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Bankruptcy and Credit Counseling

Unfortunately, major debt is a reality in many Americans' lives. In October 2005, the Federal government passed a new bankruptcy law affecting millions of Americans. Among other things, the law requires individual or group credit counseling within 180 days prior to filing a bankruptcy petition.

The Federal Trade Commission has issued the following warning regarding Credit Counselors:

Everyday, companies nationwide appeal to consumers with poor credit histories. They promise, for a fee, to clean up your credit report ... The truth is, they can't deliver. After you pay them hundreds or thousands of dollars in fees, these companies do nothing to improve your credit report; most simply vanish with your money.

How, then, does one complete the mandatory counseling and not get ripped off?

The new law requires the U.S. trustee to provide a publicly available list of approved not-for-profit credit-counseling



agencies that can provide the mandatory services. These credit agencies are permitted to charge only "reasonable fee [s]," and "provide services without regard to ability to pay the fee."

Debtors work with approved counseling agencies to develop debt-management plans. Debt-management plans may consist of the credit-counseling agency collecting a lump sum each month that it then distributes to creditors (debt management), or the agency may help the debtor by negotiating better credit terms with the creditors while payments continue to be made directly to creditors (debt negotiation). Once developed, the debt-management plan must be filed with the applicable bankruptcy court along with a certificate from the agency that assisted in its development.