Credit Help Gets a Makeover

The Motley Fool

By Dayana Yochim

America's gotten a lot savvier about credit. Now that we can take a free, no-strings-attached gander at our credit reports every year (courtesy of www.annualcreditreport.com), we're more cognizant of the impact bad credit has on our everyday lives.

So are we stampeding into the arms of credit counselors for makeover advice? Not really. But these agencies hope that's about to change.

It's only a matter of time before you'll be able to get a debt payment plan, budgeting tips, *and* cooking and dating classes from your neighborhood consumer credit counseling agency.

OK, those last two are a bit overstated. Still, consumer credit counseling organizations have begun expanding beyond debt management plans into housing counseling and credit report rehab advice. It was bound to happen, since the industry has experienced a few crushing blows.

(Cue wavy screen and back-in-time music.)

Off the dole

In 2003, the Consumer Federation of America released the first-ever study of credit counseling in America. It painted an unflattering picture of the business that, frankly, was long overdue. In a nutshell: A lot of shady organizations were hiding behind the altruistic-sounding 501c(3) nonprofit status and behaving in a manner that was, how shall we say, very un-501c(3)like. That caught the attention of the IRS, which brought the smackdown to a lot of unscrupulous firms — though not before countless consumers struggling with debt were bilked. (Here's advice from the FTC on what to do if your credit counselor has gone out of business.)

Then in 2005, the ominous-sounding Bankruptcy Abuse Prevention and Consumer Protection Act became law (the first big bankruptcy reform since Jimmy Carter was in office).

The result for credit counseling agencies was a cut in funding from the card companies like **Capital One** (NYSE:COF), MBNA (now a part of **Bank of America** (NYSE:BAC)), and **Providian** , among others, that used to give them a sweet cut of the money consumers paid back. Today, counseling firms get kickbacks as low as 4% — a far cry from the 15% cut they used to get.

(Sound of needle being scraped across a record, bringing us back to the present.)

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Cleaning house
Today industry oversight is much more stringent (e.g., program signup fees are capped at $75 and monthly dues are capped at $40) and there are a lot fewer debt doctors in operation.

That's a good thing, say the folks at Take Charge America, who recently stopped by Fool HQ for a surprisingly frank chat with David Gardner and me about the industry's bad rap. Take Charge America — and the other credit-counseling firms still standing — are thrilled about the industry cleanup.

But the new rules have required them to reassess their businesses (once focused primarily on client acquisition and graduation from the program) and start to consider customer retention.

How do they plan to keep their programs robust? By focusing on retention and new suites of credit-related services. Hence the move into housing counseling and credit report rehab.

FICO makeover magic
Deciphering credit reports isn't a new skill for these agencies. They've always pulled applicants' reports before accepting them into a credit-counseling plan. Now they're going one step further and helping clients systematically review the data and develop an action plan to improve their creditworthiness. Those who are in danger of foreclosure or have a rocky credit history and want to buy a home can sign up for housing counseling.

Just because you need help doesn't mean you'll be able to get it from one of these firms. There are requirements to qualify for the new programs (e.g. customers must illustrate that they are, eventually, financially able to get out of their bind).

While it's nice to have the hand-holding, much of the renovation work can be done on your own. Here are some pointers if you're looking to even the (credit) score (remember, some age lines are flattering) or perform a full-FICO makeover:

6 Tips for a Clean Credit Record
The Real Impact of Late Payments
Credit Scores Age Like Vintage Bordeaux
How to Fix the Boo-Boos
White Lies That Boost Your Credit Score
Thin Is Out!
Urban Credit Legends Exposed
Get Out of Debt Goal
(GreenLight subscribers)

And, bar none, one of the best sources for excellent credit/debt/feedback/advice/handholding/cheerleading/friendly tsk-tsking and whatever else you need is our robust Credit Cards and Consumer Debt discussion board. (Access to the regular Fool.com boards is free with a GreenLight membership.)

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Dayana Yochim is the co-advisor for GreenLight, The Motley Fool's new personal finance/beginning investing service. She owns none of the companies mentioned in this article, but carries credit cards issued by a few of them.