

NATION&WORLD

Abuses by credit counselors widespread, senators say

Nine million people yearly have contact with credit agency

THE ASSOCIATED PRESS

WASHINGTON — Hidden charges, high fees and even failure to send payments to creditors are widespread among newer credit counseling agencies, senators and federal regulators contended Wednesday.

Credit counseling companies often advertise heavily and portray themselves as offering a haven for consumers drowning in debt. But lawmakers, regulators and consumer groups say some of these companies trade on their nonprofit status to gouge customers.

Each year, an estimated 9 million people have some contact with a credit counseling agency; often it is the last stop before a bankruptcy filing.

Retired museum director Raymond Schuck of Lima, Ohio, was saddled with \$90,000 in credit-card and bank debt when he followed up on a radio ad and called Cambridge Credit Counseling. Schuck said he was promised lower interest rates and was asked to make a monthly payment of \$1,946 — but the money failed to make it to his creditors as it was supposed to.

"My credit rating was completely ruined because of late payments" and he eventually filed for bankruptcy, Schuck told the Senate Governmental Affairs Committee's investigative panel.

A subcommittee report found a pattern of abuse among some counseling agencies, especially new entrants to the field.

"Clearly, something is wrong with the credit counseling industry," said Sen. Norm Coleman, R-Minn., the subcommittee chairman.

Audits of 50 credit counseling agencies by the Internal Revenue Service "may very well" result in some of them being stripped of their nonprofit



The Associated Press

Raymond Schuck of Lima, Ohio, an alleged victim of Cambridge Credit Counseling Corp., testifies on Capitol Hill Wednesday before the Senate Permanent subcommittee on Investigations hearing on abusive practices in credit counseling.

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Raymond Schuck told the Senate Governmental Affairs Committee's investigative panel

tax exemptions or even being referred for criminal investigation to the Justice Department, IRS Commissioner Mark Everson testified.

Former employees of Cambridge Credit and AmeriDebt Inc. told of having to use fake names and described "boiler room" sales operations and pressure on commission-paid counselors to get consumers to pay stiff upfront fees without counseling or debt education.

Officials of the two companies disputed the accounts of the former customers and employees. They said their companies act responsibly and provide a valuable service to consumers.

Chris Viale, chief operating officer of Cambridge Credit, said the accounts were "unfair and distorted accusations."

The president of Debtworks Inc., Andris Pukke, asserted his Fifth Amendment privilege in refusing to testify.

The for-profit Debtworks, Pukke and his brother are

among several parties named in a lawsuit filed by the state of Missouri against AmeriDebt in September. Debtworks was formed in 1999 when AmeriDebt spun off its processing function for consumer debt plans and turned it into a for-profit business owned and controlled by Pukke, according to Senate investigators.

With personal bankruptcies surging to record levels in this country, there is a deep pool of customers for credit counseling companies.

Credit counselors historically have been financed by banks that issue credit cards but those contributions are on the decline, forcing agencies to charge fees.

Credit counseling works by putting consumers into programs that allow them to consolidate their debts from several credit cards, reduce their monthly payments and lower their interest rates. Consumers agree to destroy their credit cards, not take out new credit and make a monthly payment to the counseling agency, which distributes it to creditors.

But new entrants have nonprofit agencies that generate "massive revenues" paid by consumers for a for-profit affiliate for advertising, marketing and executives' salaries, according to the Senate report.