

## Do Consumers Benefit From Credit Counseling RePayment Plans?

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## What is Credit Counseling?

**Education?** Quite possibly "Yes," but a more accurate characterization of the initial benefits would be to call it "decision assistance"

**When done well, counseling consists of individual sessions with debtors conducted by trained and certified credit counselors**

- At least one 30 - 90 minute session for each client, conducted in-person, over the telephone, or in interactive mode over the Internet
- Discussion of family budget, financial goals, spending patterns, assets, all debts, and any financial distress
- Budget/financial analysis and recommended plan of action
- Debt Management Plan (DMP) product for those who qualify



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## The Importance of the DMP Product

- **What's in it for a financially troubled consumer?**
  - Agency brokers a repayment plan (typically 48 - 60 months) across multiple creditors
  - Creditors offer concessions in form of a lower min payment, lower finance charges, late fee waivers, halt of collection calls, possible re-age of account to "current" - so long as consumers continue to make plan payments
- **What's in it for creditors?**
  - Collective forbearance may keep consumers out of bankruptcy or debt settlement => reduce losses.
- **What's in it for counseling agencies?** Creditors pay counseling agencies a small percentage of amount recovered through DMP => large share of agency revenues



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### Dramatic Shift in Nature of Products and Source of Client Sessions

- Since 2005, financial counseling has declined from 72% of all sessions to about 22%. Revenues from FC fell from 56% in 2005 to 30% in 2009
- Bankruptcy counseling now accounts for 20% of all agency revenues.

Year/Quarter	FC (%)	HC (%)	BKP (%)	BKD (%)
2005 Q1	72	10	0	18
2005 Q2	70	10	0	20
2005 Q3	68	10	0	22
2005 Q4	65	10	0	25
2006 Q1	60	10	0	30
2006 Q2	55	10	0	35
2006 Q3	50	10	0	40
2006 Q4	45	10	0	45
2007 Q1	40	10	0	50
2007 Q2	35	10	0	55
2007 Q3	30	10	0	60
2007 Q4	28	10	0	62
2008 Q1	25	10	0	65
2008 Q2	23	10	0	67
2008 Q3	22	10	0	68
2008 Q4	22	10	0	68
2009 Q1	22	10	0	68
2009 Q2	22	10	0	68
2009 Q3	22	10	0	68
2009 Q4	22	10	0	68

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### Research Issues: Consumer Benefits from the Counseling Experience

- Does the counseling experience alone (no subsequent DMP) positively impact a consumer's credit profile over time?
  - Education Value?
  - Light bulb, "ah-ha!" moment?
- Can technology-assisted counseling delivery (via the telephone; Internet) be as effective as traditional, face-to-face delivery?
- Does consumer experience with a counseling DMP repayment program lead to additional and longer-term improvements in consumer credit profiles, beyond those gained from the counseling session(s)?

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### Research Answers: Consumer Benefits from the Counseling Experience

- Does the counseling experience alone (no subsequent DMP) positively impact a consumer's credit profile over time?

2007. Elliehausen, Lundquist and Staten, *Journal of Consumer Affairs*
- Can technology-assisted counseling delivery (via the telephone; Internet) be as effective as traditional, face-to-face delivery?

2011. Barron and Staten, *Working Paper 11-11, Federal Reserve Bank of Philadelphia*
- Does consumer experience with a counseling DMP repayment program lead to additional and longer-term improvements in consumer credit profiles, beyond those gained from the counseling session(s)?

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### Current Project: Does DMP Participation Benefit Consumers?

**Outcomes:**

- Credit Score Improvement
- Lower Incidence of Bankruptcy
- Debt Reduction

**Observation Period:**

- November 2007 to August 2010

**Data Sources:**

- Five non-profit 501(c)3 agencies provided detailed client and session outcome data on 29,000 clients counseled in Oct-Nov 2007
- Trans Union appended credit report and VantageScore data and returned the depersonalized file to the research team




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### Summary of Results

- Among clients for whom the counselor recommends a DMP:
  - Those who start a repayment program have **significantly higher credit scores and lower incidence of bankruptcy after 22 months.**
  - These results are reinforced by statistical procedures to control for the tendency of more motivated clients to self-select into the DMP opportunity => the **positive effect of DMP participation on credit scores and bankruptcy incidence is not due solely to sample selection.**
- **Longer time on plan generates greater debt paydown.** Importantly, this leads to large score improvement and lower incidence of bankruptcy
- **Creditor reductions of interest rates and fees positively impact time on plan and debt pay-down.**




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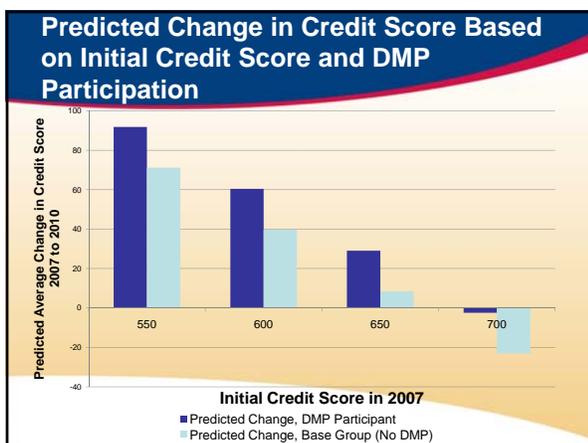
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