



“The Credit Counseling Industry’s Largest Trade Association”

Response of the American Association of Debt Management Organizations to the United States Federal Trade Commission for Comments Related to the Debt Settlement Workshop

Demographic and Industry Information for Non-profit Credit Counseling Agencies

On behalf of the membership of the American Association of Debt Management Organizations (“AADMO”), we are pleased to provide this “Demographic and Industry Information for Non-profit Credit Counseling Agencies” to the Federal Trade Commission for its “Debt Settlement Workshop” on September 25, 2008.

AADMO is an industry education and advocacy organization the mission of which is to promote and ensure the continued operation and viability of credit counseling and debt management organizations.

AADMO is the largest trade association for the credit counseling and debt management industry. Nationwide, the majority of licensed and legally operating credit counseling agencies are members of AADMO. For example, AADMO represents:

| <u>State</u> | <u>% of Licensees that are AADMO Members</u> |
|--------------|--|
| Arizona | 77% |
| California | 70% |
| Connecticut | 78% |
| Maine | 75% |
| Maryland | 86% |
| Mississippi | 79% |
| Montana | 82% |

It should be noted that some states, such as Alaska, Arkansas, Massachusetts and Tennessee do not currently have any license requirements for credit counselors and therefore do not have any list of authorized agencies. Other states, such as Florida, Georgia and Ohio, have laws regulating credit counseling but do not have a license requirement.

California requires that non-profit credit counseling agencies file for an exemption to licensing rather than obtain a license. Washington, D.C. repealed its law and Washington State abolished its license requirement.

AADMO members are consumer credit counseling agencies, debt management organizations, credit counselors, personal finance educators, credit and debt information educators, bankruptcy pre-filing counselors, bankruptcy pre-discharge educators, consumer lawyers and many others.

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AADMO is the only trade association to have held state law compliance workshops with the New York State Banking Department and the California Department of Corporations upon enactment of their respective laws governing credit counseling. AADMO is also the only trade association for the industry to publish a formal summary of state laws that has been reviewed by state regulators.

AADMO Credit Counseling Industry Analysis

AADMO has conducted an analysis of the tax-exempt * credit counseling industry through a review of Form 990 filed by credit counseling agencies with the Internal Revenue Service (“IRS”). The AADMO analysis examined the Form 990 for more than 850 identified credit counseling agencies in the United States.

Our process first filtered out organizations that had indicated a name similar to credit counseling but operated, according to their stated purpose on the Form 990, differently than credit counseling organizations. The AADMO revised size of the tax-exempt credit counseling industry was then determined to be 768.

The IRS conducted its own analysis of credit counseling agencies and concluded:

“As of November 2005, IRS inventory records listed 788 approved tax-exempt credit counseling organizations.”

<http://www.treas.gov/tigta/auditreports/2006reports/200610081fr.html>

Given that the AADMO and the IRS conclusions were within acceptable margins of error of each other, we take the 788 inventory number as valid.

The IRS then removed 227 organizations from the industry inventory due to potential miscoding or other errors. The IRS concluded that 227 (162 + 50 + 9 + 6) organizations with potentially inaccurate information on the EO function inventory system reduced the total size of the industry to 561. The IRS stated:

- **162** (21 percent) of the 788 credit counseling organizations were not coded with NTEE Code P51.
- **50** of the 788 organizations may not be credit counseling organizations.
- **9** of the 110 organizations referred to the IRS as engaging in potential abusive credit counseling activities have been identified for future compliance activity but are not included in the population of 788 organizations.
- **6** of the 15 sampled cases were involved in credit counseling activities and should have been closed using NTEE Code P51 to ensure consistency on the EO function inventory system.

<http://www.treas.gov/tigta/auditreports/2006reports/200610081fr.html>

*in this report we take the use of the term “non-profit” is used interchangeably with “tax-exempt”

AADMO further analyzed the number of revocations that had already occurred and would not have been included in the inventory review. The 13 agencies that had public revocations during the analysis are:

- Budget and Credit Counseling Services, Inc.
- Consumer Guidance Corp.
- Credit Debt Solutions, Inc.
- Credit Network, Inc.
- The Freedom Financial Consultants, Inc.
- Fresh Start, Inc.
- Hawaii Credit Counseling Service
- Lighthouse Credit Foundation
- Mason Credit Counseling
- National Association of Credit Counseling, Inc.
- National Credit Counseling Services, Inc.
- Nationwide Consumer Credit Services
- Personal Credit Assistance, Inc.

Given the revised size of the industry at 561 less the 13 previous revocations, AADMO concluded that the revised size of the operating credit counseling industry was 548 agencies.

It then became necessary to evaluate the number of credit counseling agencies that are truly operating. To establish this baseline, AADMO removed all agencies from the industry inventory that had \$0 reported income or expenses.

The AADMO analysis indicated that 290 credit counseling agencies had zero reported income or expenses. We have translated that lack of income or expense to be an agency that is not actually operating.

The Credit Counseling Industry Consists of About 250 Organizations

Our revised industry size had been 548 agencies. With the removal of 290 non-operating organizations from that calculation we are left with a revised industry size of only 258.

Comparison of Industry Size with IRS Audits

The interesting conclusion about the size of the credit counseling industry is not that it is only about 250 organizations, but rather how that size approximates to the total number of audits the IRS is conducting of the credit counseling industry.

Previously the IRS had announced that it was in the process of auditing the credit counseling industry. The initial round of audits was 63 credit counseling agencies. The IRS stated:

“EO...has identified 62 tax-exempt credit counseling organizations for examination to determine if these organizations are operating within the scope of their tax-exempt status.”

<http://www.treas.gov/tigta/auditreports/2006reports/200610081fr.html>

“According to the EO function, the 62 credit counseling organizations represent approximately 61 percent of the total estimated revenues.”

<http://www.treas.gov/tigta/auditreports/2006reports/200610081fr.html>

“Over the past two years, the IRS has been auditing 63 credit counseling agencies, representing more than half of the revenue in the industry.”

<http://www.irs.gov/newsroom/article/0,,id=156996,00.html>

In addition to the 63 audits of credit counseling agencies, the IRS also announced an additional 80 audits that would occur in 2007. This additional 80 audits would bring the total number of audits to 143. The IRS stated:

“80 audits, in addition to the previously announced 63 audits, will be conducted by the service in fiscal year 2007...”

Steve Grodnitzky

Internal Revenue Service

The AADMO analysis of the industry indicated that in the entire universe of tax-exempt credit counseling agencies, only 129 had annual revenue greater than \$500,000. If the 129 agencies with income over \$500k is added to the number of agencies (13 revocations) that had already been revoked, the total number of agencies being reviewed comes to 142.

It is a strikingly similar total of 143 agencies that were to be audited by the IRS and AADMO’s conclusion of 142 total agencies that had substantial income or had been revoked.

The similarities become even more apparent when AADMO analyzed the most recent announcement of the IRS that an additional 111 audits were to be conducted of tax-exempt credit counseling in addition to the previously announced total of 143 organizations.

IRS to Conduct 254 Audits of Tax-Exempt Credit Counseling

The most recent number of announced audits to be conducted by the IRS brings the industry total to 254 audits of tax-exempt agencies. The AADMO analysis determined that the approximate size of the industry was only 258 tax-exempt credit counseling organizations.

AADMO CREDIT COUNSELING INDUSTRY INVENTORY DATA

Total Industry Inventory

| | |
|---|-----|
| Total Industry Size: | 788 |
| Total Industry Size Corrected for Errors: | 548 |

Industry Size by Income

| | |
|------------------------------|-----|
| Agencies with \$0 Income | 290 |
| Agencies with Income \$500k- | 138 |
| Agencies with Income \$500k+ | 129 |

TOTAL AGENCIES: 557

Revised Total Industry Inventory

| | |
|---|-----|
| Total Industry Size Corrected for Errors: | 548 |
| Agencies with \$0 Income | 290 |

TOTAL OPERATING AGENCIES: 258

IRS Announced Audits of Industry

| | |
|------------------|-----|
| Round I Audits | 63 |
| Round II Audits | 80 |
| Round III Audits | 111 |

TOTAL AUDITS: 254