Credit counseling may help reduce consumer debt

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By the end of fourth quarter 2018, total household debt in the United States reached a new high of $13.54 trillion. A new *Economic Inquiry* study found that nonprofit credit counseling—which reaches millions of consumers a year and provides financial education, individualized financial counseling, and debt restructuring services—can be an effective strategy for addressing consumer debt issues.

For the study, researchers analyzed the credit of counseled individuals versus a matched comparison group of noncounseled individuals. Individuals who underwent credit counseling experienced a substantial decline in debt relative to the comparison group, and credit counseling was also associated with an increase in credit scores for consumers with the lowest credit scores prior to counseling.

"This research shows some of the most rigorous evidence to date on the benefits of nonprofit credit counseling in helping distressed households manage their debt levels," said co-author Stephen Roll, Ph.D., of Washington University in St. Louis. "Though these results are encouraging, more work is needed to understand the longer-term effects of credit counseling services on consumer credit profiles. Our findings also speak to the need for policymakers, researchers, and practitioners to find ways of helping households better address their debt issues before they fall into crisis and experience large credit score declines, which can have lasting implications for consumers' financial security."

More information: Stephen Roll et al, CREDIT COUNSELING AND CONSUMER CREDIT TRAJECTORIES, *Economic Inquiry* (2019). DOI: 10.1111/ecin.12802

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