

Think Credit Counseling Is the Answer to Your Debt Problems? Be Very Careful About the Agency You Select

It seems there's plenty of help out there for people in debt trouble. You'll see services advertised on late-night TV, in newspaper classified advertising sections, even blaring on the radio.

But there's good credit counseling and bad credit counseling. You will need to distinguish between nonprofit organizations that are generally regarded to be solid sources of advice in your particular community and for-profit organizations that may provide reputable services but charge expensive fees to do so.

And keep in mind one important point – no matter which advisor you select, they will not absolve you of the responsibility to make sure your debt is repaid accurately and on time. Even in the most reputable counseling organizations make mistakes and it's your job to supervise them.

Keep in mind that credit counseling may shed light on only one segment of your overall finances, and looking at that whole picture might be a better way to view your relationship with debt. That's why before you seek credit counseling a good idea might be to consult a financial expert, such as a CERTIFIED FINANCIAL PLANNER™ professional specializing in debt and bankruptcy issues. Experienced planners will charge a fee for their services, but they will provide you more customized analysis and advice to deal with your debt and get you back on your feet afterward.

People in debt trouble may find themselves dealing with credit counseling services for another important reason – it is now required under federal bankruptcy law. Under the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005, (BAPCPA), individuals hoping to file a petition in U.S. bankruptcy court now need to attend a credit counseling session from an agency approved by the Office of the U.S. Trustee prior to filing. They'll also require another counseling session before any bankruptcy debts can be discharged.

In general, here are some important things to know and ask about credit counseling before you make a move.

Consult various agencies, media about reliable credit counseling services in your community: If you're filing bankruptcy, it is generally wise to go with the chosen consumer credit agencies recommended by the trustee. But that doesn't mean you shouldn't check them out. Check which agencies your local media consults when talking about credit counseling, and check in with the local Better Business Bureau (BBB) to see if it has obtained complaints on the agency.

Watch carefully for fees and expensive services: A reputable credit counseling agency should send you free information about its policies and activities without asking you at that point to provide any details about your situation. Check the range of services they offer – the best credit counseling agencies provide budget counseling and savings and debt management classes. The FTC says you should avoid organizations that try to push you into a debt management plan (DMP) as your only option before they get a chance to look over your detailed financial situation.

Know how their staff is paid: Understanding compensation is important. If the agency's staff is paid based on the services they sell, go somewhere else. And if your bankruptcy trustee recommends that agency, let them know so they can be taken off the list.

Understand debt management plans and whether they're right for you: A debt management plan typically requires you to deposit money each month with the credit counseling organization, and it pays your debts in exchange for a lowering of fees and balances by your lenders. Reputable consumer credit services offer such plans, but since you might be in one for more than two years, you need to understand how they work.

Understand that these organizations can make costly mistakes: We mentioned this before, but if you reach an arrangement to pay future bills through an agency, it is possible they can make a mistake paying your bills on time. You must still monitor due dates on all your outstanding bills and make sure the agency has made the payments on time. Call every one of your creditors each month to confirm they made payment. If they fail, call the BBB to alert them. A credit counseling agency that fails to pay bills on time will delay any recovery of your credit rating.

Make sure all agreements are in writing: You should know in writing what services the agency will provide you, whether you will attend classes and counseling on specific topics. Always know whether you'll have the opportunity to discuss your situation with a counselor in person. Above all else, understand any charges you are paying.

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Peer-To-Peer Online Lending Sites – Good Deal or Risky Last Resort

It sounds like a marriage made in heaven. On one side, there are people who are struggling with debt who can't qualify for lower rates from conventional lenders or credit card companies. On the other, there are folks with a few thousand to invest who might like to get a higher return than they'd get in CDs or money market funds.

It's a new trend in Internet-driven finance – peer-to-peer lending. Aided by Web sites that create matchmaking opportunities between people with money to lend and those who need it, peer-to-peer lending essentially makes private loans happen between strangers online. Sites like Prosper.com – the current industry leader – allows prospective borrowers to supply the details of why they need the loan and why and what they're willing to pay, and lets prospective lenders review their qualifications based on their overall creditworthiness and "bid" on that borrower's business.

Prospective borrowers – mostly younger people who already make social networking an everyday activity – even put their pictures next to their loan requests.

Is this a good idea? It could be for borrowers and lenders who can't find better alternatives and are willing to mutually honor their agreement. But keep in mind that such arrangements are a big step removed from conventional lending, and for that reason, there are particular things you should know going in. Among them:

There's no guarantee that a lender will be repaid: If any site promises 100 percent, on-time repayment to prospective lenders, walk away. They simply can't promise guaranteed payments or returns. Conventional banks can't guarantee full repayment of the money they lend, so how could an online site do it? If you decide to participate as a lender, your first objective is to consider risk. Think about it – if you've bought stock in a company that goes out of business next week, the value of your investment may shrink to zero. Lending or investing money entails risk – you have to understand how much you can safely take on.

There's no way to guarantee that a borrower or a lender may be who they say they are: While verification policies and procedures vary at different lending sites, Prosper.com promises users it will work with law enforcement to track down borrowers who acquire loans through fake identities and promise to make lenders whole for the amount they've had stolen due to proven identity theft. Keep in mind that doesn't provide a guarantee for anyone who skips payments on a loan, and recent reports show that many peer-to-peer loans have significant late payment or default rates.

You need to be confident your own information is protected: Keep in mind that you're surrendering your name, address, credit and Social Security information to this third party to verify your identity and creditworthiness. Even if they've been in business awhile, make sure you understand what protections are in place to make sure your critical financial data is protected.

You need to understand how late payments are handled: The peer-to-peer lending site keeps the payment records, and it should report any late payments or other irregularities to the three credit reporting agencies. At the same time, make sure there are no prepayment penalties – any borrower should be free to prepay their loan ahead of time.

Watch issues that could affect your credit score: Reputable peer-to-peer lending sites will only report credit activity on loans that have been originated, not when a prospective borrower creates a listing. That means if you apply for a loan and there are no takers, that shouldn't impact your credit rating.

Watch how the site mitigates lender risk and borrower advantage: At Prosper.com, you'll notice that each proposal has a little measurement bar that indicates what percent of the loan has committed bids. That bar indicates the number of potential lenders who have stepped up and agreed to fund a *portion* of the loan at a rate somewhere under the maximum the borrower is willing to pay. That's important. First of all, that indicates that there will not be one lender, but *several*, meaning that a single lender wouldn't be on the hook for the whole amount. The borrower gets the advantage of multiple bidders willing to lower their interest demand in exchange for the business.

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More Single and Unmarried Households Require a Unique Planning Structure of Their Own

According to 2005 figures from the U.S. Census Bureau, the proportion of households consisting of one person living alone increased from 17 percent in 1970 to 26 percent in 2005. In 2005, 10 percent of the nation's households contained five or more people, down from 21 percent in 1970. During the same time period, average household size declined from 3.14 to 2.57 people.

Divorced men and women, never-married men and women, same-sex couples or singles choosing communal living situations with other friends or family members have their own financial challenges. Yet with all the statistical attention on their rising numbers and spending power, there's relatively little discussion about their urgent need to develop financial plans that safeguard their lifestyles with the same attention that married couples and their families receive.

It's time to change that. Because unmarried individuals face particular obstacles in merging assets with partners or securing the same child custody rights awarded to married couples, financial planning is crucial. All unmarried couples should seek the advice of a trained financial adviser, such as a CERTIFIED FINANCIAL PLANNER™ professional, and qualified estate and family law attorneys to achieve their financial goals.

In the meantime, here's a checklist of important issues all singles and unmarried couples should consider:

Discuss how household expenses will be split: In households with one or more unmarried individuals, the first logical step in the money discussion is how you'll handle household expenses in light of your respective incomes. If you're setting a lifetime plan, it's definitely appropriate to discuss your respective salaries and how to budget those household expenses so you'll have savings to play with.

Talk about debt: The best gift two people can present to each other before they move in together is full disclosure on their respective finances. If one or both partners have significant student, credit, business, mortgage or other debt, those amounts need to be brought into the open and an agreement made on a repayment plan. Start by pulling your latest credit reports – for your free annual series of reports, go to www.annualcreditreport.com.

Take special care when buying property: If you buy a home together, get some advice on how each of you will protect your right of ownership. See if it makes sense to own the property as joint tenants with right of survivorship (JTWROS) or tenants in common. A real estate or estate planning attorney is worth the money here.

Talk about the kids: If one or the both of you are bringing children into the relationship, or if you plan to adopt, you'll need to cover all the emotional, logistical, legal and money issues associated with new or blended families. You need to know how your partner's childcare obligations will affect your joint finances and estate plans. Unmarried and same-sex couples

need to be particularly circumspect about estate and child custody issues if one or both partners die suddenly. Depending on state law, the custody of the children may be contested by parents or other close relatives if the correct legal provisions are not in place. And if there are grown children or grandchildren who might have been promised certain assets, that's a particularly important issue for discussion.

What about retirement? At whatever point in life you're entering a relationship, you need to discuss not only how set you are for retirement but what you hope your retirement will be. You should talk about assets in your 401(k), IRA and other investment accounts. If one or the both of you haven't taken any steps to plan for retirement, you're going to need to change that, even if you have or want kids. Also, if you vary widely in age, it's particularly wise to ask for advice since one spouse will be retired long before the other and that will present a big change to household finances.

What is your estate plan? It's never too early to think about the possibility that one of you might die suddenly or be incapacitated. Many people wait until they're married to get wills, durable powers of attorney, health care directives and life insurance/retirement plan beneficiaries in order, but if you have a specific desire for a non-legal partner to gain custody of your children, your assets or the direction of your business, make time now to talk to an experienced tax professional, estate attorney and most important, an experienced family rights attorney.

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