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CFA AND AMERICAN EXPRESS REPORT ON FIRST PHASE OF RESEARCH ON CONSUMER CREDIT COUNSELING EFFECTIVENESS

- *The act of seeking counseling is a valuable "early warning" indicator of financial trouble.*
- *Telephone and face-to-face delivery appear to generate equivalent outcomes.*
- *Creditworthiness improved for debt management plan participants.*

WASHINGTON AND NEW YORK – June 12, 2006 – The Consumer Federation of America (CFA) and American Express Company today reported initial findings of the first phase of research on the effectiveness of consumer credit counseling. This research was undertaken by the Georgetown University Credit Research Center using data supplied by ten leading consumer credit counseling agencies.

At a time when credit counseling agencies are experiencing both increased regulatory scrutiny and greater demand, in part because the Bankruptcy Reform Act of 2005 requires consumers who file for bankruptcy to receive credit counseling, CFA and American Express are trying to better understand what aspects of counseling programs are most effective in reducing consumer credit risk (as measured by changes in credit scores). In the first phase of the research, ten participating agencies supplied archived data on nearly 60,000 of their clients who were counseled during 2003 to the national credit reporting agency TransUnion.* The objectives for this phase of the research included an analysis of client credit profiles and history at a point two years following their counseling session to determine the impact of the counseling delivery method (in-person and telephone) on client outcomes.

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"American Express is very pleased to partner with CFA in reaching a common goal of identifying the best credit counseling practices to benefit consumers," said Anand Joshi, vice president, Collections Management and Strategy, American Express. "For decades, creditors have supported the important work of consumer credit counseling agencies, and this research allows for a more robust understanding of best practices." The company is funding the research through grants issued to the participating agencies and to the Georgetown University Credit Research Center.

"CFA commends American Express for generously supporting this important research," said Stephen Brobeck, executive director of CFA, which is managing the project. "Debt-ridden consumers, as well as all credit issuers and counseling agencies, will be the beneficiaries," he added.

The findings of the first year's research are broad but tentative, and point to areas where additional research will be beneficial to better understand more detailed components of credit counseling's impact. As the study focuses on the experience of consumers at ten agencies that emphasize client education, the results may not reflect the average experience of agency clients across the country. "This represents the most thorough research on the topic, yet was limited by the characteristics of data collected by agencies in the past," said principal researcher Dr. Michael Staten. "In phase two of the research, the agencies will be collecting data on an array of new, more specific variables related to program features and client characteristics," he added.

The first phase of research is described in an accompanying report prepared by Dr. Staten. Three of the more interesting preliminary findings are summarized below.

The act of seeking counseling is a valuable "early warning" indicator of serious financial trouble that facilitates timely intervention and assistance. Credit bureau information available at the time of counseling often does not reflect private information that many counseled clients possess regarding recent or impending negative changes to their financial condition.

"One implication of this finding is that delinquent borrowers could benefit if they receive early assistance from credit counseling agencies," said Dr. Staten. "Because clients seeking credit counseling have a real-time, private view of their financial situation, risk scores for these borrowers underestimate the likelihood that they will have credit problems in the future. As a result, creditors have limited indicators that such borrowers may need assistance. Effective credit counseling agencies can help to identify borrowers who are in financial distress and focus resources to help them improve their financial condition."

Telephone and face-to-face delivery of the initial counseling appear to generate equivalent outcomes for consumers' creditworthiness measured two years later. This is true both for clients who complete only an initial counseling session and those who enter debt management programs (DMPs).

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"While some may find this result surprising, it does not, at this stage of our research, lead to the conclusion that the two delivery methods are equally effective for all debtors," said Staten. "In year two of the research, we will examine more specific client characteristics to learn if certain types of debtors benefit more from one delivery method than from the other," he added.

The creditworthiness of consumers who participated in DMPs improved. Consumers who were recommended for a DMP by agencies and chose to start payments had a significantly lower incidence of bankruptcy, as well as improved bankruptcy and delinquency risk scores, over the two years following counseling than did those who were recommended for a DMP and chose not to start.

"This preliminary finding warrants more detailed follow-up research. It suggests that the discipline of DMP participation for qualified individuals, coupled with ongoing interaction with the counseling agency, helps clients improve their credit scores," said Dr. Staten. "In phase two of the research, we will especially seek to understand the characteristics of those who are likely to see the greatest benefit from participation in DMPs and, as a result, understand the size of the impact," he added.

The agencies that are participating in the study include: Auriton Solutions of Roseville, Minnesota; ClearPoint Financial Solutions, Inc. of Richmond, Virginia; Consumer Credit Counseling Service of Greater Atlanta, Inc.; Consumer Credit Counseling Service of Los Angeles; Consumer Credit Counseling Service of Montana; Consumer Credit Counseling Service of North Central Texas, Inc.; InCharge Debt Solutions of Orlando, Florida; LSS Financial Counseling Service of Duluth, Minnesota; Novadebt of Freehold, New Jersey; and Money Management International of Houston, Texas.

Consumer Federation of America (CFA) is a non-profit association of some 300 pro-consumer groups that was founded in 1968 to advance the consumer interest through research, education, and advocacy. More information can be found at www.consumerfed.org.

American Express Company (www.americanexpress.com) is a leading global payments, network and travel company founded in 1850.

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*As part of the research protocol, consumer privacy is being strictly protected. No personally identifiable information has been provided to researchers.