

Credit Repair Made Easier

PART THREE
by Andreas A. Keller

Part One, "Your Credit Score is Your Financial Fingerprint," appeared in the April 2007 Edition.

Part Two, "Good Credit Scores Create Wealth," appeared in the June 2007 Edition.

A bad credit report is simply an accumulation of credit mistakes. They can range from late or missed payments, which are called delinquencies, to collection actions, judgments, tax liens, repossessions, foreclosures, or bankruptcies. No matter how bad a credit file may look, there is good reason for hope. The mistakes occurred in the past, and the tools of credit repair can both remedy those mistakes and improve one's financial future.

As with any repair, personal determination is paramount. First, you have to overcome your fears and summon up the courage to deal with past mistakes, and then you have to choose to act, because procrastination will not fix the credit problem. With a realistic action plan, however, you can follow the path of credit repair. This path may be long, painful, and occasionally frustrating, but in the end, it will be monetarily and personally rewarding.

Credit repair begins with facing the facts:

- No one can legally remove accurate and timely negative information from a credit report. When negative information in your report is accurate, only the passage of time can assure the removal.
- Accurate negative information can stay on your credit report for 7 years, bankruptcy information for 10 years, and unpaid judgments for 7 years or until the statute of limitations runs out. There is no time

limit on reporting information about criminal convictions.

- The law allows you to ask for an investigation of information in your file that you dispute as inaccurate, incomplete, or outdated. Under the Fair Credit Reporting Act, the credit reporting agency and the information provider or creditor both are responsible for correcting inaccurate or incomplete information in your credit report.

The Fair Credit Reporting Act is very consumer friendly. Federal law requires Credit Reporting Agencies to verify all disputed items. Any item you dispute that cannot be verified by the credit reporting agency or the information provider has to be removed from your file.

The dispute process is fairly simple. Write to the credit reporting agency to alert it to information in your report that you think is inaccurate. Explain why you dispute the information and request that it be removed or corrected. Include copies (not originals) of documents that support your position. Finally, send your letter by certified mail, "return receipt requested".

Consumer reporting agencies must investigate the disputed items within a reasonable time, which is generally assumed to be about 30 days, which includes notifying the information provider or creditor. The information provider has to investigate and report back to the consumer reporting agencies. If the information provider finds that your dispute is valid, it has to notify all three credit reporting agencies so they can correct the information in your file. When the investigation is complete, the consumer reporting companies must provide you with the results in writing, as well as a free copy of your credit report if the dispute results in a change. If you request, the credit reporting agencies must send notices of any correction to anyone who

received your report in the past six months.

Unfortunately, many people find it too intimidating to initiate disputes with credit reporting agencies by themselves, and so they look to others for help with credit repair by checking out advertisements that appear in newspapers, television, the Internet, radio, or fliers in the mail. The promises are alluring:

- "Credit problems? No problem!"
- "We can erase your bad credit - 100% guaranteed."
- "Create a new credit identity - legally."
- "We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!"

Such are the claims of shady credit repair organizations, which more often than not victimize vulnerable consumers. It is rare for these organizations to deliver on their promises, and sometimes, people who use their services end up with worse credit scores after paying hundreds of dollars in fees.

It is best to avoid such scam credit repair companies, which may be recognizable by the following warning flags:

- Requests to pay for credit repair services up front. Credit repair companies cannot require you to pay until the promised services are delivered.
- Companies suggesting that you invent a "new" credit identity.
- Companies that advise you to dispute accurate information.
- Companies that do not inform you of your legal rights.

The Credit Repair Organizations Act was signed into law in 1996 to protect consumers from unfair and deceptive advertising and to require credit repair organizations to provide a copy of the "Consumer Credit File Rights Under State and Federal Law" before a consumer signs a contract. In addition, the credit repair organizations have to observe a 3-day waiting or rescission period during which a consumer can cancel the contract at no cost. If the consumer

chooses to move forward with the contract, the contract must specify:

- Payment terms for services, including total cost for the credit repair;
- A detailed description of the services to be performed;
- The time frame it will take to achieve results;
- Any guarantees that are being offered; and
- The company's name and business address.

The Federal Trade Commission regulates credit bureaus and credit repair organizations. There are many legitimate credit counselors who provide guidance on improving your credit report and demonstrate ways to increase a credit score legitimately. A list of Government approved Credit Counseling Companies can be found at the U.S. Trustee Program/Department of Justice at http://www.usdoj.gov/ust/eo/bapcpa/ccde/cc_approved.htm.

Increasingly, law firms have been moving into the credit repair market. Law firms are also bound by the rules and regulations of the Credit Repair Organizations Act. Thus, it makes no difference whether you work with a legitimate credit counselor or a law firm, except for the fee.

At a recent birthday party, I listened to a young lady in her mid-twenties tell me how she has worked to repair her credit report. Her boyfriend agreed to add her as an "authorized user" on his credit card accounts since he has a clean credit history. These "authorized user accounts" now appear on her credit report, which provides a boost to her credit score. In essence, she borrowed her boyfriend's clean clothes.

In similar fashion, some Internet companies are offering "donor" accounts that can be 'leased' in order to improve one's credit history. As soon as these leased donor accounts are reported on the recipient's credit report, the authorized signer status is removed. The donor accounts offset the recipient's negative credit history and improve the credit score. The technique is legal but simply dishonest. Creditors and lenders are being misled and a potential borrower may get approved for a loan under false pretenses.

The same young lady explained to me how she also contracted with a credit repair clinic for \$600 to clean up her credit report within 60 days. With the gradual tightening of credit policies and lending standards over the last twelve months as a result of the deteriorating sub-prime mortgage market, a new cottage industry for credit repair services has begun to mushroom. These credit repair clinics charge anywhere from \$500 upwards to improve credit scores within about two to three months.

Credit repair clinics operate on the premise that credit reporting agencies and creditors do not have sufficient time to investigate disputes or may no longer have the information readily available. Since the law requires that a disputed item either be proven valid within about 30 days or removed from the credit report, aggressive clean up campaigns often result in an improved credit score.

Peripheral entrants to the credit repair market such as Internet companies advertising for mortgage lenders and finance companies are providing free credit repair guidance. Here is a quote from such an Internet website which states: "It is completely legal for you to dispute items on your credit file even if you know they are correct. You are simply testing to see if your creditors have maintained the proper records to verify the dispute. You have a very bad memory and forgot the negative accounts on your credit file are really yours." – In my book that is not ok!

Credit score improvements gained from such techniques may sometimes be temporary, because once creditors are alerted to unpaid debt they may reactivate the account and revive collection efforts. The removed item may show up again on the credit report several months later with the time clock being reset for the count of seven or ten years. It may be better to let a sleeping dog lie.

The reason for describing some of these quick-fix credit repair techniques is to demonstrate that while you may be able to rent good credit or force your credit score higher temporarily, **you cannot buy the good spending and credit habits** that are so necessary to maintain a high credit score. Rather than spending

money on these credit repair schemes, you would do better to save your money; only time, a conscious change in behavior, and a personal debt repayment plan will improve your credit. Everything a credit repair clinic can do for you legally, you can do for yourself at little or no cost. Moreover, the discipline that you gain from earning a good credit score will benefit you in the long run much more than buying a quick fix.

If you are not disciplined enough to create a workable budget and stick to it, if you can't work out a repayment plan with your creditors, or if you can't keep track of mounting bills, consider contacting a credit counseling organization. For more valuable information on the topic of Credit Counseling and Debt Management Plans, Debt Consolidation, and Bankruptcy, go to www.ftc.gov, click on the heading "Credit" and read the article, "Knee Deep in Debt!"

Andreas A. Keller is a Senior Loan Officer with Warrenton-based Mid-Atlantic Mortgage Corporation who turns the mortgage process into delightful moments with the help of insightful financial coaching. He can be reached at this cell phone 703-346-7262 or his office phone 540-347-9522 and via email: aakeller@mac.com. Get to know him at his personal website **www.MortgageMomentsOnline.com**.