

IRS News Release

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IRS, FTC and State Regulators Urge Care When Seeking Help from Credit Counseling Organizations

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WASHINGTON — The Internal Revenue Service, the Federal Trade Commission and state regulators today issued a consumer alert for those seeking assistance from tax-exempt credit counseling organizations.

Paying bills is never easy, but job loss, divorce or unexpected medical bills can be devastating to a consumer. Many consumers seek help from non-profit credit counseling organizations in managing their debt or “repairing” damaged credit. The IRS, FTC and state agencies urge consumers to be cautious when choosing a credit counseling organization.

Many credit counseling organizations provide valuable advice, education and assistance to those seeking to better manage their debt. But an increasing number of complaints to federal and state agencies indicates that some organizations are engaging in questionable activities.

Federal and state regulators are concerned that some credit counseling organizations using questionable practices may seek tax-exempt status in order to circumvent state and federal consumer protection laws. State and federal statutes regulating credit counseling agencies often do not apply to Section 501(c)(3) tax-exempt organizations.

“Many of these groups provide a valuable service to consumers, but some use the tax code to skirt consumer-protection laws,” said IRS Commissioner Mark W. Everson. “The IRS will work to protect the integrity of the tax law to ensure that tax-exempt organizations understand and comply with the rules. We will work with other federal agencies and state regulators to combat abuse in this area. It is not fair to taxpayers struggling with financial problems to be taken advantage of by credit counseling groups exploiting gaps in the law.”

Consumers need to be wary of the “quick fixes” offered by some organizations.

“Consumers who are struggling financially need to be careful not to lose even more money to someone offering a quick and easy way to fix credit problems,” said Timothy J. Muris, Chairman of the FTC. “We want all consumers seeking help to take some common sense precautions.”

Consumers can help protect themselves from deceptive credit counseling practices by following these tips

- Check that the organization will help you manage your finances better through counseling and education. Carefully read through any written agreement that a credit counseling organization offers. It should describe in detail the services to be performed; the payment terms for these services, including their total cost; how long it will take to achieve results; any guarantees offered; and the organization's business name and address.
- Beware of high fees or required "voluntary contributions" that, with high monthly service charges, may add to your debt and defeat your efforts to pay your bills. It is illegal to represent that negative information, such as bankruptcy, can be removed from your credit report. Promises to "help you get out of debt easily" are a red flag.
- Make sure that your creditors are willing to work with the agency you choose. If they are, follow up with those creditors regularly to make sure your debt is being paid off.
- Check with state agencies and your local Better Business Bureau to find out about a specific credit counseling organization's record. A list of helpful Web sites appears at the bottom of this release.

"State charity officials are working with other state and federal agencies to remedy abuses in this area, and to assure that nonprofit credit counseling organizations operate in accordance with the charitable trust or non-profit corporation laws under which they are formed," said Mark Pacella, president of the National Association of State Charity Officials (NASCO).

To address some of the concerns, the IRS has stepped up its enforcement efforts to ensure that existing Section 501(c)(3) organizations are complying with the applicable rules and regulations. Further information and background can be found in Fact Sheet 2003-17.

IRS, FTC and NASCO regulators recommend that consumers considering using the services of credit counseling organizations, check the following Web sites for useful information:

- www.ftc.gov – Become familiar with the latest scam alerts;
- www.irs.gov/charities – Determine whether the organization is tax-exempt and what an organization must do to maintain that status;
- www.nasconet.org – Obtain a list of state charity official offices;
- www.treas.gov/financialeducation.gov – To find more information on federal financial education programs and resources.

Consumers believe that they have been victims of credit improvement fraud, they should immediately file a complaint with the FTC by calling toll free: 1-877-FTC-HELP, or online at www.ftc.gov.

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