

Is Technology-Enhanced Credit Counseling As Effective as In-Person Delivery?

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What is Credit Counseling?

Education? Quite possibly “Yes,” but a more accurate characterization of the initial benefits would be to call it “decision assistance”

When done well, counseling consists of individual sessions with debtors conducted by trained and certified credit counselors

- At least one 30 - 90 minute session for each client
- Session conducted in-person or over the telephone (and more recently, in interactive mode over the Internet)
- Discussion of family budget, financial goals, spending patterns, assets, all debts, and any financial distress
- Written action plan at end of session that identifies next steps
- Follow up visits if needed

Brief Background on the Credit Counseling Industry

- Today's version of the credit counseling industry began in the late 1960s as a market driven, creditor sponsored alternative to bankruptcy
- Origins were in non-profit agencies doing face-to-face counseling
- Two core products at the outset (more were developed later)
 - Budget/financial analysis and recommended plan of action
 - Debt Management Plan (DMP) for those who qualified

Background on the Credit Counseling Industry, continued

- Rapid growth during 1990s brought agencies masquerading as not-for-profits but using for-profit business models; also telephone delivery of counseling service
- By 2004, upward of 9 million consumers/year were seeking assistance from credit counseling agencies
- IRS crackdown in 2004-2005 caused industry to split between for-profits and tax-exempt non-profits; 39 states allow both to operate
- Bankruptcy Reform Act of 2005 (BAPCPA) introduced bankruptcy counseling; mortgage crisis in 2007 propelled foreclosure counseling
- By 2006, investment in Internet delivery gave some agencies three delivery channels

The Importance of the DMP Product

- **What's in it for a financially troubled consumer?**
 - Agency brokers a repayment plan (typically 48 - 60 months) across multiple creditors
 - Creditors offer concessions in form of a lower min payment, lower finance charges, late fee waivers, halt of collection calls, possible re-age of account to “current” - so long as consumers continue to make plan payments
- **What's in it for creditors?**
 - Collective forbearance may keep consumers out of bankruptcy and reduce losses. So, the concessions buy larger debt recovery
- **What's in it for counseling agencies?** Creditors pay counseling agencies a small percentage of amount recovered through DMP => majority of agency revenues

Scope of Products Offered by Counseling Agencies in 2008

- Budget and financial counseling for households experiencing financial distress
- Debt Management Plans (DMPs)
- Homeownership (pre-purchase) counseling
- Bankruptcy counseling
- Mortgage foreclosure counseling

On the horizon:

- Reverse Mortgage counseling
- Student loan counseling
- Less than full balance DMP payment programs
- Debt settlement products

Why Should We Care About the Effectiveness of Technology-Assisted Delivery?

- In-person, face-to-face counseling was considered the “gold standard” in quality counseling through the 1990s. BUT, it is much more resource intensive than phone or Internet counseling => much more expensive to support nationwide availability

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- Many consumers strongly prefer the convenience of telephone or Internet delivery; won't seek counseling assistance otherwise

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- Many consumers strongly prefer the convenience of telephone or Internet delivery; they won't seek counseling assistance otherwise
- In times of severe financial distress (e.g., mortgage foreclosure crisis of 2007-2008), in-person counseling can't possibly keep up with demand
- The IRS has questioned the educational value of a core counseling product: the DMP. Tax-exemption status for some agencies hangs in the balance. Technology-assisted delivery has heightened their skepticism.

How Should We Measure the Impact of Counseling Agencies on Consumers?

Various sources of consumer benefits from counseling session:

- Individual budget/situation analysis, diagnosis, identification of options, recommendations for action
- Debt Management Plan product (DMP, a debt repayment plan)
- Other specific products or referrals to programs that can resolve immediate problems

Which can lead to:

- Relief from immediate financial crisis
- Rehabilitation and behavior change through continued interaction with agency for consumers on a DMP

Expectations for subsequent client credit profiles may differ with respect to incoming problems

- Situational crisis (external shocks such as job loss, divorce, etc)
- Habitual spending/borrowing/money management woes

Project Objective

- Determine whether technology-assisted counseling (telephone; Internet) is associated with larger or smaller improvements in client financial circumstances, relative to traditional, face-to-face delivery

Sponsorship:

- Launched in 2004 as a partnership between Consumer Federation of America and American Express
- AMEX agreed to underwrite a multiyear research project to study the effectiveness of credit counseling models
- CFA agreed to administer the project and commission research

Methodology

- Utilize samples of client data from multiple agencies pooled into a single database
 - 10 agencies identified as “high-quality” providers of counseling services,
- Samples included **all** clients counseled during sampling period, including those who start DMPs and those who just receive financial counseling
- Initially, only telephone delivery was considered as the alternative to face-to-face; Internet delivery was not yet consistently defined. Later additional data from one agency supported Internet analysis
- Outcome measures: client credit profiles as measured using (objective) credit bureau information, years after counseling
 - Credit scores
 - Bankruptcy incidence

Agencies and Samples

- **Participating agencies selected through a competitive RFP process (during summer 2004)**
- **Agencies offered a mix in terms of size and delivery channels**
 - Telephone counseling specialists (some large, national)
 - Regional agencies with both telephone and brick-and-mortar delivery channels (and Internet)
 - Smaller, local agencies offering primarily traditional, face-to-face counseling

Auriton Solutions	CCCS of Montana
ClearPoint Financial Solutions	InCharge Debt Solutions
CCCS of Greater Los Angeles	LSS Financial Counseling Service
CCCS of Greater Atlanta	Novadebt
CCCS of North Central Texas	Money Management International

Agencies and Samples, continued

- **Two samples**

- Primary sample: examines experience of all clients who received initial counseling in March and April, 2003

- » Utilizes agency data that was archived in 2003 at the time of counseling

- » Supplement with archived credit bureau data from 2005 and 2007 to provide observations 2 and 4 years later

- » Compares in-person clients with telephone clients

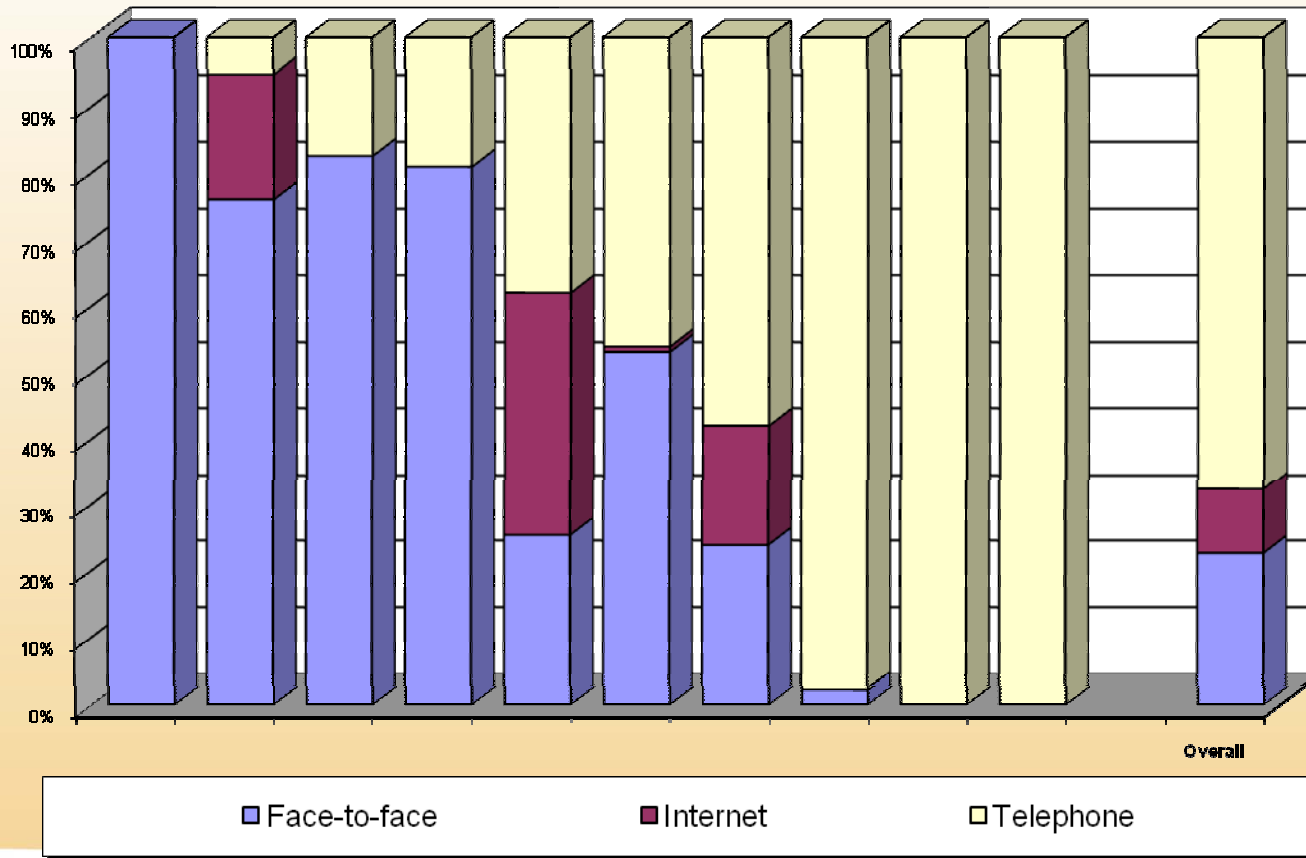
- Supplemental sample: One agency provided same data fields for all clients who received either budget counseling or bankruptcy counseling in spring 2006 and credit bureau data for spring 2007

- » Includes all three delivery channels: in-person, telephone, Internet

Sample Characteristics

- 60,000 clients received initial counseling in March and April 2003
- About 51,000 clients had credit reports and credit scores at four points in time: March 2002, 2003, 2005, 2007
- For each client, we have
 - Intake interview data from the counseling session
 - Up to 40 variables on client demographics, debts, assets, expenses, primary cause of financial problem
 - Session outcome and counselor recommendation
 - DMP details (when applicable)
 - Credit report variables (150+) at four points in time
 - Credit bureau risk scores at four points in time

Counseling Delivery Channels Across Agencies In Sample



Impact of Delivery Channel, part 1

- **Primary Sample:** 26,000 clients from the 5 agencies that offer clients a choice between telephone and in-person counseling and have sizeable volumes in each (*excludes Internet clients*)
- Constructed and estimated models to explain 3 outcomes, **measured two years after counseling:**
 - Probit model: Incidence of a bankruptcy filing anytime between March 2003 and March 2005
 - OLS model: Bankruptcy risk score measured in March 2005
 - OLS model: Delinquency risk score (FICO equivalent) measured in March 2005
- Estimated models for the same 3 outcomes **measured four years after counseling**

Explanatory Variables Included in Models

Credit bureau variables (values as of 2003):

- Bankruptcy risk score
- Delinquency risk score (FICO equivalent)
- # accounts with balance > 0
- Total balance on all non-mortgage accounts
- Total balance on mortgage accounts
- # of bank card accounts
- Proportion of bank card accounts with balance > 50% of limit
- # of non-installment accounts over 50% of limit
- # accounts 30+ days past due during last 18 months
- # of accounts currently past due
- # of inquiries in last 6 months
- Highest retail credit limit

Variables from counseling session:

- Delivery channel (phone vs. in-person)
- Counselor experience (in months)
- From interview: # unsecured creditors
- From interview: Total unsecured debt
- Counselor evaluation/recommendation
- Indicator of whether a DMP was started

Findings, part 1

- **Evidence of self selection into delivery channel: face-to-face clients have:**
 - Lower credit scores
 - More accounts with positive balances
 - Fewer bank credit cards, but more unsecured creditors
 - Less unsecured (i.e., credit card) debt
- **Face-to-face clients have a higher incidence of bankruptcy in the four years after counseling**
- **But, controlling for initial credit bureau info, initial credit scores, counselor experience, and counselor recommended action:**

Delivery channel has no statistically significant influence on the client's delinquency risk score for clients, measured four years after counseling

Caveats and Comments

- Results do not suggest that delivery methods yield ***equivalent outcomes for all consumers***
 - Clients were able to self-select delivery channel
 - Client characteristics (unobserved) that influenced their choice of channel may also have influenced the credit outcomes
 - Correct interpretation of result is: The two channels appear to be equally effective ***when clients are allowed to choose the delivery channel***

Findings Part 2: Internet Delivery

- 6,000 clients of CCCS-Atlanta received initial counseling in March-April 2006
- Sample includes clients distributed across three delivery channels:
 - Face-to-face (19.4%)
 - Telephone (55.8%)
 - Internet, including Live Chat with a counselor (24.7%)
- Agency claims several advantages of Internet counseling over other delivery channels:
 - Convenience: available 24/7 and session can start/stop on demand
 - Organization: Clients can take all the time they need to gather records, answer questions
 - Anonymity: Greater degree than other channels
 - Learning Style: Appeals to visual learners who want to move at their own pace

Findings Part 2: Internet Delivery, cont'd

- Sample data contain credit reports and credit scores at three points in time: March 2005, 2006, 2007
 - So, clients are observed one year following their counseling session
- Internet clients are different from other clients
 - Younger
 - Much higher monthly income
 - More unsecured debt
 - Larger reduction in credit score during year leading up to counseling
- Client risk scores increased during year following counseling, but scores for the telephone and Internet clients did not perform differently from scores of clients counseled face-to-face (controlling for other factors)

Summary:

Based on data from two large samples of counseling clients who were able to choose their delivery channel:

- Face-to-face clients have a higher incidence of bankruptcy in the years after counseling
- But, controlling for initial credit bureau info, initial credit scores, counselor experience, and counselor recommended action:

There is no evidence that technology-assisted counseling was associated with subsequent client credit profiles that were worse than those for consumers who received face-to-face counseling.

Other Interesting Results Related to the “Counseling as Education” Question

- Clients who are recommended for DMP *and who start a DMP:*
 - Have significantly lower incidence of bankruptcy in subsequent four years
 - Experience significantly greater lift in risk scores by the end of four years (controlling for other variables)
- This is not the case for clients who are recommended for a DMP **but do not start** (no improvement in BK or scores)
- Delivery channel does not affect this result. **DMP starters perform significantly better than non-starters in both groups**

Do DMPs Impart Education? Promote Behavior Change?

- The discipline of DMP participation, reinforced by agency follow-up contacts, *may* help clients improve their credit profile
 - *This result is intriguing, but preliminary*

Do DMPs Impart Education? Promote Behavior Change?

Open questions:

- Does the DMP result simply occur because DMP clients get a better deal from creditors (e.g., concessions on the DMP)?
 - Benefits can be substantial and help pay off debt faster
 - If clients with different concessions perform equally well in credit report outcomes, it supports the “DMP experience” explanation vs. “the DMP concessions” explanation
- Does credit profile improve with time on plan? Is sticking with a budget and a plan part of the education process?
 - Can agencies facilitate the education by taking actions to help clients stay on plans?

Questions and Comments