AAA Cook County Consolidation, Inc. *since 1961*

YOUR MONEY

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AAA Cook County Consolidation

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One of America's Oldest, most trusted Consumer Credit Counseling Agencies.

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AICCCA
Association of Independent Consumer Credit Counseling Agencies.

A member of
AADMO
American Association of Debt Management Organizations

Licensed by the Department of Financial Institutions and fully bonded

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Credit advice `waste of time'

97% of those counseled, still file for bankruptcy.

Credit counseling required under a controversial bankruptcy reform law is ``a waste of time and money'' for 97 percent of the consumers who are forced to seek such help before they can head to bankruptcy courts, according to a study released Wednesday.

The counseling -- which typically costs about $50 and often can be completed over the Internet in two hours -- is designed to help debt-stressed consumers decide whether they'd be wiser to work out payment plans with creditors rather than proceed with bankruptcy.

The study was based on a survey of six credit-counseling firms that have advised consumers since the counseling became mandatory as part of a sweeping overhaul of the bankruptcy code that took effect last Oct. 17. The survey ended in mid-February.

Only 3 percent of the 61,000 consumers who sought counseling had enough of a financial cushion to benefit from a payment plan, according to the study by the National Association of Consumer Bankruptcy Attorneys.

The remainder were in such desperate financial shape that they had little choice but to seek bankruptcy protection -- as they would have before the reforms took effect last October.

``For 97 percent, no amount of counseling in debt management would help them. The only thing they have left is bankruptcy,'' said Brad Botes, executive director of the lawyers association.

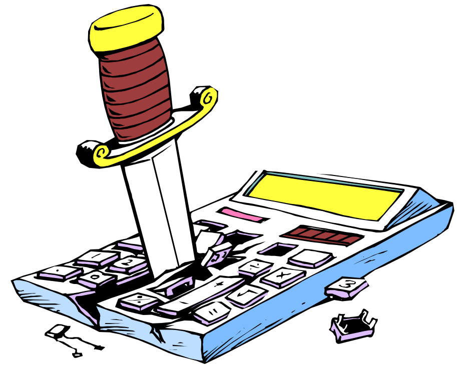
The study also concludes that 79 percent of the consumers who sought counseling were in a financial hole because of bills stemming from lost jobs, medical care, divorce, a death in the family or other unexpected event. The debt of the remaining 21 percent was attributed to ``circumstances within their control.''

The mandatory counseling requirement has been controversial for several reasons. Opponents contend it's an unnecessary hurdle for consumers to clear before they can seek court protection. The quality of the training has been questioned, and the Internal Revenue Service has challenged the non-profit status of several companies that conduct such counseling.

The study's findings echo the trend that David Michael has seen as director of counseling for the West Coast offices of Money Management International, the parent organization for many branches of Consumer Credit Counseling Services. Bankruptcy is the ``only option'' for more than half the people who seek pre-bankruptcy counseling, he estimated.

Bankruptcy filings spiked dramatically -- then plunged -- as the new law took effect. More than 4,000 consumers filed in the San Jose division of the U.S. Bankruptcy Court in September and October -- 19 times more than the 207 cases in the two months after the law took effect.

Minimum Payments Are Not Your Friend



If you are like most Americans, it is not uncommon to have spent a bit more on your credit card each month than you have coming in your paycheck. That has simply become a fact of life in our consumer culture. The instant gratification habit has overwhelmed our better judgment when it comes to managing our personal finances.

And, it can be equally common for Americans to rely on the ubiquitous "minimum payments" option to keep the credit card companies at bay for another month. That minimum payment is now averaging 4%, by the way, up from the old industry standard of 2% of outstanding balances. This change was foisted on the banking industry by a congress that was nervous of the financial and political impact of an indebted constituency.

But, even with a doubling of the minimum payment rate, it can still take many, many years before a debt is paid down at that rate. It is simply imperative to begin aggressively attacking the principal of the debt and not just service the interest payments. Otherwise you will be on a perpetual treadmill of credit card debt.

The tried and true credit card debt elimination strategies still hold true, even in today's fast paced world. They are to simply stop adding fuel to the fire and begin chipping away at the core problem. For example, if you have $9,000 of outstanding credit card debt at 14% interest (the national average by the way), the best approach is to stop using your credit cards for new purchases and transfer the balances to a low interest credit card. Then, begin aggressively paying down that new credit card (which you will not use for new purchases, either). Without the burden of interest payments, coupled with a little financial self-discipline, you will be amazed at how quickly you will find yourself coming up for fresh air and becoming debt free.

But what if you think you really need all those existing credit cards to get through life? Well, it's probably okay to keep one in a drawer for emergencies, but having a wallet full of high interest credit cards is not a good idea for anyone. And, it's especially not a good idea for someone in serious credit card debt. Simply put yourself on a credit card diet and begin paying for things with a debit card, check or cash.

And, concerning how to approach financial self-discipline, a good first step is to try writing down everything you spend for 30 days. This can be a very illuminating exercise because it will show you how much money you (like most of us) waste each month on unnecessary purchases. By simply eliminating just a portion of these daily expenditures (whether it is skipping the $3 Starbucks double latte or deciding to eat lunch at your desk instead of going out), you can save an amazing amount of cash each month. And, if you can further discipline yourself to apply these savings to your credit card debt, which by now you have wisely transferred to a 0% APR credit card, you can become debt free in record time.

What are the Pro's and Con's of Prepaid Debit Cards?

Prepaid debit cards began to take off in the 1990's as credit card company's realized that a significant portion of the U.S. population was not able to qualify for many of their credit cards. Even among those who did qualify a certain portion often defaulted on their outstanding balances and declared bankruptcy, which drove up losses. An early attempt to address this market need was in the form of a secured credit card, which involved having a credit line that was "collateralized" by an equal sum of money deposited with the credit card bank. During the first few years the secured card's credit line was set at 100% of the savings on deposit. Once a satisfactory payment history was established by the customer the bank would begin extending gradual amounts of credit beyond the savings total – sometimes up to 200% of the deposit. This way the bank was able to create a stable credit card customer who might not qualify otherwise and still limit their ultimate losses should the customer default.

Later variations of the secured credit card took the form of prepaid debit cards where funds were loaded directly onto a Visa or MasterCard prepaid debit card either at a merchant location or online with a bank which marketed the products. These products functioned just like a prepaid phone card and essentially just converted paper currency into electronic currency accessed via a plastic card. Prepaid debit card credit lines would always be set at the amount deposited and would be drawn down with purchases.

The advantages of prepaid debit cards include being safer than carry cash, worldwide functionality due to Visa and MasterCard merchant acceptance, not having to worry about paying a credit card bill or going into debt, the ability for anyone over the age of 18 to apply and be accepted without regard to credit quality and the ability to reload with any amount of money online, over the phone or at any ATM worldwide.

The disadvantages include the fact that you don't have the luxury of using a credit card bank's funds for 25 days for free (but you could also look at that as an advantage, too). Another is if the card is lost or stolen Visa and MasterCard have much stricter notification requirements than with a credit card.

All in all the advantages of prepaid debit cards usually outweigh the disadvantages – especially for those individuals that don't have access to standard credit cards due to lack of credit history or because their credit rating is less than perfect.