

# The Nuts and Bolts of Credit Repair

Working with a reputable credit-repair company can be the saving grace for your low-score borrowers

By **Douglas Muir**, founder and CEO, Credit Justice Services

**I**N TODAY'S MORTGAGE MARKET, homeowners and potential borrowers are facing tough times. Homeowners with adjustable-rate mortgages, for instance, can face larger payments when their loans reset and interest rates soar. And borrowers looking for financing for a new home are finding a tight loan market.

What these consumers have in common is that the interest rate on their loans — and lately, even their likelihood of getting a mortgage — often depends on their credit score. If your clients have low credit scores, their chance of getting a good rate or even a mortgage at all lessens. You can help them raise their scores and increase their odds of getting a good mortgage by helping them find an effective credit-repair company with which to work.

To do so, you must understand what to look for in a credit-repair company. First, it is beneficial to understand credit scores and federal laws that protect consumers' rights regarding credit-reporting agencies.

## Deconstructing credit scores

There are three major credit-reporting agencies in the U.S. — Equifax, TransUnion and Experian — that collect individuals' personal financial data from financial institutions. The agencies use the data to determine consumers' credit risk. Each agency has its own way of deter-



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sionals about how to help their clients achieve the credit scores they legally deserve. The impressive response has propelled CJS into 36 U.S. states, Puerto Rico, St. Croix and St. Thomas. Visit [www.creditjusticeservices.com](http://www.creditjusticeservices.com), e-mail [info@creditjusticeservices.com](mailto:info@creditjusticeservices.com) or call (866) 380-0067 to learn more about CJS.

mining credit scores, but mortgage lenders most commonly use the FICO score.

Credit scores are based on a statistical analysis of consumers' credit reports and are used to represent their creditworthiness — or the likelihood that they will repay their debts. As a mortgage broker, you likely know that several factors affect a person's credit score. These include payment history, amounts owed, length of credit history, new credit and type of credit used.

Most people don't know, however, that a few points can be the difference between a good rating and an excellent rating. A better rating often translates into smaller monthly payments with better long-term interest rates.

For example, the higher your borrowers' FICO score, the less they can likely expect to pay for their mortgage. Consider if your client is taking out a \$216,000, 30-year, fixed-rate mortgage. A homebuyer with a FICO score of 760 or better could pay at least \$200 less per month for this mortgage than someone whose score is 620, thus saving more than \$2,400 per year.

You can see how essential it can be for your clients to improve their credit scores if they are low and to keep them high if they are good.

## Understanding FCRA

With sensitive matters resting on credit scores, it's important for homebuyers to have the best-possible rating. Many credit reports, however, contain inaccurate information, which can result in lower and inaccurate credit scores.

The Massachusetts Public Interest Research Group studied the three major credit bureaus in 2004 and found that 79 percent of U.S. credit reports contained incorrect information. The consumer-advocacy group also found that one in four credit reports were so inaccurate that the people were actually turned down for financing.

Credit-repair companies can help consumers contest inaccurate information by following guidelines laid out in several laws, most notably the Fair Credit Reporting Act (FCRA).

The FCRA was enacted in 1970 to regulate how credit-reporting agencies use a person's information. The act restricts who has access to

an individual's sensitive credit information and how that information can be used.

Further, a 2003 amendment to FCRA — the Fair and Accurate Credit Transactions Act (FACTA) — allows consumers to:

- **Request and obtain a free credit report once a year from each of the three major credit-reporting companies;**
- **Place alerts on their credit histories if they suspect identity theft; and**
- **Receive a credit-disclosure notice from lenders** that includes consumers' credit scores, range of scores, credit bureaus, scoring models and other factors affecting their scores.

These laws encourage consumers to look into their credit history and to ensure the information is complete and accurate. Further, the FCRA requires that the credit bureaus make reasonable efforts to ensure the information contained in their credit reports is accurate.

## FCRA provisions

There are six key FCRA provisions that ensure consumers' right to contest negative information listed on a credit report.

The first provision allows individuals to dispute information in their credit report. When a credit bureau receives a dispute, it must then promptly investigate and verify the information.

The second and third provisions set time limits. The credit bureaus have 30 days to complete an investigation into a disputed item. The bureaus must look into every disputed claim and must send the investigation's results to the consumers within five days of its completion. If they cannot confirm its validity, they must delete it from the individual's credit report. The consumer must hear the results within a week.

The fourth provision allows consumers to take a second step toward disputing negative items. If consumers claim that evidence supporting their dispute of information was disregarded, the credit bureaus must evaluate all the documentation and transmit that infor-

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## Credit Repair

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mation to the creditor. As such, the company claiming a negative item on a consumer's credit report must respond to that person's challenge of information.

The fifth provision deals with deleted information. When an entry in a credit report is deleted, it cannot be reinstated unless the creditor certifies that the information is complete and accurate. The general rule of thumb is that if the information has been deleted, it most likely won't come back.

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The last provision allows a consumer statement to be added to an individual's credit report. If a consumer disputes the accuracy of certain information, and the creditor verifies it as correct, then the credit bureaus must include the consumer's explanation of the dispute. This gives consumers the chance to have their explanation of the inaccuracy listed directly under the negative item.

These provisions allow consumers to contest information and to clean up their credit history on their own. But the process requires relentless follow-up and must be completed in a timely matter. A reputable credit-repair company can deal with the tedious aspects of disputing items on an individual's credit reports.

### Finding a reputable company

Over the years, the credit-repair industry has come under a negative light. This is because some Internet-based credit-repair companies charged exorbitant fees, worked slowly and delivered few results. For example, if a credit-repair company only sends out five dispute letters a month, it could take one to two years to increase the clients' scores, resulting in thousands of dollars in fees.

Another problem with these credit-repair companies is that the FCRA states that credit bureaus can consider any third party that sends dispute letters on behalf of its clients to be frivolous and can therefore discard those disputes. In other words, because these companies send the

dispute letters on their clients' behalf, the letters can be ignored.

What good does that do for consumers? If the credit bureaus can ignore claims made by third parties, then the Internet companies' attempts will most likely be unsuccessful.

But there are reputable credit-repair companies that can help consumers fight negative information in a timely and direct manner. Your borrowers should look for companies that are open and transparent about the credit-repair process. These companies should also provide a clear-cut timeline for the credit-repair process. Sixty to 120 days is preferable.

Find a company that provides a detailed process for disputing negative items. It should have its clients review and sign each letter to ensure that the credit bureaus take the dispute seriously.

Credit-repair companies that carefully follow the legal guidelines set forth by the federal laws will be successful on behalf of their clients. Look for companies with an attorney on staff or with one readily available.



Doing just a little bit of research could stop you and your borrowers from making the wrong choice when deciding which credit-repair company to retain. Keep these guidelines in mind when helping your clients seek a credit-repair company to boost their scores. **!**