2009
State of the Credit Counseling and Financial Education Sector Address

Delivered by
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This year, I am going to break with tradition.

Often, annual conferences are places to spell out grand initiatives. Speakers promise to break new ground, reach for new horizons, set new standards of leadership, and take on important new challenges. As most of you know, I certainly like to think big. In the past, I've identified big initiatives and spelled out an NFCC vision for the future. Since my first address as President and CEO of the NFCC in 2004, we've worked together to set the gold standard for counseling ethics and we've reclaimed our profession from profiteers who abused the honor of being designated as a "nonprofit." We've become an intellectual force that policymakers look to for counsel and leadership when evaluating financial services and their effect on consumers. We've enhanced the value of our brand by making clear to all that there really is a difference when working with an NFCC Agency. Most importantly, we have expanded our range of services in response to our clients' changing needs, and we've consistently found ways to boost our capacity to meet new contingencies ranging from bankruptcy reform to the housing crisis to a recession that created a whole new set of challenges. These were important and substantive achievements, which often lent themselves to the "big initiative" approach.

But this year is different from the others. In the 12 months since my last state of the sector address, we've experienced a major financial crisis, a freeze up in the credit markets, a collapse in housing prices and sales, record foreclosures, a painful recession, a huge jump in unemployment, a surge in bankruptcies, and a dramatic increase in the demand for NFCC Member services. So, instead of a big new vision or goal, I believe our country and our sector will be best served by focusing on fundamentals. I think this is a time to build upon our successes; to continue to do what we do best; and to continue pushing forward on the initiatives defined this past year and bring them to full fruition. To borrow a phrase, during this next year, we need to "keep on, keeping-on."

The challenges are bigger than ever. Just as our economy faces a long uphill climb to recovery, our sector faces the long, continuous work of helping millions of individual Americans regain their financial footing. Completing that task isn't about a lot more new initiatives; the opportunity lies in more of the same hands-on work that NFCC Member Agencies and counselors have been performing at record levels over the past several years. When we last met, a year ago in Baltimore, our economy was already struggling mightily and the demand for our services was climbing rapidly. We didn't imagine that things could get much worse. But just weeks after that meeting, our credit markets virtually stopped working and the U.S. government had to step forward with emergency measures of a magnitude not seen since the Great Depression more than 75 years ago. What began almost three years ago as a problem in the housing market had turned into an economic calamity. All of you have seen the evidence in your offices every day as more and more consumers look for help in finding a way out.

You've responded heroically. In 2008, NFCC Member Agencies provided education and counseling services to more than 3.2 million Americans – more than double the number from two years before. I don't think any of you will be surprised to know that data from the first two quarters of this year shows that we will almost certainly serve even more people in 2009.

The tale of our economy is also told in the changing mix of the services we provide. Some of you in this room remember when NFCC Member Agencies were primarily single service, offering advice on how to deal with credit card debt. Today we live in a new economic reality, including complex financial products that many people don't fully understand. This complexity is best illustrated by the variety of exotic mortgage loans that helped finance the housing boom. Unfortunately, when the housing boom turned to bust, this creativity produced unhappy endings for many borrowers and lenders alike. For NFCC Member Agencies, those bad endings have meant record demand for housing-related counseling. Between 2006 and 2008 – two short years – the demand for housing counseling more than tripled. Over the past year, the NFCC network has been the leading provider of counseling services under the National Foreclosure Mitigation Counseling Program (NFMC Program). During that same period, the demand for bankruptcy counseling more than doubled as the number of Americans filing for bankruptcy protection reached its highest level since the 2005 reforms.

So, it is not surprising that housing and bankruptcy counseling represent the lion's share of the services we provide today. Of course, we continue to lead in the area of financial education – something that our recent experience shows is more important than ever. While I don't pretend that widespread financial literacy would have prevented our economic difficulties, I am certain that fewer consumers would be in such deep trouble if more Americans had the knowledge they need to properly evaluate offers and make solid financial decisions. If more Americans were financially literate, fewer Americans would be struggling today with debts that they are unable to repay.

In each of these areas, the next year will look a lot like this year because even as the economy begins to bounce back, it will be a while before hiring expands and incomes begin to rise. For millions of Americans and their families, getting back to financial stability will remain a work in progress for some time to come. That means that NFCC Agencies and counselors must commit to another year of "keeping-on."

As we look at the numbers, the one area that did decline for NFCC Member Agencies between 2006 and this year is the number of clients enrolled in Debt Management Plans – certainly not because the need declined, but because economic conditions deteriorated so much that even as more people came to us for help, fewer had the resources to qualify for DMPs. If you don't have a job, you simply don't have the money to service your debt obligations even with substantial concessions. Millions of Americans were, and still are, faced with making tough decisions they never anticipated. Will I put gas in my car or fill my prescription? Will I pay my mortgage or my credit card bills? Thus, the dip in DMPs is itself an indication of the depth of our country's economic difficulties. This is one of the reasons why it was so important that we worked with creditors through the NFCC Advisory Council working group over this past year to improve interest rate and fee concessions.

Our counseling services are just one of the ways that we stand up for consumers. A year ago, in addition to those initiatives that help individuals and families address their financial challenges, we also committed to work aggressively to help protect them from opportunists who come out of the woodwork when people are desperate. I am pleased to report that we have made considerable progress. But there remains important work still to get done. The NFCC is committed to staying ahead of those who prey on troubled consumers, and the strongest weapon we have is empowering Americans with financial education.

In response to the dramatic changes in our economy and in public policy since last year's annual meeting, CEOs and senior executives of NFCC Agencies came together for a mid-year Leadership Summit in March and updated the NFCC agenda by identifying a trio of top strategic priorities. As a result of that work, I believe the NFCC Membership is as well-aligned as at any time since I assumed the position of President and CEO in March 2004. Here are the strategies we mapped out together:

1. Capitalize on the current environment to drive critical legislative and regulatory change at the federal level.
2. Pursue a new range of funding opportunities that support Member Agencies' core services.
3. Build new national partnerships and reinforce existing relationships with key organizations.

I am here to report that you spoke -- and we are acting with speed and serious intention.

In Washington, our reputation for excellence and ethics has opened policymakers' doors and created opportunities for us to insert our voice on issues related to financial services and their impact on consumers. The power of the NFCC brand, which you have all worked so hard to enhance in recent years, also has helped us attract respected partners and build coalitions on important policy issues.

Empowered by our collective reputational capital, we have achieved some significant legislative success. Last spring, during congressional debate over so-called mortgage cram downs, both the House and Senate were presented with serious proposals for eliminating bankruptcy-related counseling. Working with others who understand the value of financial education, the NFCC and key allies helped beat back these ill-conceived proposals. This effort created an even stronger legislative history on the side of education and solidified relationships among those who support credit counseling and financial literacy.

We also have worked hard for continued federal funding of foreclosure mitigation counseling, and presented formal testimony on the issue at a House subcommittee hearing in April. While funding levels are not at the levels needed, we believe they might have been lower except for our efforts. We must continue to work in this area, because additional funding will be up for Congressional consideration again in 2010. Whatever the outcome, our visibility in this fight has reinforced our position as a voice in Congress on counseling issues. Many in Congress know who we are, the quality of the work we provide, and the difference we're making in people's lives.

I am also pleased that in the very near future, lawmakers will introduce legislation to protect consumers with important new regulations for the debt settlement industry. The NFCC has played a lead role in assembling a broad coalition of consumer advocates, financial services organizations, Democratic and Republican Attorneys General of several states, as well as other regulators in support of this important reform. With this kind of grassroots support, we believe passage of this legislation is possible before the end of this year.

If enacted, this legislation will help address the abuses that have riddled the debt settlement industry and protect consumers from deceptive advertising, misleading claims, and excessive fees charged by a number of these companies. Among other things, the proposed law would require important new disclosures about the services offered, fee schedules, possible adverse consequences, and the inability to guarantee success. The measure also would prevent debt settlement companies from collecting fees until after they have provided specific services.

It's taken a lot of time and effort to get legislation to this point. That work included drafting, consultation with allies, and meetings with Members of Congress and their staffs to write a bill that has a chance to become law. Now, we have to finish the job. We will follow up the introduction of the legislation with aggressive outreach to lawmakers to win its passage. Stay tuned, because we will be turning to Member Agencies and other allies to reach out to their local members of Congress to tell them why this reform is so important. This is another example of "keeping-on."

I also am encouraged that at the end of July, the Federal Trade Commission issued a proposed rule to eliminate deceptive advertising and marketing of debt settlement services. The NFCC testified at an FTC workshop on the subject and members of an NFCC working group also met with the FTC and provided additional input. These collective efforts made a difference. The proposed rule is out for public comment until October 9 and a public hearing is scheduled for the first week of November. The NFCC is preparing comments and plans to testify. Member Agencies also may wish to review the proposed rule and provide comments to the Commission by sharing clients' stories about their experiences.

Let me be clear. There's nothing wrong with settling debts for less than 100 cents on the dollar. It *can* be a reasonable option for consumers trying to avoid bankruptcy. But there's a right way and a wrong way to offer any service. Just as we worked with Congress and regulators a number of years back to end misuse of the "nonprofit" status, our goal is to eliminate abuses in the practices of the debt settlement companies through expanded regulation and by educating consumers so they can recognize traps to avoid. Too many consumers have lost large sums of money and wound up with higher debt and lower credit scores after working with a debt settlement company.

In addition to our work in Washington, we intend to redouble our legislative outreach at the state level to address issues identified by Member Agencies, better protect consumers, and level the playing field between nonprofit counseling agencies and for-profit companies.

As we all know, a large number of states have opened the door to for-profit counseling companies in recent years. If for-profits truly serve consumers by providing them with a full-range of education and services, we welcome them to the marketplace. But we strongly believe that for-profits must play by the same rules as non-profits. Right now, nonprofit agencies face greater regulatory scrutiny and more obligations than agencies for whom profit, not service, is the first priority. That's backwards. It's time to redress the imbalance. The NFCC is expanding our legislative resources to provide Member Agencies with the tools, the training, and other resources necessary for effective state and local advocacy on this issue and others that Member Agencies deem important.

As you all know, funding is a perpetual work in progress, and has become an even greater challenge this year. Many who have funded agency services in the past are overwhelmed by their own set of challenges, and have cut back grants to our sector. This is especially true within the financial services industry.

To some extent the gap has been filled in recent years through various government programs such as the NFMC Program that supports housing counseling. But much of the program money is likely shorter-term and not sustainable. I noted earlier that current levels are not enough to cover the demand for counseling. In fact, the latest round of NFMC Program funding for foreclosure mitigation counseling was reduced considerably from the height of the mortgage crisis. This cut drives home the importance of our second key strategy from the Leadership Summit -- the diversification of funding sources. In response, the NFCC is expanding outreach to a host of new and non-traditional partners from the public and private sectors with the hope of securing new revenue sources. We also are examining the federal appropriations process to identify possible new sources of funding for financial education and counseling services.

Our focus on partnership, an area that I have emphasized for many years, is increasing further.

In the past year, we have expanded on our longstanding partnerships with financial institutions, working together in both the Call to Action and the Debt Settlement Working Groups. These initiatives have broken important new ground by demonstrating the value of cooperative action by creditors and agencies. These efforts also have drawn us closer to a number of consumer-oriented advocacy groups and open the door for ongoing collaboration on other issues. Just as we recognize that cooperation among agencies under the NFCC umbrella enables us to have a greater impact on public policy discussions than a single agency acting alone, we also are learning that collective action by many organizations joined in a common cause may have more impact than that of a single group such as the NFCC acting alone.

The Call to Action, issued at last year's leadership conference, has produced important success, but also a significant continuing challenge. On the positive side, we won an unprecedented commitment from the 10 largest creditors for an improved set of concessions that will enable more consumers to qualify to pay off their debts through a debt management plan. I consider this a significant step forward, both because of the potential benefit to individuals who need help and for the model it provides for joint action. We've also begun expanding this effort with an eye toward including the next tier of creditors.

But as many of you know, implementation of this important commitment has involved some frustration as well. Some agencies and some creditors have not been able to move as quickly as others. Consequently, volumes under the new program are running lower than we'd like.

Disappointing but not surprising. Almost any new program of any size and substance is going to encounter a few bumps at the outset – especially an effort that requires significant changes in internal systems and computer programs at large financial institutions as well as 103 counseling agencies across the country.

We are devoting a one-hour roundtable for a more in-depth discussion of the Call to Action during the Conference. But, for now, let me sum it up this way:

We have achieved an important agreement with creditors, and are well into the difficult phase of broad-based agency implementation. Our job is once again to keep on keeping-on – working the issue to reach the finish line of full implementation by the end of the year. We have to stretch for more creditor standardization and get efficiencies for what is a cumbersome operating system. And we have to do these things quickly. There are too many people in need of the CTA and hardship workout products.

Although sometimes taken for granted, the Annual Financial Literacy Poster Contest and the National Protect Your Identity Week also are a valuable part of our partnership strategy. The list of external coalition members involved in these initiatives read like a Who's Who of respected and influential consumer groups, financial service entities, and government agencies.

This year, National Protect Your Identity Week, will be co-hosted by the Council of Better Business Bureaus, which includes some 200 corporate supporters and 120 local BBBs. This type of collaboration opens the door to longer-lasting partnership between the NFCC, the Council, and other members of the Protect Your Identity Week initiative such as the Consumer Federation of America, the Credit Union National Association, the National Council of La Raza, the FTC, and the OCC to name a few. As we get to know one another, projects like these open doors both nationally and locally to other types of continuing collaborations. Steve Cox, the incoming President and CEO of the Council of the Better Business Bureau will have more to say about that initiative and the potential for future partnerships this afternoon. Similarly, I am pleased that Debbie Bianucci, President and CEO of BAI, has joined our Advisory Council and will be with us tomorrow to discuss BAI's work in national consumer research in which the NFCC has begun to participate.

Some partnership efforts take longer to mature than others. But if we see potential we will work to enhance them. For example, I continue to believe that our work with the Department of Defense on the Military OneSource Program can provide important benefits to both the NFCC and our men and women in uniform over the long term. There is no doubt that many members of the military and their families would benefit from financial education and counseling if they were more familiar with our services. We intend to continue to work with our partners at DoD through Military OneSource to make this program more effective.

In addition, we are realigning our internal resources to support a plan for expanded partnership outreach within the public and private sectors over the next 12 months. It is too early to get into specifics right now, but the groundwork is under way to support this important strategy as formulated at the NFCC Leadership Summit.

Our agenda also includes the work that continues to happen every day. In the final analysis, our mission is about helping consumers address their financial challenges – to help them find a path out when they are overwhelmed by debt; to help them consider the implications of major financial decisions such as buying a home or financing a college education; to help them achieve financial literacy so that they have the know-how to take charge of their money and manage it responsibly; and, increasingly in the aftermath of the economic downturn, to help them rebuild their finances and restore appropriate access to credit after a fall.

We are focused in these areas.

Over the past 12 months, we've served as a continuing resource for consumers and Member Agencies by producing up-to-date and relevant educational materials such as one of our newest features – Financial Fast Facts – a series of informational videos that consumers can access online to learn about such fundamentals about improving their financial situation, how to protect themselves against identity theft, and how to choose a credit counselor. These videos are on the NFCC Web site, on Facebook and YouTube, and have been made available to the Member Agencies for placement on their own Web sites. We've developed tip sheets on such vital issues as finding foreclosure assistance, how to survive job loss, and even the implications of financial problems for marriage and family life. These are also placed on our Web site, and sent to partners for them to distribute. Just about every product we produce is available in Spanish as well as English. And, our communications team has worked aggressively to spread this information and other important data, such as our financial literacy survey, to the widest possible audience. By every measure – the number of reporters we've talked to, the number of media placements, the size of the audience and hits on our Web site – our reach has expanded dramatically.

During the next year, I believe we must operate on the premise that we have experienced a different type of recession and that we also will experience a different and slower type of recovery. Although we have seen a number of good economic omens recently, consumer confidence remains low. Housing values are still well below their pre-bust peaks and the value of most Americans' 401(k)'s, college savings plans, and other investments are also far lower than they were two years ago. That means that NFCC Agencies will continue to face enormous demand for services for the foreseeable future. It also means that some of the tools that have worked well in recent years may not be as effective as in the past, and that we have to look for new ways to help.

To that end, we are working hard to identify new products and services to meet consumers' changing needs. While the expanded concessions offered by creditors in response to the Call to Action will enlarge the universe of consumers who qualify for DMPs, it does not meet the needs of every client. We need to design new strategies for those who do not want to file for bankruptcy, but for whom the DMP is not a workable solution.

Accordingly, the NFCC plans to field consumer research to ensure that any new products and programs match up with what will help the most consumers especially during these trying times. Through the Advisory Council, there is also an initiative underway to catalogue the research projects that have been conducted by various organizations over the years. We believe this research demonstrates the value provided by counselors every day as they help millions of Americans.

I like to think that the NFCC can help convert the current economic troubles into opportunity – opportunity to deliver financial education to a larger number of Americans; opportunity to restore a better balance between spending and savings; opportunity to highlight *responsible* credit so that lenders and borrowers once again connect borrowing to the ability to repay; and the opportunity to crack down on financial predatory practices.

Consider financial education.

Historically, a large amount of our national resources has been used for damage control to help consumers after they're in trouble. Wouldn't it be better to prevent personal financial problems through financial literacy programs that teach consumers to manage their finances more effectively? While good money and credit management cannot offset the impact of external events such as losing a job or a costly health problem, it can enable consumers to prepare for the unexpected and avoid the types of mistakes that lead to mortgage defaults, bankruptcy, and general problems with credit.

The fact is too many Americans lack the financial skills they need and too few are stepping forward to get help, even if they recognize that they need it.

For example, our 2009 Financial Literacy Survey found that 41 percent of Americans grade themselves as a C, D, or F on personal financial knowledge. Almost three of ten – 28 percent – of mortgage holders admit that their mortgages have turned out to be different than expected when they took out the loan. Numbers like these speak eloquently of the need for better financial education.

Those of you who provide counseling know this reality better than I do because you see the problems up close every day. In this room I am largely preaching to the choir. What we need to do is keep preaching this message in our communities, find creative ways to make financial literacy appealing to consumers, and persuade other leaders to join with us to make financial education something that every American takes part in.

I should add that we have valued partners in this work. Three of them – financial journalist Jean Chatzky of the Today Show, U.S. Congresswoman Eddie Bernice Johnson, and Illinois Attorney General Lisa Madigan – are with us this week to receive "Making the Difference" awards for their work in advancing financial literacy and consumer protection. We are honored to be at their side.

Together, we can make an even bigger difference, by pushing forward in this important cause.

Our goals should include:

- Basic money and financial management as part of the standard school curricula in every state;
- Pre-purchase counseling for first time and at-risk homebuyers as a pre-requisite for a mortgage loan; and a similar requirement for subprime mortgage financing;
- Lender incentives such as lower interest rates for individuals who successfully complete a financial education program or otherwise demonstrate financial literacy; and
- Improved credit histories for those who have taken part in financial education.

We also know that hard times open the door to financial predators who take advantage of fear. When people can't pay their bills and are worried about losing their home, it's not surprising that they may be seduced by someone who promises to fix it all. As the economy goes down, consumers are increasingly bombarded with the siren song of false promises to cut their debt in half, fix their credit, and stave-off foreclosure.

Over the past year, the NFCC has created a number of educational materials to alert consumers to these bogus services and tell them where to get the right kind of help. You've all seen the tip sheets, the brochures, the DVDs, and the online materials. Warning consumers about financial dangers is an ongoing part of financial education that we will press ahead with over the months ahead.

Finally, I believe that the changes in our economy will require us to devote more resources to helping consumers understand what they must do to regain responsible access to credit.

Our economic difficulties have sparked two beneficial developments – consumers are saving more and lenders are becoming more conservative in their lending decisions. While these developments may slow the pace of recovery because spending and credit makes our economy go, there will be long-term benefits if we get the balance right.

Still, the short-term challenges of tighter credit are real. As lenders try to limit risk, consumers whose credit histories have been tarnished by debt payment problems, foreclosure, and bankruptcy will find it increasingly difficult to get credit. Lenders who once happily extended credit to consumers with credit scores in the 600s, now want to see credit scores of at least 720-740. By that standard only about 40 percent of Americans may qualify for the best loans. Even some of those who have managed to pay their bills and stay above water are finding it harder to get credit as lenders close accounts and reduce credit limits.

To some extent, of course, that is as it should be. If you've struggled with credit, your access to loans should be limited until you've proved that you can once again handle credit reliably. But that also presents a bit of a Catch-22: how do you prove you can handle credit until you've found somebody to give you a loan?

It's not the NFCC's job to make credit appear, but it seems to me that it is very much our job to help consumers understand how credit reports and credit scores work so they manage their finances in a way that improves their prospects of obtaining a responsible level of new credit. This is particularly relevant in today's environment.

Some agencies may choose to identify local financial institutions with loan programs that help consumers gradually regain access to small amounts of credit. For example, in one program, consumers can borrow up to $500, which is placed in an interest bearing account or CD, so they can establish creditworthiness by making consistent and timely repayments. Or, agencies might connect graduates with local lenders who may provide low lines of credit to individuals who have recently been counseled by an NFCC Member Agency.

As we look for ways to meet changing needs and provide the services consumers want, the fact remains that we live in a credit-dominated society. Therefore, I believe in the broad area of rebuilding personal finances and credit opportunities for fulfilling our mission, for creative partnerships to help our fellow citizens get back on their feet, and for financial education to help people learn to manage credit effectively.

Over the past year, we've faced enormous challenges and we've achieved much – expanding our service to consumers to meet changing needs, raising awareness of risks that consumers should be alert to, partnering with creditors to help consumers gain control of their debts, and partnering with a range of concerned individuals and organizations for needed regulatory changes to protect consumers. Over the next 12 months, we need to consolidate these gains, continue to meet the growing demand for services, complete the implementation of new programs to make them effective, and finish the job of legislative and regulatory change especially aimed at predatory practices. We need to keep driving financial education and help our clients rebuild their finances. We are going to "keep on keeping-on."

In other words, we *do* have important work in progress and important goals to achieve. By next fall I hope to report that:

- The federal debt settlement legislation has become law;
- The FTC has adopted final rules to protect consumers from deceptive advertising and abusive business practices by the debt settlement industry;
- The Call to Action has been fully implemented by each of the top 10 creditors, that agencies and creditors are successfully putting the new DMP model to work, that a

growing number of consumers are taking advantage of the modified DMPs; and that creditors from the next tier are also participating;

- We have received the maximum amount of federal funding available for foreclosure mitigation counseling;
- We have tapped additional sources of revenue from federal programs and secured new private sector revenues as well;
- We have advanced the cause of financial education and gathered additional support from policy makers; and
- We've reinforced public understanding of the difference between nonprofit credit counseling and the for-profit sector.

That's my perspective on the challenges and opportunities for our sector over the next year. Now, I need to hear from all of you. As we demonstrated in Baltimore during the Leadership Summit this past spring, we have a wealth of creativity and energy within our membership. Every counselor and Member Agency has insights to offer and, working together, we have positioned ourselves well for the future. I want to thank everybody for the ideas they've shared in the past and will continue to share.

Thank You.