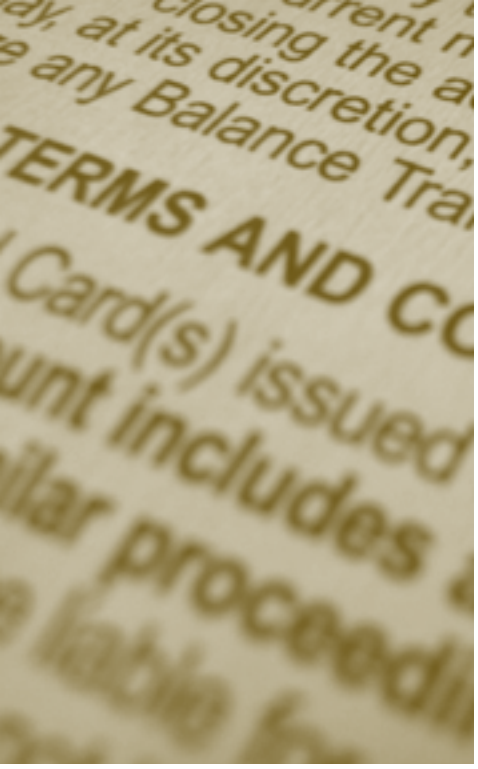


CREDIT CARD BORROWING AMONG U.S. HISPANICS

IMMIGRANTS' EXPERIENCE WITH CREDIT COUNSELING SERVICES

& INDUSTRY BEST PRACTICES

Celebrating 20 Years of Progress
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The Tomás Rivera Policy Institute

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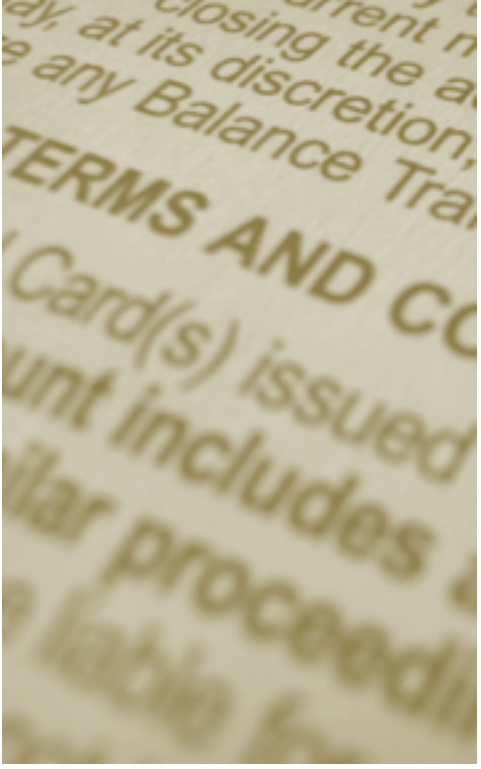


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& INDUSTRY BEST PRACTICES

by

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Celebrating 20 Years of Progress
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The principal authors assume responsibility for any omissions or errors that remain.

Waldo López-Aqueres, Ph.D.
Principal Investigator

Executive Summary

High levels of debt can make families financially more vulnerable to job losses, a drop in earnings, unexpected life events such as illness, disability and divorce, and can trigger payment delinquencies, financial distress, bankruptcy, and homeowners run the risk of foreclosure. Ethnic and racial minorities are particularly at risk because of their lower earning capacity, lower wealth holdings and relatively higher unemployment rates. To examine the extent of financial risks experienced by Latinos, this study sought to address the following questions:

- What is the extent of credit card debt among Hispanics nationwide?
- Who among Hispanics is most likely to be at financial risk?
- What is the Hispanic immigrant experience in using counseling services to cope with high credit card debt?
- What major barriers to using credit counseling services do they face?
- What are some of the abuses perpetrated against this immigrant group?
- Are there industry programs or services that can be used as exemplary models to address the credit counseling needs of this particular clientele?

Researchers at the Tomás Rivera Policy Institute (TRPI) analyzed the Federal Reserve Bank's National Survey of Consumer Finances (SCF), performed focus group discussions with Hispanic immigrants residing in the Los Angeles area, reviewed complaint data filed with the Department of Consumer Affairs of Los Angles County and conducted a mail survey of credit counseling agencies and personal interviews with industry CEOs to address these questions. The research was conducted between February 2004 and January 2005.

The research findings show that Hispanic families (45 percent) were more likely to have credit card debt than non-Hispanic whites (35 percent), but less likely than African Americans (50 percent). In 2001, more Hispanics had credit cards than in 1992 (53 percent vs. 43 percent), but they were also less likely to have a credit card than non-Hispanic whites (82 percent) or African Americans (50 percent). This is not surprising since many Hispanics still remain disconnected from mainstream financial services. Job instability and low incomes also may discourage mainstream financial institutions from extending credit to Hispanics.

SCF data also show that Hispanic families nationwide were more likely to experience financial distress than non-Hispanic whites or African Americans. On average, monthly debt payment as a proportion of monthly income was higher (31 percent) for Hispanics than for non-Hispanic whites (22 percent) or African Americans (22 percent). Hispanic families also were more likely to have debt payments in excess of 40 percent of their income. The negative relationship found between the median family income of Hispanics and their credit card balances suggests that when income rises, the typical Hispanic family uses less credit (or pays off credit card debt), but when income falls, the family does the opposite. The latter raises the possibility that Hispanics are relying on credit to cope with economic hardship.

When facing high credit card debt, Hispanic immigrants are likely to turn to consumer credit counseling organizations which provide credit counseling, debt reduction services and financial education to debtors. However, there are concerns about using credit counseling services due to the industry's poor image and lack of credibility in the community. Before visiting a credit counseling service and enrolling in a Debt Management Plan (DMP), several focus group participants attempted to deal with high credit card debt by trying different alternatives such as using a new credit card with a lower interest rate to pay other lenders, making slightly larger monthly payments on current balances or filing for bankruptcy. Ultimately, study participants sought assistance from credit counselors to cope with financial hardship, negotiate lower interest rates and preserve good credit.

Participants described both positive and negative experiences with credit counseling agencies. On the positive side, participants benefited from concessions obtained from creditors to reduce finance charges; the ability to make one single payment to the credit counseling services rather than various payments to multiple creditors; the modest setup fee charged by some credit counselors to develop the DMP; and when available, the free financial literacy classes. Dissatisfaction with credit counseling services included high initial payments; retainer of monthly payment for administrative costs; late payments to creditors which led to penalty fees; underestimation of time to pay off debt; fees for personal financial literacy or credit management courses; and materials not available in Spanish, the DMP contracts in particular.

Based on personal interviews with industry stakeholders, credit counseling agencies anticipate an increase in demand among non-English speaking Hispanic immigrants. TRPI researchers have identified the following exemplary practices that could be employed to enhance service delivery to Hispanic immigrant consumers:

- Active membership in long-term established national associations of credit counseling, such as National Foundation for Credit Counseling (NFCC) and the Association of Independent Consumer Credit Counseling Agencies (AICCCA);
- Using bilingual, bicultural personnel who can fully understand the Hispanic client and relate well to immigrant culture;
- Using bilingual personnel certified to perform financial analysis of the client's budget and provide proper advice;
- Implementing customer satisfaction surveys regularly to evaluate organizational performance and effectiveness in serving client needs;
- Making referrals to social services, health and legal services, including bankruptcy filing;
- Offering financial literacy courses to teach non-English speaking consumers household budgeting, proper use of credit, and saving and investing for retirement, and charging low or no fees for the classes;
- Documenting the fee structure used by the organization;
- Offering in-person credit counseling;
- Conducting debt assessment sessions in Spanish;
- Preparing an individualized, written action plan for clients to follow;
- Having a DMP service agreement or contract in Spanish, which specifies mutual obligations in the transaction; and
- Compensating credit counselors based on salary or hourly rate rather than commissions based on DMP volume.

The following additional recommendations will also play an important role in improving the credit counseling services industry:

- To refine credit counseling services to satisfy the needs of non-English speaking Hispanic immigrants, agencies should collect data by language, race and ethnicity to improve the industry's understanding of the needs and problems of minority consumers.
- To preserve or make inroads into the Hispanic immigrant market, the industry has to increase its credibility by policing itself more effectively and enforcing uniform standards more consistently.

- The credit counseling industry should establish partnerships with creditors, state government and community organizations to expand its educational function in the community through multi-lingual personal financial literacy classes.

- Creditors should offer more solutions to high credit card debt, including debt settlement plans to credit card holders.

- In addition to DMPs, the nonprofit credit counseling industry should diversify its activities by offering debt settlement plans and full bankruptcy services.

- Government regulators and consumer protection agencies need to be more proactive in cracking down on abusive practices perpetrated against Hispanic immigrants, and help the industry to get rid of unscrupulous firms.

- Since lenders receive substantial monetary benefits from their credit card operations, they should be more supportive of nonprofit credit counselor's efforts to provide personal financial literacy classes in immigrant communities.

- Creditors should moderate aggressive marketing practices by developing more stringent guidelines for issuing credit cards.

- Government should consider setting limits on interest rates and late fees based on fair market rates of return. Interest rates of 19 to 24 percent charged to Hispanic immigrants participating in the focus group discussions are certainly suspect of being predatory, given the prime rate of 4.25 percent at the time of the interviews.

- Hispanic immigrants handicapped by language need to be better informed on how to choose a credit counselor. At a minimum, they should be warned about using credit counseling services that operate outside state boundaries, do not have offices in the state and do not offer full bilingual services.

- High credit card debt can have negative individual and social impacts. Except for bankruptcy, few of these negative consequences have been documented due to an increased business and government focus on the economic benefits of buying on credit. More research in this area is needed.

Introduction and Objectives

Credit card debt in the United States has continued to increase in recent years. By 2002, credit card debt had reached $764 billion and total debt (i.e., revolving plus nonrevolving debt)[1] more than doubled from $789.1 billion in 1990 to $1,725.7 billion in 2002 (U.S. Census Bureau 2003).

High levels of debt can make families financially more vulnerable to job losses, a drop in earnings, unexpected life events such as illness, disability and divorce, all of which can trigger payment delinquencies, financial distress and even bankruptcy. For families who own their home, they run the risk of foreclosure. Ethnic and racial minorities are particularly at risk because of their lower earning capacity, lower wealth holdings and relatively higher unemployment rates.

Yet, there is little information on revolving or credit card debt among ethnic minorities, especially Hispanics, and the problems they face in repaying their balances or finding culturally sensitive assistance to do it. There are approximately 35.2 million Hispanics in this country, and this market is projected to grow dramatically over the next 20 years (U.S. Census Bureau 2000). About 40 percent of this population is foreign-born; as many as 8.7 million entered the U.S. in the 1990s and close to 8 million do not speak English well or at all (U.S. Census Bureau 2003, 2000). The foreign-born segment of this population lacks familiarity with the U.S. financial system, may not be aware of the credit counseling industry (Abram 1998), and are likely to fall prey to marginal operators.

To fill the gap caused by the paucity of information on credit card debt among Hispanics, and to learn about Hispanic immigrant experiences with credit counseling services, and identify industry best practices, the Tomás Rivera Policy Institute (TRPI) engaged in research[2] to address the following questions:

- What is the extent of credit card debt among Hispanics nationwide?
- Who among Hispanics is most likely to be at financial risk?
- What is the Hispanic immigrant experience in using counseling services to cope with high credit card debt?
- What major barriers to using credit counseling services do they face?
- What are some of the abuses perpetrated against this immigrant group?
- Are there industry programs or services that can be used as exemplary models to address the credit counseling needs of this particular clientele?

The collection of baseline data on credit card debt can inform policy makers on the scope of the problem, especially among renters and homeowners. The identification of abuses perpetrated against Hispanic immigrants and industry best practices could lead to the drafting of reasonable standards to improve industry performance and alert the Hispanic community about fair and efficient credit counseling programs that can assist them.

[1] Total debt consists of revolving debt (i.e., credit cards such as Visa, MasterCard, Discovery, gasoline credit cards) plus nonrevolving debt, which includes home mortgages, equity credit lines and installment loans, such as auto loans.

[2] Research was conducted between February 2004 and January 2005.

Scope and Methodology

To address the research questions, TRPI used primary and secondary data collected through alternative methodologies. To analyze the extent of credit card debt among Hispanics nationwide, the Federal Reserve Bank's Survey of Consumer Finances (SCF) was used.[3] Since SCF does not provide statistics for Hispanic immigrants at the national or state level because the sample is too small, national statistics for all Hispanics were used instead. These statistics include U.S. and foreign-born Hispanics. The survey data was downloaded from SCF's website to develop pertinent information.

Two focus group sessions were organized to find out why some Hispanic immigrants with little or no English-speaking skills overextend their credit card balances, and to learn the consequences of such action. Emphasis was placed on the experiences and problems they encountered when dealing with credit counseling services and when enrolling in Debt Management Plans (DMPs). Due to limited resources, both focus groups were conducted in Los Angeles and consisted of Hispanic immigrants enrolled in DMPs offered by several credit counseling organizations. One of the focus group sessions had seven participants (three men and four women) randomly selected from the client base of Consumer Credit Counseling Service of Los Angeles. The other focus group session had 13 participants (seven men and six women) selected from the Los Angeles Hispanic population at large by random telephone dialing. This group used a wide variety of credit counseling services. Hispanic immigrants chosen for the study were from Mexico (16), El Salvador (3), and Colombia (1). They have resided in the Los Angeles area for several years. Seven of them were homeowners. To the authors' knowledge, undocumented immigrants were not present in these groups. Each session was audiotaped for later review and translation.

Other organizations (e.g., Better Business Bureau) were contacted to collect complaint data filed by Hispanic immigrants, but the information on race or ethnicity was unavailable. However, the Department of Consumer Affairs of the County of Los Angeles was able to retrieve 12 complaints against credit counseling agencies filed by non-English speaking Hispanic immigrants from 2001-2003. Although some of these complaints were outdated, they did illustrate some of the abuses perpetrated against the Spanish-speaking community.

To identify best practices in the industry, a list of 60 credit counseling organizations operating in California was developed and used to conduct a mail survey. The Internet and telephone directories were used to identify existing organizations. To ensure accuracy, the list was validated by making telephone calls to these entities. It was found that many of them had disappeared, moved or changed names and telephone numbers. The list was limited to organizations located in cities with more than 30 percent Hispanic population, and included the four largest California credit counseling organizations, all members of the National Foundation for Credit Counseling (NFCC) and its 47 branches operating in the state. The list also included 13 small, independent, nonprofit services with no membership in NFCC.

The four largest credit counseling organizations representing 47 California branches responded to our inquiry. Of the 13 independent organizations, only one responded to the survey. In an effort to boost the survey response rate, several telephone calls were made to principals and CEOs of independent services that received questionnaires. Some of these executives sounded extremely motivated over the phone but never returned the survey nor would they agree to speak to the authors in person. Others did not return

[3] This triennial survey relies on a random sample of 4,400 U.S. families. The term "family" is relatively similar to the household definition of the U.S. Census Bureau. In the SCF, a family is defined as an economically dominant single individual or couple (either married or living together) and all other persons in the household who are financially interdependent with the dominant individual or couple. The SCF is sponsored by the Board of Governors of the Federal Reserve Bank. The data are collected by the National Opinion Research Center of the University of Chicago (Aizcorbe, Kennickell, Moore 2003).

our telephone calls. However, it was found that about three of these independent operators appear to cater exclusively to non-English speaking Hispanics. Returned questionnaires were carefully reviewed to identify programs sensitive to the Hispanic immigrant community with no English speaking skills. Personal interviews were subsequently conducted with CEO's to discuss their programs, examine educational and administrative materials, and talk about issues of concern to the industry and the public.

The increase in credit card debt has been attributed to personal factors and changes that have taken place in the banking industry. Job interruptions, sickness and injury in the family, lack of medical insurance, and divorce are cited as the principal reasons for higher credit card debt (Sullivan, Warren and Westbrook 2000). The list has been expanded by adding higher housing costs and higher health insurance premiums (Draut and Silva 2003). Compulsive buying, instant gratification and lack of household budgeting skills often compound the problem (Simmons 1992).

The consumer's avid appetite for credit has been exacerbated by the growth of credit card companies and their aggressive marketing practices to expand business and increase profit margins (Sullivan, Warren, and Westbrook 2000). In 2001, credit card companies sent 1.52 billion solicitations to American consumers (Consumer Federation of America 2001, cited in Demos 2004). To entice consumers to carry more debt, credit card companies also reduced the minimum payment requirement from 5 percent to 2 or 3 percent of the outstanding balance (Demos 2004).

According to a recent survey, there are 140 different credit cards in the market (CAN 2004). The top U.S. firms are Citigroup with card loans of $119.8 billion, followed by MBNA ($85.8), Bank One ($76.3), JPM Chase ($52.3), and Discover ($48.4) (Cardweb.com 2003). Today, the average family has six credit cards with an average credit line of about $3,500 (Draut and Silva 2003). Rates charged by credit card companies vary. The average fixed annual percentage rate is about 11.97 percent. The variable rate ranges from 4 percent to 21.1 percent (CAN 2004). Credit card debt can grow very fast when consumers make minimum payments at interest rates that are relatively high, and when late and over-limit fees pile on top of outstanding balances.

High credit card debt also has been traced to the disappearance of state usury laws.[4] Interest rate caps have become largely irrelevant with deregulation of the banking industry and the fact that most credit card issuers are based in states without usury laws. This change in the banking industry has made credit card lending more profitable than any other type of lending (Federal Reserve Board 1997). Further, increases in fees and late penalties have become the fastest source of revenues in the industry (Drout and Silva 2003).

CREDIT CARD DEBT

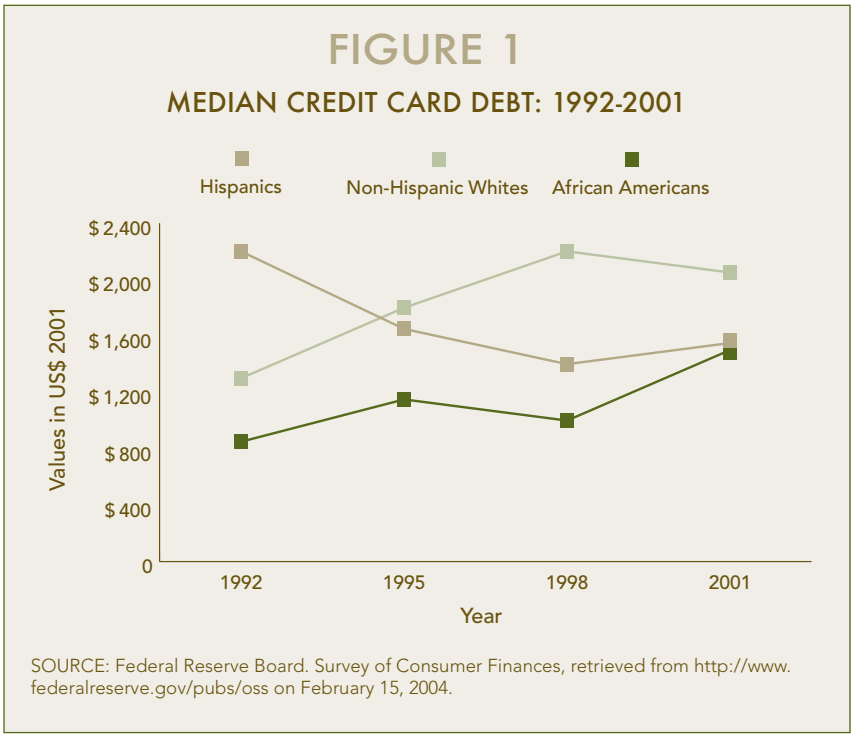
According to the National Survey of Consumer Finances, Hispanic families in 2001 were more likely (45 percent) to have credit card debt than non-Hispanic whites (35 percent), but less likely than African Americans (50 percent). Between 1992 and 2001, average credit card debt among Hispanic families rose by 26 percent (adjusted for inflation) from $2,911 to $3,672, a smaller gain than those displayed by non-Hispanic whites (42 percent) and African Americans (44 percent).[5] Thus, Hispanic families owed approximately $12.7 billion in credit card debt in 2001, less than non-Hispanic whites ($79.8 billion) but more than African Americans ($5.0 billion).

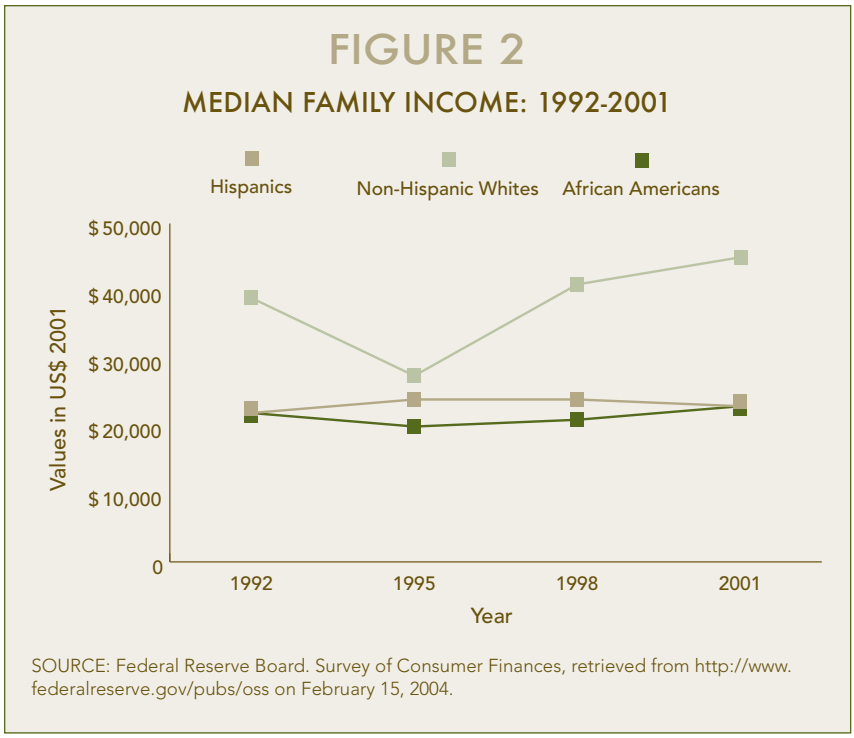
Average family income also grew during this period but at a somewhat slower pace than average credit card debt. The largest gap was found among Hispanic families whose mean credit card debt grew at an annual rate of 3.7 percent compared with a 3 percent growth in mean income. Mean credit card debt among Hispanic families appeared to be positively correlated with mean family income, increasing when income rises and vice versa, but the relationship was weak or not statistically significant. The same was true for the other two groups.

[4] Usury is the act of collecting or contracting to collect interest at a rate over the legal limit. Every state has some laws regulating the amount of interest that can be collected. The laws usually relate to interest collected in consumer credit transactions. Most states do not have any regulation of the interest rate that can be charged in a commercial transaction (SmartAgreements.com).

[5] These numbers are rather conservative since SCF's respondents tend to underreport the various types of household debt (see Drout and Silva 2003).

In sharp contrast, median credit card debt, a more representative measure because it excludes the influence of extreme values, declined by 26 percent among Hispanic families, from $2,148 in 1992 to $1,600 in 2001. It edged up by 23 percent from 1998-2001, but it remained below its 1992 peak (Figure 1). Overall, it declined at an average rate of 2.4 percent per year. At the same time, median family income among Hispanic families rose very modestly during 1992-2001, growing at an annual rate of about 1 percent. Notice that after posting a 14 percent gain between 1992-1995, median income fell by 3 percent from 1998-2001 (Figure 2).





African American families experienced the largest relative increase in median credit card debt, which almost doubled during the 1992-2001 period. The same measure rose steadily among non-Hispanic whites, but it dropped slightly to $2,000 in 2001. Except for Hispanic families, annual growth in median credit card debt outpaced median income growth for the 1992-2001 period.

The median family income of Hispanics was found to be a negative predictor of median credit card debt, with 87 percent of the variation in debt explained by variations in income. This particular result was based on only four observations, so it should be viewed as tentative and must wait further research. Nonetheless, the negative relationship suggests that when income rises, the typical Hispanic family uses less credit or pays off some of the credit card debt, but when income falls, the family uses more credit. The latter implies that some families are relying on

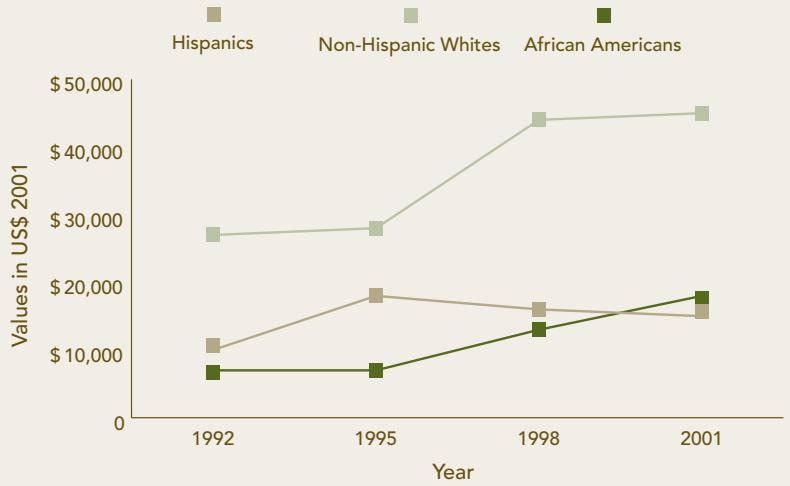
credit to cope with economic hardship, or as hypothesized by Draut and Silva (2003), these families are borrowing to make ends meet.

TOTAL DEBT

Among Hispanic families, mean total debt jumped by 18 percent, from $38,511 in 1992 to $45,322 in 2001. This relative shift was greater for non-Hispanic whites (63 percent) and African Americans (33 percent). Between 1992-2001, average total debt growth topped income growth only for African American families. In 2001, Hispanic families owed about $253.4 billion in total debt, compared with $3,083.0 billion for non-Hispanic whites and $99.6 billion for African Americans.

FIGURE 3

MEDIAN TOTAL DEBT: 1992-2001



SOURCE: Federal Reserve Board. Survey of Consumer Finances, retrieved from http://www.federalreserve.gov/pubs/oss on February 15, 2004.

As shown in Figure 3, Hispanic families experienced the smallest relative increase (37 percent) in median total debt and African American families the largest (183 percent). Notice that median total debt among Hispanics increased by 60 percent from $11,308 in 1992 to $18,142 in 1995, a shift which was five times higher than that of non-Hispanic whites and almost 40 times higher than that of African Americans. However, after reaching its peak in 1995, median total debt for Hispanics gradually declined for the rest of the period examined. The other two groups posted increases, with the typical African American family almost doubling its total obligation between 1995 and 1998, and adding 45 percent from 1998 to 2001. Between 1992 and 2001, annual growth in median total debt exceeded median income growth for all groups.

Median income turned out to be a strong positive predictor of median total debt among Hispanic families. This means that when income increases, total borrowing expands for the Hispanic families, and vice versa. This contradicts the negative relation found between median credit card debt and median income, and it calls for further research on the subject. This apparent inconsistency may well reflect the influence of higher debt existing among mortgage holders or other factors not taken into account in the analysis. For white and African American families median credit card debt and median income moved in the same direction but the relationship was statistically weak or insignificant.

CREDIT CARD HOLDING

Judging by the numbers described above, credit cards have become an important financial tool for Hispanics to purchase goods and services. This is not surprising since credit cards today are universally accepted as money. Supermarkets, department stores, gasoline companies, lawyers, doctors, movie houses, sport and cultural events take credit cards. They are also essential to make airline reservations and car rentals. Even the Internal Revenue Service accepts credit card payments. Thus, credit cards have become more of a financial necessity to function in U.S. consumer markets. They are convenient and safe since the person does not have to carry much cash (Bilker 1996).

Nonetheless, a closer examination of SCF data reveals that while more Hispanics had credit cards in 2001 than in 1992 (53 percent vs. 43 percent), they were less likely to have a credit card than non-Hispanic whites (82 percent) or African Americans (50 percent). This is not surprising since many Hispanics still remain disconnected from mainstream financial services. Recent immigrants, in particular, are not used to making purchases with a credit card. According to the American Bankers Association, and as reported by the national press, only 12 percent of purchases in Mexico are made with debit or credit cards (Pacelle and Lyons 2004). Lack of understanding or distrust of the financial system also prevents some Hispanics from having a bank account, which is paramount to obtaining a credit card. In addition, job instability and low income may discourage mainstream financial institutions from extending credit. Due to these unfavorable conditions, some Hispanics may turn to subprime lenders to satisfy their demand for credit (Carr and Schuets 2001). Subprime financial markets, however, usually charge relatively higher interest rates and loan fees. As recent as 2002, Hispanic homeowners were 2.5 times as likely as non-Hispanic whites to receive a loan for a home purchase or refinance from a subprime lender (Center for Responsible Lending 2004).

TABLE 1

PROPORTION OF HISPANIC FAMILIES WITH MONTHLY DEBT PAYMENTS EXCEEDING 40 PERCENT OF THEIR INCOME AND REPORTING LATE PAYMENTS (2001)

	MONTHLY DEBT PAYMENTS EXCEEDING 40 PERCENT	WITH LATE PAYMENTS
AGE GROUP		
< 35	10%	18%
35 – 44	14%	13%
45 – 54	15%	9%
> 54	29%	5%
INCOME		
< $20,000	28%	20%
$20,000 - $39,999	10%	10%
> $39,999	9%	9%
HOMEOWNERHSIP		
Rent	5%	21%
Own	21%	6%
EDUCATION		
No high school diploma	16%	14%
High School diploma	13%	11%
Some college	13%	16%
College degree	13%	8%

Source: Survey of Consumer Finances, 2001.

FINANCIAL DISTRESS

The earlier discussion on trends in credit card debt and total debt does not provide a clear picture of financial hardship among U.S. Hispanics since it focused on the average and the median family. To have a better idea regarding Hispanics who may be experiencing financial problems or may be on the brink of financial disaster, one can rely on two indicators of financial distress available in the SCF: the proportion of families whose monthly debt burden exceeds 40 percent of their

income and those who had any payments more than 60 days past due during last year (Table 1).

As of 2001, SCF data showed that more Hispanic families appeared to be spending a greater proportion of their income to cover debt payments. On average, monthly debt payment as a proportion of monthly income was higher (31 percent) for Hispanics than for non-Hispanic whites (22 percent) or African Americans (22 percent). In addition, Hispanic families were more likely to have debt payments in excess of 40 percent of their income. The question is, which Hispanic groups are more likely to be at risk?

Table 1 illustrates financial distress among Hispanic families by selected demographic characteristics and homeownership. Hispanic families with monthly payments exceeding 40 percent of their income were more likely to:

- Be older (29 percent)
- Have lower income (28 percent)
- Own a home (21 percent)
- Have limited education (16 percent)

Those with at least one payment 60 days past due in the preceding year were more likely to:

- Be young (18 percent)
- Have lower income (20 percent)
- Rent (21 percent)
- Have some college (16 percent)

These groups are feeling the financial pinch, and represent a potential market demand for credit counseling services. In the case of homeowners, however, financial distress may be viewed as the price of enjoying the benefits of homeownership. In other words, some families may incur a high debt burden in exchange for owning a home.

The Credit Counseling Industry: Brief Description and Criticisms

Facing high credit card debt, more U.S. families are turning to the myriad of consumer credit counseling organizations, which provide credit counseling, debt reduction services, and financial education to debtors. Credit counseling organizations can be nonprofit or for profit. In California, nonprofit operators are exempted from state licensing by a 1968 legislation (AB 1806). They can accept compensation (i.e., fair share contributions) from credit card companies, which account for about 60 percent of the credit counseling organization's operating budget (CDC 2003). In exchange, they have to comply with strict state regulations, including limitations on consumer fees equivalent to 6.5 percent of the monthly installment disbursed to the credit card companies or $20, whichever is less (amended January 1, 2005, to 8.0 percent or $35). They also can charge a $50 education and counseling fee.

In comparison, California for-profit organizations must be licensed by the state and can accept compensation only from the debtor, not from the credit card companies or the banks. As a result of these rules, for-profit firms have practically disappeared from the state (CDC 2003). Lately, creditors have substantially reduced financial support for nonprofit credit counseling services, depriving them of one of the most important sources of funding for free personal financial literacy classes (CDC 2003).

To obtain legitimacy and credibility, nonprofit consumer credit counseling organizations may seek membership in two national trade associations: the National Foundation for Credit Counseling (NFCC) and the Association of Independent Consumer Credit Counseling Agencies (AICCCA). The NFCC, one of the largest credit counseling trade organizations, has about 1,300 member locations throughout the country. The AICCCA, another large association, and other independent operators have about 45 percent of the market nationwide (CDC 2003). In 2000, more than 1.5 million consumers contacted NFCC member agencies. In California, one can find a small number of AICCCA members with Spanish names (e.g., Solideudas and Deuda Fácil) located in predominantly Hispanic areas and designed to attract Spanish-speaking consumers in need of services.

Consumers who have too much debt, or no longer can repay their credit card debt, can enroll in a DMP, resort to a debt settlement, or file for bankruptcy.[6] These options are not automatic since the first two have to be endorsed by the creditors and the third option has to be approved by the court. To enroll in a DMP, most consumers have to seek the assistance of a credit counseling agency. But the burden is on the consumer and the credit counseling service to show evidence of financial hardship and persuade the creditors to accept the DMP as a means to pay off credit card debts. Once enrolled in a DMP, the consumer makes monthly payments to the credit counseling agency, which disburses the money among various creditors. In exchange for enrolling in a DMP, the creditors often agree to reduce interest rates. Late fees and penalty charges are often waived. The payment due dates established by creditors can be changed as well.

According to one study, credit counseling organizations provide tangible benefits of about $2,500, which includes the reduction in interest rates, late fees, and over-limit fee waivers. These benefits exceed the cost of DMP fees (CDC 2003). Other research indicates that consumers undergoing credit counseling experience significant improvement in credit scores, fewer late payments, lower credit card balances, and

[6] In a debt settlement or debt negotiation, a credit counseling service or a lawyer tries to negotiate the settlement of the consumer's debt for less than the full amount owed. The debtor usually is asked to stop making payments to creditors. As a result the debt continues to accumulate until negotiation takes place. Debt negotiation is an alternative to bankruptcy, and opinions vary about its effectiveness in settling consumer debt. According to the Federal Trade Commission, debt settlement costs the consumer more and ultimately ruins credit (FTC 2004b). Others disagree. Debt settlement, when handled properly and honestly, can be an alternative to a DMP and bankruptcy. Because the debt is negotiated for pennies on the dollar, the debtor receives a substantial reduction on his/her credit card balance without having to file for bankruptcy. In general, prime lenders are reluctant to lend to consumers who have negotiated settlement of their debt or filed for bankruptcy. These consumers often have to resort to subprime lenders to obtain credit again. According to experts, bankruptcy has the greatest negative effect on the person's credit record (Weston 2004a).

less frequent use of credit lines compared to similar consumers who do not have counseling (NFCC 2002; Staten, Elliehousen, and Lundquist 2002).

Nonetheless, several studies are critical of the industry in general, charging that it is plagued with deceptive practices, excessive costs and abuse of nonprofit status (Consumer Reports 2001; Gardner 2002; CDC 2003; Loonin and Plunkett 2003; Yochim 2003; CRCS 2004; FTC 2004; United States Senate Committee on Government Affairs 2004;). In a nutshell, these critics suggest that consumer credit counseling services:

- Act as friendly collection agents for creditors yet serve two masters (i.e., consumers and credit card companies).
- Fail to disclose vital information to consumers, such as telling them that the agency receives the bulk of its funding from the credit card companies.
- Steer consumers aggressively toward debt management plans.
- Charge several hundred dollars in upfront fees, which masquerade as voluntary contributions.
- Keep consumers from filing for bankruptcy.
- Fail to send payments to creditors on time, hurting the debtor's credit record and triggering penalty fees.
- Steer debtors with homes to lending partners that make debt consolidation or home equity loans.

Loonin and Plunkett (2003) also point out that not all credit counseling firms exhibit these problems. Other reports suggest that while the practices of some of these organizations are predatory, many agencies are legitimate and effective in helping consumers. Legitimate and well-intentioned agencies providing DMP services help consumers pay off their credit card debt, stay out of bankruptcy, and at the same time help creditors recover their money (Consumer Reports 2001; CDC 2003; Weston 2004).

Experiences of Hispanic Immigrant Clients

Given the criticisms outlined above, the authors organized focus group discussions in Los Angeles to learn more about the experience of Hispanic immigrants with little or no English who use credit counseling services and who are actually enrolled in a DMP offered by several profit and nonprofit organizations operating in California. These sessions provided information on various topics, including reasons for seeking assistance, reservations about using the services, causes and consequences of high credit card debt, benefits received, and suggestions to make services more responsive to the needs of Spanish-speaking clients. While it is obvious that the sample size of the focus groups is too small to make valid generalizations, one cannot ignore the clear implication of the findings, especially for large U.S. urban areas with a high concentration of immigrants.

FIRST REACTION TO HIGH CREDIT CARD DEBT

Before visiting a credit counseling service and enrolling in a DMP, Hispanic immigrants participating in the focus group discussions attempted to deal with high credit card debt on their own by trying different alternatives.

- Bankruptcy was considered by about half of the participants. They did not pursue it because of the long-term negative consequence it would have on their credit history. It seems that first-generation Hispanics are very reluctant to file for bankruptcy.

- Another solution was to use a new credit card, which offered a lower interest rate, to pay some of the balances owed to other lenders, especially those charging higher rates. However, the lower rate was often temporary, increasing to higher levels after one year.

- A Mexican-origin woman tried to pay off the debt by making slightly larger payments, but soon realized that most of the payments only covered interest charges:

  "I tried for a whole year to deal with the problem on my own by paying a little bit extra here and there, with little money left to go out. But the balances did not change much from month to month. I asked them why my balances were about the same in spite of making my payments on time. They then told me that of the $100 I would pay, $90 was to cover the interest."

- Four of the participants tried to get a loan from a finance company, but the interest they had to pay exceeded that charged by credit card companies.

RESERVATIONS ABOUT USING CREDIT COUNSELING SERVICES

Opinions expressed in the focus group sessions indicated that credit counselors have a credibility problem in the Hispanic immigrant community. Practically everyone in both groups had concerns and doubts about using credit counseling services. Fourteen of the participants visited an agency, while the rest had home visits with a credit counselor. Either way, they all had reservations about the step they were about to take. Ruben, a 33-year-old high school graduate, was worried about the legitimacy of the agency. Four other participants had too much distrust to give out personal information. They also were suspicious because they learned of the service through television commercials, which usually over-promise and then deliver less. Maria, a 50-year-old mother, initially was ashamed to look for assistance. Victor, a 26-year-old single man, said he was particularly concerned with fraud.

INFORMATION SOURCES USED TO SELECT A SERVICE

The majority of participants learned about a credit counseling agency through television commercials. Seven participants were referred by relatives and friends. Radio announcements and advertising in Spanish magazines were two other sources used to decide which credit counseling service to choose. One woman said she learned about the agency she is currently using through a personal finance class she took at work.

REASONS FOR SEEKING ASSISTANCE

COPE WITH FINANCIAL HARDSHIP

This was the most important reason for seeking assistance. It was very difficult for participants to balance credit card payments with basic household expenses, such as food, shelter, transportation, and medical care.

OBTAIN LOWER INTEREST RATES

Respondents overwhelmingly said they sought assistance with the idea of reducing finance charges and consolidating several payments into one. For example, José, a 37-year-old Mexican-origin man with 13 credit cards, said he saved on interest charges and cut the number of payments from 13 to one.

PRESERVE GOOD CREDIT

Another reason mentioned for seeking assistance was to preserve good credit. All participants were very concerned with paying off their credit card debts to avoid damaging their credit history. Two women in particular were worried about ruining their credit.

CAUSES OF HIGH CREDIT CARD DEBT

HIGH INTEREST RATES

Participants said they simply could not continue to afford the higher monthly payments brought on, in part, by steep finance charges, which ranged from 19 to 24 percent.[7] Since most of the minimum monthly payment was allocated to interest, the remaining balance changed little. Therefore, to pay off the credit card debt would have taken many years. Credit card debt among participants varied as follows:

BALANCE	PARTICIPANTS
< $1,000	2
$1,000 - $4,000	3
$5,000 - $10,000	9
> $10,000	6

Based on grouped data, the average credit card balance was approximately $6,800 and the median was $7,333. These numbers are higher than the earlier statistics obtained from the SCF, probably due to underreporting of debt in the SCF and differences between the SCF and focus group samples.

Coping with these high levels of credit card debt can be overwhelming and endless for many families. For example, a $5,000 credit card debt would take as many as 50 years to pay off, assuming a 19 percent annual rate, a minimum payment of 2 percent of the remaining balance or $10 (whichever is higher), and no late penalties and annual fees. Total interest would amount to about $16,000. It would take much longer and require more interest to pay off a $5,000 balance with a 24 annual percentage rate.

[7] During this time, the prime rate (i.e., the rate that major banks charge their best customers was 4.25 percent (see Los Angeles Times, Money Rates, July 31, 2004, p. C4.).

LACK OF FINANCIAL SKILLS

Some consumers lacked financial skills and overused credit without knowing how to manage it. Eleven of the 20 participants agreed that when special days arrive (e.g., Christmas, graduation, birthdays, weddings) they spend "uncontrollably." Alicia, a middle-aged Mexican-origin woman, said that because she had access to several credit cards she used them with little restraint and overextended her credit. She was on the brink of financial ruin:

"I resorted to the [credit counseling] agency because I lost control over my credit cards and bought things I didn't need. I had many cards, and one tends to fill the vacuum created by personal problems by shopping without even realizing the amount of money spent."

Maricela, an employed Mexican-origin woman in her forties, agreed with Alicia and admitted that poor financial planning led to overspending:

"Well, I cannot speak for the rest. But my husband and I did not have a household budget and continued to buy presents for family and friends during birthdays and holidays, and kept on dining out... One gets to a point in which expenditures surpass the money that comes in. In contrast, I see that my sisters have greater control, but my husband and I did not have a clear goal and didn't know how to live within our means."

Victor, a young college graduate, explained that lack of financial skills was to blame:

"One has to be more conscious in using credit cards... people have to look carefully to how much money they make and how much they spend."

AGGRESSIVE MARKETING BY LENDERS

Participants also believed that aggressive marketing by credit card companies entices consumers to borrow more and increase their debt load. Nine of the participants agreed with the following statement made by Benjamín, a young man:

"Credit card companies are also to blame [for our financial problems] because they make the use of credit a lot easier at the very beginning, so people get hooked into buying on credit without reflecting on how much money they are spending."

Easy access to credit cards creates a temptation for people to use them. According to Maria, her son is constantly receiving credit card offers at school, but she always advises him to reject them until he is employed and can pay for them.

LOSS OF INCOME

Reduction of income associated with loss of employment or illness was a cause for increasing credit card balances. Linda, a married Mexican-origin woman in her early thirties, said:

"Well, I had been working at this place for nine years, and based on my income I was able to get a loan to buy a car. But six months later I lost my job... I wasn't expecting that since I was counting on steady employment."

Two other participants resorted to their credit cards to cover daily living expenses when they lost their jobs. Another woman in her mid-forties mentioned that hospitalization forced the family to rely on credit cards to cope with the loss of income and health care expenses.

CONSEQUENCES OF HIGH CREDIT CARD DEBT

Hispanic immigrants participating in the focus group discussions said high credit card debt has a negative impact on them personally and on the community at large.

EFFECT ON PARTICIPANTS

High credit card debt causes financial hardship among consumers. As seen earlier, this is the main force pushing consumers to seek assistance from the credit counseling industry. Financial hardship created by high credit card debt affected the economic and physical welfare of the group. For example:

- Two individuals had to refinance their home to pay off part of their credit card balances.
- Various participants agreed that they have experienced a great deal of stress.
- Others said they suffered from depression, high blood pressure and low self-esteem.

EFFECT ON THE COMMUNITY

They all agreed that high credit card debt is common these days, and has an impact on other people as well. Every participant knew of other persons who had difficulty coping with financial problems brought about by excessive credit card debt. While anecdotal, this information has negative implications for the community at large.

- A middle-age Mexican-origin woman said she knew someone who tried to commit suicide.
- Another participant spoke about a friend who was forced to file for bankruptcy.
- Several persons in the groups expressed concern about easy access to credit cards among young people, some with very little experience on managing credit.

Nonetheless, something positive emerged from the financial problems experienced by these immigrants. Several said the experience prepared them to manage credit card debt better in the future and to teach their children not to make the same mistakes.

CREDIT COUNSELING SERVICES MOST LIKED

LOWER INTEREST RATES

All participants concurred that enrolling in a DMP did not reduce their credit card debt principal balance. But the credit counseling service was able to negotiate lower finance charges with the creditors. Rate reduction also depended on the efforts of the credit counseling service, on the credit card balance, and on payment punctuality by the client. The reported interest rate reductions obtained were as follows:

Rate Reduction	Participants
1% - 5%	7
6% - 10%	8
More than 10%	1

Thus, enrollment in a DMP reduced finance charges by an average of 6.4 percentage points. The median reduction was a little less (5.6 percentage points). By using the earlier example in which a 19 percent annual interest rate was assumed to calculate total interest and number of years to pay off the debt, one can estimate the savings resulting from a 6.4 point reduction in the interest rate. In this case, the interest rate would decrease from 19 percentage points to 12.6 percentage points or by one-third. Thus, a $5,000 credit card balance at this lower rate would reduce the number of monthly payments by about 25 years and total interest paid by approximately $11,000. Thus, a significant saving in interest can be realized when creditors are willing to work with counseling agencies and DMP enrollees, and make generous concessions on finance charges.

ONE SINGLE PAYMENT

Another feature well liked by participants was the ability to combine many credit card payments into one, which is paid to the credit counseling service.

MODEST SETUP FEES

A benefit often mentioned was that some agencies do not require a large sum of money as a condition of client's enrollment in a DMP. Benjamín, a married Mexican-origin man in his thirties with two small children, said:

"Before we picked this agency, we were going to use another one that charges about $650. This sum is in addition to the monthly payment we had to make to pay off our debt. A friend warned me that it was too much and he recommended the service I am using now."

PERSONAL FINANCIAL LITERACY

On the subject of financial literacy classes, some credit counseling services make them mandatory for DMP clients, but other agencies do not. Two women, who were required to take the class as part of their counseling, were satisfied with the class. Clotilde, a 56-year-old mother, praised the class:

"The course taught me how to use credit cards and how not to abuse them."

This comment was supported by most of the participants who thought that more education on managing their household budget and credit card use would have avoided their precarious financial position. Many of these individuals believe there should be more financial literacy classes available in the community, and that they should be offered free to everyone.

AVOIDING BANKRUPTCY

They all agreed that enrolling in a DMP was preferable to filing for bankruptcy, which they considered to be a humiliating experience.

INCREASING CONFIDENCE

About one-half of the participants felt "psychologically better" after paying off some of their credit card debt via DMP enrollment.

CREDIT COUNSELING SERVICES LEAST LIKED

While there were several complaints and dissatisfaction with the current services, the responses varied, reflecting the diversity of credit counseling agencies chosen by participants. Less than half of the Hispanic immigrants attending the focus group sessions would recommend the agency they were using to other people. This response was evenly distributed across the various agencies offering DMP services to participants. They complained or did not like the credit counseling service because it:

- Kept part of the monthly payment and did not forward it to creditors.
- Charged different fees to administer the DMP; in some cases it fluctuated between $25 and $35 per month. In other cases, it varied from $2.50 to $5, depending on the number of credit cards.
- Required an initial payment, which ranged from $49 to $460, depending on the credit counseling service. Mirna, a 38-year-old married woman, stated:

  "When I signed the DMP contract, they asked me for a down payment of $460 just to draw the plan. None of the money would go to pay my credit card debts. But I was too desperate and didn't know what to do. Then I told the counselor that I didn't mind and would gladly pay the high fee if the plan was going to work."
- Did not make timely monthly disbursements to creditors, which, in turn, charged penalty fees to participants for being late on their payments. Almost half of the participants complained about this problem.
- Underestimated the time to pay off the credit card debt stipulated in the contract.
- Failed to convince certain creditors to reverse late fees.

- Charged for teaching courses in personal financial literacy or credit management.

- Offered DMP contracts and documents in English, which had to be verbally translated by the credit counselor.

Other participants expressed concern about being able to keep up with the DMP payments because they had to tighten their belt considerably to meet their financial obligations and at the same time cope with essential household expenses.

PERCEPTION OF BARRIERS TO USING CREDIT COUNSELING SERVICES

Participants were asked why credit counseling services were not more widely used. A young man responded that there is little information in Spanish:

"Lack of information in Spanish, and now that there is widespread fraud [in the industry] one does not know whom to trust and where to go... One does not know how to choose an agency to ask for assistance."

Equally concerned was another participant who expressed a fear of being deceived and losing the money to unreliable counselors. Lack of education and distrust of the financial system was an additional reason for not requesting assistance.

OTHER ISSUES

To find out whether credit counseling services were informing immigrant clients properly, two questions were specifically asked to the 13-member focus group. Participants were asked whether they received estimates of the time it would take to pay off the credit card debt. While they said they did receive written estimates ranging from two to three years, they all agreed that the stipulated time had been underestimated. Regarding the question about whether filing for bankruptcy was discussed as an option, none of them remembered the credit counselor broaching the subject.

SUGGESTIONS FOR IMPROVING SERVICES

While some participants were critical of credit counseling services, they suggested ways to improve them. The majority agreed that credit counseling agencies should provide bilingual counselors if they are to meet the needs of Hispanic immigrant clients. Most of them agreed that there is lack of education and information on the use of credit cards and the related financial risk. In general, they believed more education in Spanish and a better understanding of the financial system, especially the use of credit cards and its associated costs, would have helped them avoid their financial problems. Participants suggested the following:

- More Spanish speaking counselors should be employed in the industry.

- Since monthly statements to clients are in English and often are hard to understand, an effort should be made to provide them in Spanish and in user-friendly formats.

- Contracts should be available in Spanish.

- Existing contracts that have been translated into Spanish should be simplified since they are complicated and difficult to read; the meaning of many words is not clearly understood; and the math used to calculate payments is confusing.

- Before signing the DMP contract, clients should be given more information about the advantages and disadvantages of this approach.

- More accurate information regarding the time it will take to pay off the credit card debt should be provided.

- More moderate fees.

- Personal financial literacy, household budgeting and credit management classes should be offered in Spanish and should be free to clients and the community.

Filed Complaints

A review by Los Angeles County's Department of Consumer Affairs (DCA) files found 11 valid complaints filed in Spanish since 2001. The complaints fell into various categories and, in some cases, confirmed some of the concerns voiced by those who participated in the focus group discussions. They also illustrated the abuses perpetrated against non-English speaking Hispanics by unscrupulous industry operators.

The small number of complaints in an area as large as Los Angeles County is understandable. Lack of English language skills, cultural barriers, scant information, lack of awareness of consumer protection laws, and limited time prevent many Hispanic immigrants from taking advantage of public services that are designed to address consumer fraud. The complaints reviewed, however, revealed that some non-English speaking Hispanics were often desperate for assistance and willing to sign a contract without properly checking the credentials and legitimacy of credit counseling operators. They sometimes were victim to dishonest agents who lied or mislead them, and took their money without providing any services. Credit counseling services also took advantage of Spanish-speaking clients by making false promises, failing to comply with the application contract, or simply ignoring repeated client requests to rescind the contract. A summary of the complaints follows.

EXTRACTION OF A LARGE DOWN PAYMENT TO START DMP APPLICATION

Credit counseling service agents acting alone, or in association with the credit counseling organization, visited the homes of overburdened consumers and extracted down payments as high as $900 as voluntary contributions. In some cases, false promises were made to reduce the size of the debt by 50 percent. One client was driven to an ATM machine to obtain the down payment in cash. Some of the down payments were never received by the credit counseling service. When telephoned by the client to inquire about the transaction, the agency had no record of it. There was one particular case in which the money was returned after the client filed a complaint with DCA.

A PROMISE TO FREEZE CREDIT CARD BALANCES

After the credit counseling service promised a freeze on all credit card balances and no additional penalties, and after the client made payments to the credit counseling service for eight months, the client's credit card balances continued to climb.

ASSURANCE TO REDUCE CREDIT CARD DEBT BY 50 PERCENT

A man with a total debt of $22,000 was assured by an out-of-state credit counseling service that his debt would be decreased by 50 percent and penalty fees would be waived by creditors. A down payment of $5,248 was made as a good faith effort to open negotiation with creditors. The client subsequently rescinded the contract. All the money was returned except for $348, which the credit counseling service claimed was used to cover expenses.

CONTRACT VIOLATION

After promising in writing to return a client's $120 down payment, the credit counseling service, located in New Jersey, refused to honor the contract. Intervention of DCA was necessary for the money to be returned to the client.

FAILURE TO MAKE TIMELY PAYMENTS TO CREDITORS

Monthly payments made by a client to a credit counseling service were not reaching creditors on time, which resulted in late penalty fees added to the client's credit card account.

The Internal Revenue Service is currently devoting resources to investigate tax-exempt consumer credit counseling organizations to detect noncompliance with federal tax laws. The thrust of the effort is rather limited since only 50 credit counseling agencies nationwide are being investigated. The IRS hopes to prevent abusive practices and profiteering in the industry. (Everson 2004).

Industry Best Practices

After analyzing the information collected from large NFCC member credit counseling services operating in California, the authors made site visits to learn more about these organizations. Personal interviews were conducted with three CEOs, and program and educational materials reviewed. Anticipating increasing demand by Hispanic immigrants with little or no English language ability, these organizations have designed programs and documentation specifically tailored to this market. This section presents a summary of the data gathering effort, and identifies successful practices that address the needs of non-English speaking Hispanics.

SUMMARY OF EXEMPLARY INDUSTRY PRACTICES:

- Membership in FCCC and AICCA
- Bilingual Personnel
- Qualified/Certified Personnel
- Regular Assessment of Customer Satisfaction
- Outside Referrals When Appropriate
- Personal Financial Literacy Workshops
- Utilization of a Fee Schedule
- In-Person Credit Counseling
- Debt Assessment Session
- Personalized Written Action Plan
- Written Contract for DMP Services in Spanish
- Payroll versus Commission-Based Credit Counselors

The credit counseling organizations responding to the survey serve between 1,800 and 29,900 clients per year. The number of Hispanics currently enrolled in a DMP varies with the size of the firm, from 700 to 3,700. On average, close to one-third of these enrollees do not speak English. The typical credit card balance among DMP clients is about $15,000, ranging from a minimum of $5,000 to a maximum of $19,000. As reported in the survey, average reduction in interest rates obtained from creditors fluctuates between 9 percent and 50 percent. On average, only 30 percent of clients enrolled in a DMP ultimately complete it.

The following practices were found to be exemplary and should be emulated by the rest of the industry. It must be emphasized that some of these practices are a product of (1) the strict regulatory environment under which nonprofit credit counseling agencies operate in California, and (2) membership in NFCC and AICCCA. Recent legislation (AB 403), for example, prohibits credit counseling organizations from offering incentives to counselors to push clients into DMPs. These exemplary practices also should be helpful in assisting consumers in the selection of a credit counseling agency.

MEMBERSHIP IN FCCC AND AICCCA

Membership in long-term established national associations of credit counseling, such as NFCC and AICCCA, may help agencies establish credibility in the community. To be a member of these associations, the agency must adhere to a universal code of ethics, service quality standards, and best-practices guidelines. These rules address important principles member agencies must adopt, including fair fees, disbursements of funds to creditors, electronic transmittal of funds, DMP inception dates, access and availability, proper counseling, personal finance education, resolution of complaints, and fiscal integrity (NFCC 2004; AICCCA 2004). In general, membership in the local Better Business Bureau is indicative of good business practices as well.

BILINGUAL PERSONNEL

This is a fundamental step in addressing the needs of the Hispanic immigrant community, especially those who cannot speak English. To serve the needs of this special market, some of these agencies employ bilingual, bicultural personnel who can fully understand the Hispanic client and relate well to immigrant culture. Bilingual personnel are fully available at different stages of the process, including the client's initial contact with the agency, counseling, referrals to other community resources, DMP preparation, and continued assistance and support to address ongoing client needs.

PERSONNEL QUALIFICATION

Best practices also are reflected in the agency's employment of bilingual personnel who are certified to perform financial analysis of the client's budget and provide proper advice and financial management services. Financial certification from NFCC, the Institute of Personal Finance, and other accredited educational institutions indicate that counselors are qualified to assist clients.

CUSTOMER SATISFACTION

Agencies that are committed to addressing consumer needs regularly conduct customer satisfaction surveys. By taking the pulse of the client base, these surveys evaluate the agency's overall performance and effectiveness. The surveys provide vital intelligence regarding how to improve services, market a better product, expand the client base, and keep customers happy. These surveys are not often translated into Spanish, however.

REFERRALS

The goal of helping consumers does not stop with the development of a DMP. Sometimes the DMP is not the best fit for the client's needs, which may require a different type of assistance. Community-oriented credit counseling agencies will provide referrals to the appropriate social, health or legal services.

COURSES IN PERSONAL FINANCIAL LITERACY

While sources of funds are shrinking for many community-oriented credit counseling agencies, there are a few that continue to provide free services to clients, especially financial education seminars, personal financial literacy classes, and educational materials. Courses in personal financial literacy teach consumers household budgeting, proper use of credit, savings, investment and planning for retirement. To meet the needs of non-English speaking Hispanics, some credit counseling services offer these classes in Spanish. Textbooks, brochures and other educational materials are also translated into Spanish.

The classes are offered free to clients as long as there is a grant, usually provided by the lender, to cover the cost. Otherwise, a maximum service charge of $50 is applied because this fee is regulated by California law. In exchange for the grant, lenders often require the credit counseling service to evaluate and document learning among clients who take the class.

FEE SCHEDULE

Documented evidence of a fair fee structure, clearly explained and written in Spanish, is available from some of these agencies. The fee schedule identifies charges for different services and for educational seminars. None of these agencies require large down payments or high fees, voluntary or contributory, to enroll in a DMP, which is a powerful signal for consumers. On August 27, 2004, the California governor signed into law AB 403, which allows a small increase in DMP fees but still limits them to a one-time sum not to exceed $50 to cover education and counseling in connection with the development of a DMP, and 8 percent of the money disbursed monthly or $35, whichever is less. This law went into effect on January 1, 2005.

One of the CEOs reported that his organization voids the fees for clients whose income is below the official poverty line. According to this CEO, "most of the ethical credit counseling agencies will never deny

services to anyone who is unable to pay the usual fees." In this case, the agency uses these low-income families to demonstrate need and apply for grants offered by lending institutions to subsidize the services.

IN-PERSON CREDIT COUNSELING

In contrast to telephone counseling, in-person credit counseling is extremely attractive to non-English speaking immigrants seeking assistance with their credit card debt. This is a practice found in all of the agencies that responded to the survey. A statement of counseling services in Spanish is also provided to clients. It outlines services the agency will provide, and includes information the agency is required by law to disclose to the client such as creditors' role in funding the services, and fees.

DEBT ASSESSMENT SESSION

A debt assessment session conducted in Spanish and using a cash flow analysis form itemizing income and expenses is used by some of the credit counseling services regardless of whether the person ultimately enrolls in a DMP. The credit counselor uses the results as criteria to determine whether a DMP is the most viable and beneficial alternative for the client. This step is essential for English as well as non-English speaking clients to fully understand their financial position and its possible ramifications. A complete and accurate financial assessment takes between 45 and 75 minutes depending on the complexity of each case.

WRITTEN ACTION PLAN

A good practice of some consumer credit counseling services is to provide an individualized written action plan with specific instructions for the clients to follow. It reminds clients of the monthly payment date and the amount required; provides dates the clients can attend a workshop on personal financial literacy; reminds them to call lenders to change due dates of credit card payments; and provides a list of non-essential expenses to be reduced. A written action plan is a good practice because many clients are under stress when attending a counseling session or enrolling in a DMP, and they may not remember everything the counselor recommends. This written action plan is provided in English and Spanish by some agencies.

WRITTEN AGREEMENT

An agreement or contract for DMP services in Spanish is essential to specify and fully understand mutual obligations in the transaction. A good agreement outlines the following:

- Monthly payment to credit counseling agency
- Payment due date
- DMP fees
- Projected number of monthly installments to pay off credit card debt

The agreement also discloses information required by law:

- Right of client to terminate agreement at any time
- Receipt of monthly statements of payments to agency
- Option to be referred to other services, including an attorney who can provide legal advice for declaring bankruptcy
- Role of lenders in financing the credit counseling service

COMPENSATION TO CREDIT COUNSELORS

All agencies responding to the survey compensated their counselors through salary or an hourly wage based on comprehensive performance metrics. They denied ever tying counselor's compensation to commissions based on client's total credit card debt.

CEO Reaction to Industry Criticisms and Other Issues

PUSHING CLIENTS TO ENROLL IN DMPS

The CEOs acknowledged that there are marginal operators who drive clients into DMPs, but maintained that the criticism did not apply to their organizations. One CEO said that only about 25 percent of clients who come in for counseling enroll in a DMP. Most are capable of self-administering their own repayment plan without the agency's intervention.

One organization has safeguards to make certain credit counselors do not abuse the DMP option. Since experience shows that roughly 25 percent of clients enroll in a DMP, this conversion rate is used as a safety check to ensure that credit counselors do not exceed that rate. When a counselor's conversion rate exceeds 25 percent, his/her work is evaluated to ensure that he/she is not being too aggressive.

NOT INFORMING CLIENTS OF FILING FOR BANKRUPTCY AS AN ALTERNATIVE TO A DMP

The CEOs denied the allegation that they never discuss with clients the possibility of filing for bankruptcy. While they do not deny that there is evidence showing that some credit counseling services fail to alert clients about the possibility of filing for bankruptcy, they maintained that the criticism does not apply to their organizations. One CEO emphasized that most clients try to seek assistance with their credit card debt precisely to avoid bankruptcy, since they want to repay their debts, and this is the case with most first-generation Hispanics. In cases where the home is at stake, there is too much to lose and the client tries to avoid bankruptcy at all costs. Two CEOs mentioned that between 5 and 30 percent of clients are referred to bankruptcy services because it is the only viable alternative. In this case, a list of law firms is given to the client without any specific endorsement regarding which one to choose.

DISCLOSURE OF CREDITOR'S SUBSIDY

Consumer credit counseling services also have been criticized for not telling clients that they are subsidized by creditors. According to one CEO, this is no longer valid in California, especially for NFCC's members, who entered into an agreement with the Federal Trade Commission to disclose the subsidy in the DMP contract. However, this agreement does not bind non-NFCC members.

FAILURE TO MAKE TIMELY DISBURSEMENTS TO CREDITORS

The CEOs argue that the credit counseling service is not always to blame for this problem. The issue is a source of confusion and misunderstanding. Clients may be late in paying or skip their monthly payments to the counseling service, which, in turn, is forced to delay or stop disbursements to creditors. Once the payment cycle is broken, disbursements to credit card companies do not take place, which triggers late fees.

While the client has to make only one payment, the counseling service has to make more than one disbursement to creditors when multiple creditors are involved. The payment due dates established by creditors oftentimes do not coincide with the payment due date specified by the counseling service. As a result, the counseling service cannot pay creditors on time. To avoid this problem, clients are told to change the creditor's due date to correspond with the client's payment date to the counseling service. For this to happen, the client must petition the credit card company in writing. Sometimes, these requests are not immediately honored. Consumer credit counseling services have little control over this problem since only the client and the creditor can negotiate the credit card payment due date. Credit counselors are not allowed to participate in the negotiation to change payment due dates.

ON SERVING HISPANICS BETTER

The CEOs believed that some Hispanics do not use credit counseling services because of the following reasons:

- Lack of service information in Spanish
- Lack of knowledge about credit and debt management services
- Service fees are viewed as too high
- Shame in admitting difficulty in making credit card payments
- Distrust of credit counseling services
- Not enough neighborhood branches due to reduced subsidy by creditors
- Reliance on immediate family for help

One CEO suggested that Hispanics, especially those with limited English-speaking ability, can be better served by increasing the number of credit counseling services in the community. This alternative, however, is limited by a recent reduction in fair share, or the operating subsidy that creditors provide to credit counseling services. Another CEO recommended greater involvement in community activities and associations to establish the agency's credibility in Hispanic neighborhoods, especially in non-English speaking areas. This particular organization has become very active in the local Hispanic Chamber of Commerce by hosting and attending events and making donations. It has partnered with United Way to teach financial literacy classes in the community. As expressed by one of the executives, the key is to find other credible partners and obtain their endorsement in order to increase the counseling service's credibility in the Hispanic community.

ON LENDERS' AGGRESSIVE MARKETING TECHNIQUES TO EXPAND CREDIT CARD USE

All the CEOs agreed that banks and credit card companies have to be more responsible in issuing credit cards. Consumers, in turn, have to be better educated in the proper use of credit. One CEO was particularly concerned with creditors' practice of selling delinquent portfolios to collection agencies, which engage in aggressive tactics to intimidate consumers.

ON USURY LAWS TO CAP CREDIT CARD INTEREST RATES

While interest rates are much lower than they used to be, credit card consumers are not receiving as much benefit as mortgage holders. In other words, lower rates are not being passed on to some credit card holders. The discrepancy between the rates charged to some customers and the prime rate is too wide to justify the higher credit card rates. Usury rates should be instituted at the national level since any state effort would be largely ineffective due to lenders ability to move their operations to states without usury laws. Borrowers would be better protected by limiting interest rates charged by lenders. One CEO mentioned that while there is a need to control interest rates, one must remember the critical role that some credit card companies and lenders play in serving consumers without the best credit. In this case, this CEO believed that higher finance charges are justified by higher lending risk.

Conclusions and Recommendations

This study examined credit card debt among U.S. Hispanic families, in particular, the experience of Los Angeles Hispanic immigrants in using credit counseling services to deal with high credit card debt, and specific industry practices that benefit the non-English speaking Hispanic market. In general, the study finds that while median credit card debt among Hispanics declined by 26 percent between 1992 and 2001, total debt jumped by 37 percent. The negative relationship found between the median family income of Hispanics and median credit card debt suggests that when income rises, the typical Hispanic family uses less credit, but when income falls the family does just the opposite. This particular finding implies that the family may be relying on credit to cope with decreases in income. The study also indicates that Hispanic families who are older, have lower incomes, own a home, and or have limited education are experiencing financial distress as measured by debt monthly payments exceeding 40 percent of income.

Based on focus group discussions with Hispanic immigrants residing in Los Angeles, the main causes of their high credit card debt include difficulty in keeping up with credit card monthly payments brought on by the high interest rates charged by credit card companies, poor financial skills in managing credit, lenders' aggressive marketing practices to increase credit card borrowing, and the loss of income due to unemployment or illness. Financial hardship brought about by high credit card debt seems to have adverse social consequences for the individual and the community as well.

Interviews conducted with CEOs of the largest nonprofit credit counseling organizations operating in California show that many Hispanics with high credit card debt seek assistance from credit counseling organizations to repay lenders. Nonetheless, Hispanic immigrants enrolled in a DMP expressed dissatisfaction and general distrust of the industry.

A limited number of complaints filed in Spanish with the Department of Consumer Affairs of Los Angeles County exposed abuses perpetrated against Hispanic immigrants by the very industry which is supposed to help them. On the other hand, data collected from large nonprofit California firms suggest that some of them have exemplary programs that address the needs of the Hispanic market.

To address existing problems effectively would require the cooperation of major stakeholders, such as consumers, the credit counseling industry, lenders or credit card companies, and government. Each has an important role to play. By working together much can be accomplished to improve the current system. The following recommendations should be viewed as a modest proposal. They include some of the suggestions articulated by participants in the focus group sessions.

RECOMMENDATIONS

- Credit counselors need to refine their services to satisfy the needs of non-English speaking Hispanic immigrants. Suggestions expressed by focus group participants include: more bilingual staff, availability of documentation in Spanish, user-friendly forms, information on other options to deal with financial hardship, and more personal financial literacy classes. Collecting data by language, race and ethnicity is likely to improve the industry's understanding of the needs and problems of minority consumers.

- Abuses and fraud perpetrated against Hispanic immigrants and consumers in general have given the credit counseling industry an image and credibility problem. To preserve or make inroads into these markets, the industry has to increase its credibility by policing itself more effectively and enforcing uniform standards more consistently.

- The credit counseling industry also should establish partnerships with creditors, state government and community organizations to expand its educational function in the

community through multilingual personal financial literacy classes. Outreach strategies need to be developed to break down cultural and language barriers to penetrate minority neighborhoods. This effort should help educate Hispanic immigrants and other minorities on the proper use of credit, and improve industry credibility in the community.[8]

- Creditors should offer more solutions to high credit card debt, including debt settlement plans. This will stimulate the credit counseling industry to provide these services to consumers.

- In addition to DMPs, the nonprofit credit counseling industry should expand its activities to provide debt settlement plans and full bankruptcy services. These options may be more viable and appealing to consumers who are trying to cope with insurmountable debt obligations. They also may entice the industry to be more objective when evaluating client needs and selecting the best option for the client.

- Government regulators and consumer protection agencies need to be more proactive in cracking down on illegitimate and abusive practices by credit counseling organizations to help rid the industry of unscrupulous firms.

- The credit card industry cannot escape its share of responsibility for creating financial hardship in the community. Since lenders receive substantial monetary benefits from their credit card operations, they should be more supportive of efforts by nonprofit counselors to provide personal financial literacy classes in immigrant communities.

- Creditors also should moderate their aggressive marketing practices by developing more stringent guidelines for credit card issuing, especially to young adults under 21[9], and increasing the minimum monthly payment to discourage over-borrowing among consumers.

- Government should consider setting limits on interest rates and late fees based on fair market rates of return. Interest rates of 19 to 24 percent charged to Hispanic immigrants participating in the focus group discussions are certainly suspect of being predatory, given that the prime rate was 4.25 percent at the time of this study.

- Non-English speaking Hispanic immigrants handicapped by language need to be better informed on how to choose a credit counselor. In particular, they should stay away from credit counseling services that operate outside state lines, do not have offices in the state, and do not offer bilingual services.

- Finally, as shown in this study, high credit card debt can have a negative individual and social impact. Except for bankruptcy, few of these negative consequences have been documented due to a greater focus by business and government on the economic benefits of buying on credit. More research in this area is needed.

Embracing these ideas and recommendations will not be an easy task, but it is certainly a goal worthy of pursuing if stakeholders are serious about addressing problems and criticisms, and incorporating a greater degree of social responsibility into their business practices.

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[8] Appearing before the U.S. Senate Committee on Banking, Housing and Urban Affairs, Raul Izaguirre, past president of the National Council of La Raza, remarked that "even a modest degree of financial literacy helps [Hispanic] families to stay away from harmful personal debt, fight discrimination, avoid predatory lending, and invest wisely" (Izaguirre 2002).

[9] This may be ultimately mandated by federal law. Senator Chris Dodd (D-Ct) has introduced legislation to forbid credit card ownership of persons under 21 years of age, unless the card is cosigned by a parent (ABI 2004).

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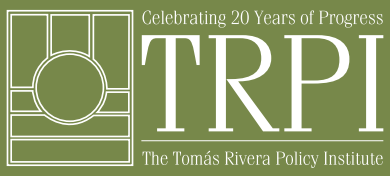
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