisely. Must meet criteria to qualify for assistance. Free tax and FAFSA preparation.

Core Bank On Partner, please inform that you are part of the Bank On program.

BCL of Texas

2212 S. Congress Ave.
Austin, TX 78704
512-912-9885
www.bcloftexas.org

Provides homebuyer education programs and assists first-time homebuyers with the purchase of their home. Programs offered include free one-on-one business counseling, business plan development, and technical assistance and mentoring. Refer to the website for calendar. Offered in English and Spanish.

Many banks and credit unions have financial educators that can teach free classes. For example:

- **Greater Texas Federal Credit Union:** Rachel Fausett, 512-323-4732, rachel.fausett@gtfcu.org
- **Wells Fargo:** Theresa Alvarez, 512-794-2744, Theresa.alvarez@wellsfargo.com. Wells Fargo nonprofit instruction resources: <http://www.handsonbanking.org/en/non-profits.html>
- **Frost Bank:** Betty Davis, 512-473-4902, bdavis@frostbank.com
- **Randolph Brooks Federal Credit Union:** Alma Joers, 512-719-2625, ajoers@rbfcu.org

Frameworks Community Development Corporation

701 Tillery St., Suite A-78
Austin, TX 78702
512-385-1500
www.frameworkscdc.org

Offers homeownership counseling and foreclosure prevention assistance. HUD-approved.

Consumer Credit Counseling Services

1106 Clayton Lane, Suite 490
Austin, TX 78723
866-901-2227 or 512-447-0711
www.ccccs.net

Provides homebuyer counseling for equity conversions and pre- and post-purchase. Also provides mortgage delinquency and default resolution counseling, as well as debt management counseling. HUD-approved.

Also offers free one-on-one financial counseling and financial classes in both a classroom setting and online. Class topics include Money Matters, Dollars and Sense, and Credit Fix Mix Up. Class schedules are available online. Also available on the website are two free self-paced interactive programs: Money Smart*Credit Smart, and Money Matters.

Neighborhood Housing & Community Development

1009 East 11th St., Suite 103
Austin, TX 78702
512-974-3100
www.austintexas.gov/housing

Provides homebuyer counseling for home improvement, and pre- and post-purchase. Also provides mortgage delinquency and default resolution counseling. HUD-approved.

Austin Habitat for Humanity

55 N IH 35, Suite 240
Austin, TX 78702
512-472-8788 x150
www.austinhabitat.org/apply/
counseling.php

Offers classes on money and credit management, home care and safety, purchasing a home, post-purchasing and foreclosure. HUD-approved.

ClearPoint Credit Counseling Solutions

314 E. Highland Mall, Suite 306
Austin, TX 78752
512-419-7572
www.clearpointccs.org

Provides various education and counseling programs. Programs are designed to assist individuals to better understand how money and credit work. Individual and group presentations are available in the following areas: budgeting, goal setting, credit, personal finance, home buying, foreclosure mitigation, and debt management. HUD-approved.

Texas Legal Services Center

815 Brazos St., Suite 100
Austin, TX 78701
512-477-6000 ext. 114
www.tlsc.org

Offers free legal information to low-income Texans on a wide range of legal issues – including consumer matters – in both Spanish and English languages. Also operates the free legal website www.texaslawhelp.com, which provides a wide range of legal information on consumer, family, and other civil legal issues.

Texas Rio Grande Legal Aid, Inc.

4920 North IH 35
Austin, TX 78751
512-374-2747
www.trla.org

Free income tax training. Provides free training to low-income persons on their rights and responsibilities, with respect to federal income taxes. Topics include: the basics of the U.S. tax system, reasons to file a tax return, how to file a tax return if you do not have a valid SSN, how to select a tax preparer, dangers of refund anticipation loans, filing status, dependent exemptions, Earned Income Tax Credit, Child Tax Credit, claims for innocent and injured spouse, taxpayers' rights when dealing with the IRS, and how to appeal an IRS decision.