

Consumers Beware: Some Credit Repair Services are Deceptive

In a recent alert, the **Internal Revenue Service (IRS)**, the **Federal Trade Commission (FTC)**, and state regulators advised consumers to act cautiously when seeking assistance from tax-exempt credit-counseling organizations. The alert was issued because the agencies have become aware that some credit-counseling organizations do not offer education or counseling assistance to consumers on how to better manage their debt. And because these organizations are exempt, many of the state and federal consumer protections do not apply to them.

The *Credit Repair Organization Act of 1997* regulates for-profit organizations involved in “credit repair” which is defined as a series of activities that improves a consumer’s credit history. However, the Act does not apply to tax-exempt [Section 501(c)(3)] organizations. Similarly, many state consumer laws also have exceptions for tax-exempt organizations. Because the IRS is concerned that these exemptions may leave consumers vulnerable when using a tax-exempt credit-counseling organization, its Exempt Organizations office has implemented the following measures.

- The Office is conducting full reviews before granting exempt status. The review requires a prospective tax-exempt organization to answer additional questions and the Office performs an in-depth analysis of the organization’s marketing materials to ensure the organization’s activities qualify for tax exemption.
- Last January, it published the article, “Continuing Professional Education,” about tax-exempt laws to help organizations seeking tax-exempt status.
- It is providing training on changes affecting credit counseling.
- It has started examining tax-exempt credit-counseling organizations to assess the extent to which these organizations are operating in a manner that conforms to the laws and regulations governing Section 501(c)(s) status.
- And, it is speaking to consumers and attorneys about the tax rules relating to tax-exempt credit-counseling organizations.

Along with this alert, the FTC published guidance on how consumers can protect themselves from deceptive credit-counseling organizations. The guidance advises consumers to:

- Make sure that the credit-counseling organization provides education and counseling about managing finances.
- Read carefully any agreement offered. The agreement should describe the assistance that will be provided; the payment terms including the total cost and length of time it will take to achieve the results; and any guarantees offered. It should include the credit-counseling organization’s business name, address, and telephone number.
- Beware of high fees or monthly service charges that may add to the debt, or promises that the credit-counseling organization makes regarding the removal of negative information such as bankruptcy from a credit report.
- Ensure their creditors will work with the credit-counseling organization chosen, and to follow-up with the creditor to make sure the debt is being paid regularly.

The agencies also recommend that consumers considering using a credit-counseling organization check with their state agency or the local Better Business Bureau to find out more about a specific credit-counseling organization’s record, and the following websites:

- For the latest scam alerts - www.ftc.gov;
- To determine whether an organization is tax-exempt and what an organization must do to maintain the status - www.irs.gov/charities;
- For a list of state charity official officers - www.nasconet.org; and
- For more information on federal financial education programs and resources - www.treas.gov/financialeducation.

The FTC also encourages consumers who believe they have been victims of credit repair fraud to file a complaint with the FTC at 877. 382.4357, or online at [https://rn.ftc.gov/pls/dod/wsolcq\\$.startup?Z_ORG_CODE=PU01](https://rn.ftc.gov/pls/dod/wsolcq$.startup?Z_ORG_CODE=PU01).