What happens to a consumer's credit report when he or she enters a Debt Management Plan?

by David C. Jones, Ph.D, president AICCCA

The Credit Repair Organizations Act (CROA) requires that consumers not be misled about how their credit reports might be affected by a company's actions on their behalf. This law was intended to apply to companies that promise to "repair" a consumer's credit history for a fee. The language of the law itself specifically exempts non-profit credit counseling companies. However, in a ruling by the 1st Circuit Court, credit counseling companies must prove that they are operating in an appropriate manner or be subject to the provisions of the CROA statute.

This obviously creates a dilemma for credit counselors who are asked by consumers what impact entering a Debt Management Plan (DMP) might have on their credit reports. There is no attempt by the credit counseling organization to "repair" the consumer's credit history, yet the 1st Circuit ruling introduces caution in responding to this question. On the other hand, consumers should be aware of the process.

When a creditor reports to a credit bureau that one of their customers has entered a DMP, the bureau codes the consumer's credit report accordingly. There is no impact on the consumer's credit score strictly from the act of entering a DMP. However, it may well be that the credit behavior that led to the consumer needing DMP assistance has impacted the score anyway.

Creditors generally do not view the fact that a consumer is on a DMP as negative. Rather it is usually seen as an attempt to honor their obligations and is certainly seen as more positive than personal bankruptcy. Further, the education that is received as part of a DMP, along with the counseling, is intended to rehabilitate and produce a more credit-worthy consumer in the future. Creditors may also see this as positive.

Posted: 6/9/2011 and 9/21/2012