

# The Truth About Credit Repair & Credit Repair Companies

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*"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!"*

If your credit is really bad, these kinds of advertisements can be very appealing. That's especially true if you want to buy a home, finance a car or are just tired of dealing with bad credit.

The problem is that it's very hard for most consumers to really understand what credit repair can and cannot do, as well as whether the company they are considering is legitimate. These companies promise, for a fee, to clean up your credit report so you can get a car loan, a home mortgage, insurance, or even a job. Some credit repair companies are outright scams. Their goal is to "help" their clients by whatever means necessary, whether they are legal or not. They have no problem breaking the law, and they may use tactics such as:

- **File Segregation:** Consumers are told to apply to the IRS for an Employer Identification Number ("EIN") and then use the EIN in lieu of their Social Security number when applying for credit, in order to create a completely new credit file in which the old debts will not appear. The scheme essentially involves an attempt to hide one's identity from creditors by getting credit with the EIN and a name and address that differ slightly from accurate identifiers. It is illegal.

- **Identity Theft:** Knowingly or not, a consumer applies for credit using someone else's information that has been stolen. Another variation is to report accurate unpaid debt as "fraud" in order to avoid paying it. To do this, the consumer will have to fill out a police report and lie. This too is illegal.

Most credit repair companies, however, are not using illegal tactics. And many of them genuinely want to help their clients improve their credit. How do they try to do that? Generally, there are three steps to the service that these credit repair organizations offer:

- The companies ask you to forward them copies of your credit reports (usually from the three major credit reporting agencies - Equifax, Experian, and TransUnion), which you must obtain directly from those agencies;
- The credit repair organizations then recommend which items on your credit report you should dispute;
- The credit repair organizations then contact the credit reporting agencies to challenge questionable items on your credit reports.

Credit reporting agencies are obligated under the Fair Credit Reporting Act (FCRA) to correct or delete inaccurate, incomplete, or unverifiable information, usually within 30 days. They are not required to remove accurate information unless it is more than seven years old (or bankruptcies that are over ten years old). If the information that is challenged it's confirmed, it will be removed. And that's what these companies are often doing – writing and sending dispute letters on their client's behalf.

But here's the thing: you have the right to dispute any inaccurate or incomplete information on your credit report yourself - and the credit reporting agency must investigate the dispute without charge to you.

## **Why Do Consumers Use Credit Repair?**

So why do consumers use credit repair? Usually one (or more) of three reasons:

1. They believe credit repair companies have methods for getting rid of information that are known only to them;
2. There are mistakes on their credit reports that they are unable to fix themselves;
3. They are overwhelmed and just want someone to take care of it for them.

If you are considering using one of these firms because you think they have some kind of "secret sauce," that you may be wasting your money. There is nothing they can legally do that you can't do yourself. You can get your own credit reports for free once a year, and you can dispute negative information yourself. If the information is not verified at the source, it will be removed. Sometimes that works, and sometimes it doesn't. There's no magic language you have to use (in fact it's better if you don't try to quote consumer protection laws - that's usually a tip off that you are trying to use credit

repair) and all it cost you is a stamp. If the reason you want to hire one of these companies is because there are mistakes on your credit reports that you haven't been able to fix, then you may want to first try filing a complaint with the Consumer Financial Protection Bureau. They will usually contact the credit reporting agency on your behalf, for free. (Note - if you have not disputed the information with the credit reporting agency that is reporting it, do not file a complaint with the CFPB. You should first dispute it yourself. Here's a guide that explains how to dispute credit report mistakes.) And if that doesn't work, you may want to consider consulting a consumer law attorney with experience in credit damage cases. If you have a good case, you may be entitled to damages.

However, if you don't feel you have the time to do this on your own, if you are overwhelmed by the process, or if you just want to turn the whole thing over to professionals, there are some basic rules for picking a reputable company to assist you in repairing your credit.

According to the FTC, the main warning signs of scam credit repair companies are:

- Companies that want you to pay for credit repair services before they provide any services. Credit repair companies cannot require you to pay until they have completed the services they have promised.
- Companies that do not tell you your legal rights and what you can do for yourself for free.
- Companies that recommend that you not contact a credit reporting company directly.
- Companies that advise you to dispute accurate information in your credit report or take any action that seems illegal, like creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.

In 1996, the Credit Repair Organizations Act (CROA) was signed into law to protect the public from unfair or deceptive advertising and business practices by credit repair organizations. By law, credit repair organizations must give you a copy of the "Consumer Credit File Rights Under State and Federal Law" before you sign a contract. They also must give you a written contract that spells out your rights and obligations. Read these documents before you sign anything.

The law contains specific protections for you. For example, a credit repair company cannot:

- Make false claims about their services.
- Charge you until they have completed the promised services.
- Perform any services until they have your signature on a written contract and have completed a three-day waiting period. During this time, you can cancel the contract without paying any fees.

Your contract must specify:

- The payment terms for services, including their total cost.
- A detailed description of the services to be performed.
- How long it will take to achieve the results.
- Any guarantees they offer.
- The company's name and business address.

## **Free Help With Your Credit**

Before you spend money on one of these services, you may want to try to fix your credit yourself. That's especially true if the fees that one of these companies will charge you is money you really can't afford and you'd be better off using it to pay other debts, or toward a down payment on a house or a car.

You can check your credit score each month using Credit.com's free Credit Report Card. This completely free tool will break down your credit score into sections and give you a grade for each. You'll see, for example, how your payment history, debt and other factors affect your score, and you'll get recommendations for steps you may want to consider to address problems. In addition, you'll also find credit offers from lenders who may be willing to offer you credit. Checking your own credit reports and scores does not affect your credit score in any way.

Is there something on your credit that you don't understand? Use the search box on Credit.com to find an article on that topic. You'll find dozens of stories about specific credit report topics such as inquiries, collection accounts, and how late payments affect your credit. If you still don't understand the topic after reading those articles, you can leave a comment. Our experts frequently answer questions on the blog.

There is a lot you can do to make your credit stronger on your own. If you still need help, then you'll at least go into the credit repair process understanding what you are paying for.