

THE WORK OF MEMBERS OF THE AMERICAN ASSOCIATION
OF CREDIT COUNSELORS

by

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I will try to give you, within a few moments, at least a brief identification of the areas in which members of the American Association of Credit Counselors do their work.

I am glad to make the effort because, as I review 30 years of work with financially distressed families and look over the socio-economic scene today, I find practices surrounding family money problems too indicative of some of our superannuated systems and doctrines to be acceptable--practices in employer-employee relationships, among legislators, among credit people, among many of the lawyers who practice in these matters, even among some social and governmental agencies seriously and otherwise quite knowledgeably concerned with the family--and I know of no more appropriate audience to which I might state these concerns.

I deal with families in which at least one person is steadily employed--quite often with two or more jobs--but which are caught up in an economic trap. Between pressures to acquire from within and invitations to buy from without, they enter the installment credit market without restraint and without design. Wanting nothing specific, they want everything. It often occurs to me that their behavior should be a reproach and a challenge to all of us. It is as though their actions are saying--"there really is nothing possible in this world worth working and planning for."

Their incomes are usually adequate for effective family operation--but they never have any money; they struggle over the hill from payday to payday; they have borrowed to the hilt at ever-increasing interest rates (as their credit standing goes down); the paycheck is threatened each payday with wage assignment or garnishment--or other demands and complaints of creditors relayed ominously through the Personnel Department. Hanging over this wage-earner constantly is the threat of discharge unless he can find enough quick money to satisfy creditors, all through the process trying to conceal his plight from friends and associates:

How does he react to this condition?

(1) He turns first to money for his salvation--money at any price! No wonder at all to us that the loan business is so gigantic and is still mushrooming, still probing a wider (or more credit-burdened) market!

To the unfortunate, caught in this situation, the quickest relief available is more of the same narcotic. Many follow this road blindly to desperation and then "take the cure" in a bankruptcy court.

(2) That this manner of exit is gaining in popularity is common knowledge. I will skip over the implications for the general economy (and these are serious) and keep focus on the family.

What happens to the bankrupt consumer? I am afraid that few bankruptcy lawyers explain to their clients--or even know--the cost of bankruptcy. It is certain that the simple costs--lawyer's fees and court costs--regardless of amounts--are small in the final accounting.

The big costs come later on--in the increased expense of using credit, as well as in the loss of confidence and competence that follows any denial of responsibility. Unless he is unusually fortunate, the bankrupt pays for his action for the rest of his working life. This is not theory. In perhaps 50% of the cases we handle, we are helping former bankrupts (often years later) to overcome the results of their bankruptcies.

I am not saying that personal bankruptcy is never necessary; I am saying I believe 75% of them to be unnecessary and wasteful and degrading.

(3) Now, our over-burdened consumer may seek to escape this intolerable situation through a Chapter XIII or Wage Earner's Plan to pay debts through the bankruptcy court--as you know.

When Judge Chandler was formulating this addition to bankruptcy law, back around 1936, I was enthusiastic. Having the processing systems already set up in my office, I was asked to handle these cases as Trustee for the Federal Court Referees and did so until the war came along.

But in general performance, since that time, Chapter XIII has proved less than exciting. The answer, I think, is clear. The plan provides for the handling of money; it affords no guidance and supervision to correct basic deficiencies. Yet, it costs more--twice as much more--on the national average, than a good debt payment program in which comprehensive counseling is not only paramount but the most expensive part of the service to provide!

Does this mean I would like to see Chapter XIII discontinued? By no means. I would not close any door that offers freedom--but I would like to see debt recognized as the symptom and basic problems given proper emphasis.

Increasing numbers of these casualties of our installment-credit system are turning to sources of help in financial planning and management for relief and rehabilitation. There are many good, qualified services. There are some very poor ones. How can a consumer in trouble separate them?

Well, there are qualified people not yet in the membership of the A.A.C.C.--but Daniel Fusfeld of Michigan State University puts it rather clearly in his pamphlet "Don't get Garnisheed." He says that the help of a good financial counselor can be invaluable but make sure you get one who is a member of the American Association of Credit Counselors.

As I said, people are seeking such help in increasing numbers. What will we give them? Shall we accept the risk that one family in twenty will get poor service until we are able to raise standards further--or shall we deny expert help to all because of the poor treatment of one in twenty? And who is going to accept the responsibility for denying them?

The Collectors' Association tells us that 20% of American families will have collection action taken against them within the year. If this applies to the whole country, then how would you adjust that percentage for the low to moderate income group?

Also, the figure reported as the portion of American family earnings now committed for installment debt payment is about 14%. Again, how do we read this for the lower incomes? I can show you cases every day involving commitment of 100% even 150% of income.

Perhaps you would like to know something about the people accepted for membership in the AACC, their backgrounds and qualifications. Most are college-trained; some prepared in equivalent by several years of special training in this field. They are active in community affairs, members of the boards of service organizations, contributors of newspaper and magazine articles devoted to consumer information and assistance, authors of books on money management, a columnist concerned mainly with family financial problems, specialists whose experience and case records can furnish you with dependable answers to many of your questions about the money habits, the buying and credit problems of regularly employed, lower income families.

We are privileged in many communities to work with a number of service organizations, both to assist particular families and in more general areas of education and training. Our own counselors in Chicago are giving time at night to assist in the training and retraining of relief recipients for employment. They are doing a fine job. They are communicating and getting participation to a most encouraging degree.

In short, and in my own opinion at least, this is a group quite closely aligned with much of the discipline and purpose of the C.C.I. Yet we have had very little communication and I am sorry that this is so.

You may be interested in our counseling methods. At least for my staff, we counsel in general by rolling up our sleeves and taking our place beside the distressed debtor to first show him, step by step, how to gain the cooperation of his creditors, how to re-arrange his financial affairs, in budget and in commitment, so that he can maintain his family and still save the money to meet his adjusted obligations.

Then, we demonstrate the process over and over, payday by payday, through slack times and medical urgencies and a dozen other emergencies until we have done what we can to establish a new pattern in the use of his money.

I am an ardent fan of education. But I must tell you that I see too many cases where the offer of education is like offering to teach a drowning man the back-stroke. First, our drowning wage-earner must be pulled out of the water, then revived and reassured that life is possible; then we find that we must spend the next three months proving to him that the reason he was drowning is that he never learned to swim.

After that, if we have done our work well, there is usually some indication of a desire for education and we supply it--while alternately pushing and leading him up the long grade to debt-freedom and some financial competency.

We carry on this program without subsidy, yet for fees which average less than 5% annually of the debts listed by each family. This fee, I believe, is about the same as the charge which the non-profit counseling service set up by the Michigan Credit Union League has found necessary to keep going.

To give you a clearer view, lets look at what it would cost to subsidize our services in Chicago on a no-fee basis; at least \$50,000 a year to maintain on-going programs for about 500 families. If somebody will come forward with such a sum, we will be very happy to inaugurate a free counseling service the next day--and still maintain our record of over 75% rehabilitation.

You have all heard, I am sure, of the free counseling services such as that sponsored by the Capitol Finance Company in Ohio and other small loan groups in Tucson and Phoenix. Well, to a counselor, that is not counseling. Members of our Association have freely supported every serious effort by any group to provide comprehensive counseling--credit unions, labor unions, church and community efforts. But we are well aware of the deficiencies in training, purpose and financial support behind all undertakings so far to provide free service to any considerable number of families.

With volunteer counselors, yes, some progress could be accomplished if qualified and if on the job every day. To attempt to work with families on a rotating counselor system would be psychologically as bad as alternating marriage counselors on a case and technically far more complicated.

In this second decade of the affluent society, we must make available the services of certain trained specialists to people who are not indigent. They can hardly be denied help because it costs something. Indeed, in my own community, Family Service charges up to \$15.00 an hour in some cases.

But I wonder if all this isn't a matter for more than conversation and claims? If our activities over the country affect the lives of that many of the families in whose welfare you are so keenly and admirably interested, isn't it perhaps worth the attention of a commission from your membership--or under your supervision--to come into our credit clinics and discover exactly what goes on?

I believe there are employer-groups interested enough to finance such a study. In the copy of a Chicago survey distributed to you, over two-thirds of employers favor the use of professional financial counseling for distressed employees.

I hope there may further opportunity for communication between us. We have information the troubled consumer needs; we think we have found some effective procedures, even some remedies, and we would be glad to share them.