Inside Credit Repair

Insights from a credit attorney

By John Heath

Lexington Law®

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Introduction

For over 20 years, I've devoted my legal career to helping people, most of whom have credit reporting problems. After many years in this practice, I've learned that bad credit can happen to anyone, under many circumstances and at any time. For many, the credit reporting problem was not their fault. It's impossible not to be sympathetic to those who've lost opportunities because of their credit.

I've focused my practice on consumer credit repair because I'm passionate about helping consumers understand their rights and repair their credit. It's very fulfilling to me to see the positive changes in my clients' lives as their credit improves. I'm proud to advocate for the rights of my clients as a consumer credit attorney.

My practice allows for an innovative model that makes professional legal assistance for credit repair affordable and available to the majority of Americans. I'll tell you more about that model later in the book.

With the help of this book, I hope that many more people can learn the steps to effective credit repair, become more disciplined consumers and build a better life.

Consumer credit laws are constantly changing. With this in mind, it was time for a new book to keep you, the consumer, informed about the rights you have now. To that end, this book features an in-depth chapter on the laws that protect you. When it comes to credit repair, knowledge truly is power.

John Heath
Directing Attorney

CHAPTER ONE

How to avoid bad credit

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How to avoid bad credit

In this chapter, you'll learn:

- How common struggles with bad credit are
- The biggest contributors to bad credit
- The cost of bad credit
- Your rights to a fair and accurate credit report

If you've picked up this book, chances are you have financial problems.

Maybe you've been turned down for a mortgage, or can't get a decent rate on a car loan. You may have fallen behind on bills after a layoff, a divorce or an unexpected medical expense.

Perhaps you graduated from college with heavy student loan debt, only to find jobs suddenly in short supply. Maybe your mail is full of angry red-stamped 'overdue' bill notices, or bill collectors are ringing your phone at all hours.

If any of that sounds familiar, the first thing to know is: you're not alone. Here's an example of a common situation I often encounter with my clients.

Case study: A divorce finance disaster

As we've all seen recently, credit problems can happen to anyone. Here's an example of a case we commonly deal with:

> *An unexpected divorce doesn't just leave you lonely—often, it can leave you in a financial mess. That's what happened to Joe after his divorce from Jane. The middle-aged couple's Pennsylvania divorce-court judge ordered Joe to pay some of their debts, and Jane to pay others. They both had professional jobs, so it seemed like a fair arrangement.*
>
> *Joe struggled to pay the bills assigned to him and was slowly making headway. But he worried.*
>
> *He knew that during their marriage, he paid all their bills. He had a sinking feeling she wouldn't keep up her end of the divorce decree. Sure enough, he soon got a couple of calls from creditors about missed payments.*
>
> *He was glad they'd found his contact info listed as a previous responsible party. Now, he was aware and could avoid credit problems by keeping the bills current. Or so he thought.*
>
> *As soon as he knew Jane had fallen behind, he called the creditors she was responsible for under the divorce decree, to make sure they had his contact information. He asked to be sent duplicate bills each month. Joe didn't know how he'd make all the payments, but he planned to try. Although Joe was no longer adding to these debts himself, because his name was still associated with the accounts, the late payments were hurting his credit.*

> *Some creditors called Joe, but only after a bill was seriously overdue. Other creditors wouldn't even speak to him when he called, since he was no longer the responsible party.*
>
> *Eventually, Joe was paying both his bills and the bills that the court decreed Jane was supposed to be responsible for. He could barely stay afloat, but was trying his best to stay current. He didn't want to get branded a deadbeat, even though the bills that were late weren't his responsibility.*
>
> *Between the hassles of establishing a new household and the demands of his job, Joe missed a few payments. The creditor didn't call, Jane didn't pay and he didn't catch on until it was too late.*
>
> *These overdue bills showed up on Joe's credit report. On his own, Joe had solid credit all his adult life. He always paid his bills on time.*
>
> *Thanks to the divorce, Jane's overdue bills damaged his credit. The bad credit history Jane created could haunt Joe for a very long time if he didn't take action to challenge the negative items that were really Jane's fault.*

Here's the situation with divorce: your creditors aren't aware of your divorce, and neither are the institutions that manage your credit report. Although they aren't obligated to remove negative items—like overdue accounts—that are really your ex-spouse's responsibility, they often will if you can present them with the right evidence.

This is where credit repair becomes necessary—because not every situation is clear, and making sure your credit history is accurately and fairly reported will require you to address the issue.

Whether you're dealing with a similar situation or your circumstances are entirely different, if you are dealing with bad credit, there are a few things you should know.

The first is that you are not alone.

Bad credit is a nationwide struggle

In 2020, more than 33 million Americans survived on unemployment benefits, after the COVID-19 pandemic hit. Over 6.4 million people lived in households that were behind on their mortgage payments, the nonpartisan research Center on Budget and Policy Priorities found.

One in six U.S. renters was late paying rent. The percentages of affected adults were even higher amongst Black people and other minorities.

Of course, missed rent or mortgage payments are the exact sort of events that lead to credit trouble. Suddenly, you can't get a personal loan at a reasonable interest rate, or qualify for a mortgage.

You apply for a student loan, a car loan or a credit card, and you're told you've been rejected. Why? You have bad credit.

Bad credit means that lenders think your financial history makes you a bad risk. As a result, they don't want to loan you money, or let you buy things on credit. Frankly, they doubt you'll pay them back.

Nearly one-third of Americans had bad credit in 2020, credit agency Experian's annual Consumer Credit Review found. Surprisingly, the pandemic year was a good one for credit health, with many people hunkered down in isolation. The previous year, even more of us had bad credit.

Americans were carrying nearly $2.6 trillion in loan and credit card debt at the end of 2010, the Federal Reserve reported. By the end of 2020 and the COVID crash, that figure soared to almost $4.2 trillion.

Many are struggling to keep up with their debts. The average American family has $8,089 racked onto their credit cards, the latest figures show, for $807 billion in all.

It's no surprise that many people struggle to get the credit they want. In the Fed's 2019 survey, 11 percent of people said they'd been turned down for a credit card. Another 13 percent said they didn't even bother to apply, for fear of being rejected. That's nearly one-quarter of Americans who are unable to access credit.

While some people can charge their way to a great lifestyle, for others it's easy for debt to spiral out of control.

Getting a degree in debt

Along with the rising costs of many other items, the cost of attending college has become more expensive in recent decades. The cost of attending a 4-year college has more than doubled since the 1980s.

Today, the average bachelor's degree leaves new graduates over $30,000 in debt. Many modern grads continue to struggle with student loan payments decades after they wore their cap and gown.

Growing housing prices

Meanwhile, on the mortgage loan front, pricier homes have more Americans in a financial bind. Our collective housing debt—over $9 trillion in 2010—grew to $10 trillion in 2020, fueled by a low-interest mortgage refinancing boom.

Even more troubling, the amount we spend on housing as a percent of our income has crept up over the years. While financial experts have long advised that households not spend more than 28 percent of their paycheck on housing, many people are hard-pressed to stay below that figure in today's housing market.

Home prices have been rising faster than income for many years. A study from real-estate research firm ATTOM shows the average we're paying for shelter is now closer to 30 percent. Over half of U.S. counties are in the danger zone of housing unaffordability.

The 2020 recession didn't help, sending the mortgage-payment delinquency rate to over 14 percent for FHA-backed loans by year-end, a Mortgage Bankers Association study showed.

Renters didn't have it any better. By the end of 2020, 12 million renters owed an average of $5,850 in back rent and utilities.

Bad credit is temporary

Your current credit problems don't have to last forever. If you have money concerns, it doesn't have to stay that way. The insider knowledge in this book may well help you resolve your issues more quickly.

Some credit issues can be fixed, sometimes sooner than you think—and it's well worth taking the time to do so. Let me explain why you're smart to proactively work on improving your credit.

Bad credit can cost you in the long run

You may feel overwhelmed at the prospect of trying to repair your credit. I get it. Maybe you've already tried, without success.

When you've had bad credit for a while, it's easy to forget how different life might be if you had good credit.

To illustrate how drastic that change can be, let's look at a couple of men who work at the same company and earn the same salary—about $50,000 a year.

Case study: the cost of bad credit

Here's an example of two people who make the same salary and how their credit histories affect them, despite their equal income.

> *Steve, 31, is a sales manager at a fast-growing software company. About five years ago, he took advantage of offers he got in the mail and opened several small credit cards. At the time, Steve was in a difficult situation and relied on the credit cards to cover his expenses, eventually maxing out his credit cards and falling behind on his payments.*
>
> *In just a few months, Steve tanked his credit. Five years later, those negative items are still on his credit report.*
>
> *Today, he and his new wife rent a small apartment. Even though he makes $50,000 a year and his wife also works, he doesn't dream of buying a home. He knows lenders wouldn't find him creditworthy, once they got a look at his credit score.*
>
> *With some effort, Steve manages to qualify for a car loan—but only a high-priced, short-term loan. The interest rate? Eighteen percent. In fact, his car payment is higher than his rent payment.*
>
> *The couple have just one credit card—a Capital One Visa with a $500 limit and a 29 percent interest rate. It's always maxed out, and they struggle to make the payments.*
>
> *The pair live with constant anxiety, knowing they're at risk of getting another black mark on their credit history.*

Next, let's wander over to another cubicle in the same office and meet Ross, who's in the engineering department.

> *Ross is a bit younger than Steve, so you'd expect his credit score to be lower due to having less payment history. But instead, Ross's credit is stellar.*
>
> *He began establishing good credit at age 19, when he bought his first motorcycle. He's leveraged that early payment history to buy additional bikes and a car. At 28, he bought a small, starter home and began building home equity.*
>
> *He just bought a new, $28,000 Subaru Legacy and got a 0 percent interest initial term on his loan, thanks to his good credit. The result? Ross pays less each month for his new car than Steve pays for his used one.*
>
> *If Ross wants a credit card, he chooses one with the best terms and benefits.*
>
> *In all, Ross is living the good life. He's got a new house, a new car and a new motorcycle—all well within his monthly budget. He's even able to sock away a little money each month, and he's building home equity, too. There's nothing stopping him from moving up to a bigger house or better car in the future, as his income grows.*

As Steve's and Ross's contrasting stories show, good credit may be life-changing. You spend zero sleepless nights awake, worried if creditors will hassle you. Or wondering when you'll ever have the sort of lifestyle your friends and colleagues enjoy.

The trouble with bad credit is that the longer you have it, the harder it can be to improve your situation.

You can and should do everything in your power to have the best credit you can.

You have a right to fair, accurate and substantiated credit reporting

Sometimes, I meet people whose lives are being dramatically impacted by bad credit, but who still hesitate to act. They think raising their hand and objecting to an item in their credit report is wrong, somehow. Maybe even illegal.

This is untrue. Challenging what's on your credit report is completely within your rights as a consumer. I'll spell out exactly what your rights are in Chapter 4 coming up.

But for now, here's one important fact to know: **you have a right to a fair, accurate and substantiated credit report.**

What do those words mean, when it comes to credit?

Fair: All laws have been followed. Your privacy rights have been respected. Debt collectors that contact you are acting legally and are qualified to do so in your state. Single debts don't appear multiple times.

Accurate: All the items on your report are about your financial history, not someone else's. There are no errors in any of the reported items.

Substantiated: The paperwork that documents each item can be found—it isn't lost or unavailable. All the information on your report comes from still-operating data sources that you can ask for documentation.

If any of these things aren't true of your credit report, then those items should be challenged. They may well be fixable.

Consumer credit laws safeguard your right to challenge anything on your credit report that isn't fair, accurate and substantiated—so take advantage of it. If anything on your credit report is outdated, misstated or flat-out untrue, you can and should get it fixed.

Credit basics

I'll start with some credit fundamentals, so you understand your situation. Then, I'll lay out the options you have, and the concrete actions you can take to improve your credit. You'll learn:

- What a credit report is and what's on it
- What a credit score is and how it's calculated
- How consumer credit evolved to this point
- How the credit industry works against consumers—and how you can fight back
- Your rights as a financial consumer
- Myths of consumer credit, exposed
- How to deal with credit problems caused by divorce, bankruptcy, job loss, medical debt, identity theft, military service or public service
- Effective fixes for charge-offs, collections, late payments, high inquiries, high debt ratio/credit card debt
- How racism and classism affect your credit—and what you can do about it
- The different types of 'helpers' who assist with credit repair—is one right for you?
- How to spot shady debt collectors
- Questions that reveal if you should hire help or try the DIY approach
- Resources to assist you

Let's build your knowledge step-by-step and turn you into an empowered credit consumer who can repair their credit.

CHAPTER TWO

Credit reports: how your credit history is recorded

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In this chapter, you'll learn:

- Who creates credit reports
- How information gets on your credit report
- What types of information are included—and what's missing
- Why each credit report may have different items
- Tips for understanding your credit report
- How to start repairing your credit
- Why your credit report matters

Most people are more familiar with their credit score than they are with their credit report. You may not have even ever checked a copy of your credit report. Your credit score is calculated using information compiled in a credit report. For that reason, in many ways your credit report is even more important than your credit score.

A credit report is a detailed record of your financial obligations over a period of years. The information in your credit report—your payment history, the age of your credit accounts, the different types of loans you're paying off—is used to calculate your credit score. In most instances when you apply for a loan, your lender will check both your credit score and a copy of your credit report. If you've ever had an experience where your loan application was denied even though you had a strong credit score, it may be possible that your lender saw something in your credit report that convinced them to deny you.

Before we discuss what's on your credit report and how to decipher those listings, it's helpful to understand who creates credit reports and where they get their information.

As you'll see, the companies that create credit reports are far from perfect—and you shouldn't assume your report is accurate.

Meet the credit bureaus

Credit reports are compiled by organizations known as the credit bureaus, or credit agencies. There are three major national credit bureaus: Experian, Equifax and TransUnion. These are often referred to as 'the Big Three.'

These credit bureaus are not part of the government. Many people think they're government agencies—but in fact, they're private companies. It's easy to understand the confusion, given how much power these credit agencies hold over consumers' lives.

Note: My firm, Lexington Law, has a relationship with all three major credit bureaus, which can help when it comes to repairing your credit. Many other organizations in the credit-help industry don't have these relationships. I'll discuss the difference this makes in more detail in Chapter 24.

If you're wondering, these are not the only three credit agencies under the sun. There are hundreds more, but most aren't national operations. Many concentrate on a single type of information. These are specialized consumer reporting companies that focus on medical debt, tenant or employee screening, low-income or subprime lending, retail credit and more.

How credit reports are created

Now that you know who creates credit reports, let's look at how they get the information they put in your credit report.

The information on your credit report comes from creditors, lenders and others. Here's a list of who reports to the credit bureaus most often, and what they typically report:

- **Banks** – They may report on accounts you've opened and closed, bank overdrafts and any loans you have with them.
- **Mortgage lenders** – If you've had a mortgage in the past 10 years or hold one now, they'll most likely report the loan amount, unpaid balance and payment history.
- **Credit card companies** – Many will supply payment history and credit limits for both current accounts and closed accounts going back up to six years.
- **Loan companies** – If auto- or personal-loan holders respond to the agencies, they provide your loan total, amount due, amount paid, payment history and account status.
- **Peer-to-peer lenders** – If you use crowdfunding to get a loan through platforms such as Upstart, Prosper or Funding Circle, it may be reported, even if your loan doesn't have a fixed repayment period.
- **Retailers** – If you have a card from a retailer, expect them to report your credit limit, payment history and outstanding balances.
- **Student loan companies** – These lenders usually provide outstanding loan amount, payment history and info on any deferred payments.
- **Telecommunications companies** – This varies by company, but payment history for your mobile, internet or cable bill could turn up on your credit report.
- **Landlords** – Not all landlords report to credit agencies, but it's becoming more common to report rental terms and payment history.
- **Courts** – Bankruptcy records and judgments against you are public records, so credit agencies can include them. Even settled judgments may appear.
- **Collection agencies** – If an account went to collections, those agencies may share the amount owed and your account history.
- **Medical and utility companies** – These organizations usually only report missed payments.
- **Friends, family, business partnerships, small businesses** – It's unlikely that credit bureaus will get any information here. There's a long, costly process required to become a data furnisher, so they are rarely an information source.

It's important to know that no lender has to send the credit bureaus your information. Honoring the agencies' request for information about you is completely voluntary.

Yes, it's not fair. Some people with a poor financial track record may look better on paper, due to lack of reporting. On the flip side, others with good credit may find some of their hard work making on-time payments isn't shown on their report. It can be hit-and-miss.

This is why it's important to learn what's in all three of your credit reports, and to regularly check that they're accurate.

What's in your report and what's not

Below are all the types of listings you may see in your credit report. You may see:

- Public records, such as bankruptcy filings
- Debts that were included in a bankruptcy
- Accounts that were sold to a collection agency
- Foreclosure notices
- Repossession listings for property such as cars or furniture bought on time
- Charge-offs
- Open accounts you currently hold
- Closed accounts you used to have
- Recent late payments
- Late payments 30 – 60 days late
- Late payments 90 – 120 days late
- Older late payments
- Hard inquiries made by financial institutions checking your credit for card or loan applications
- Soft inquiries made by employers and others to verify your information, or when you request your credit score yourself

To sum up: if you've had money troubles anytime in the past decade, your credit report may look like a highlight reel of your worst financial issues. But your credit report may not include everything that it should.

What's missing

What gets left out of credit reports? Explanations of why problems happened—especially why what happened might not have been your fault.

You might have had stellar credit until a car-accident injury caused by an uninsured driver left you with massive medical bills. Or maybe, following a bad divorce, an ex-spouse stuck you with their bills, as we saw in Joe's story earlier.

Sometimes good-hearted people seek to help others and end up hurting their credit as a result. Here's one classic example.

Case study: cosigning risks

Here's an example of some of the risks of cosigning.

> *Mary had a secure and successful career when her younger sister, Vanessa, entered college. To help her qualify for a student loan, Mary agreed to cosign for her. The lender assured Vanessa she wouldn't need to make loan payments until after graduation.*
>
> *Shortly afterwards, Mary moved to the other side of the country, and talked to Vanessa less. After a few months went by, Vanessa received a call from her lender.*
>
> *Now, the terms of Vanessa's loan had been revised: she needed to begin making monthly payments at the start of her loan. Once she learned this, Vanessa began making monthly payments. But neither sister knew that late fees were steadily accumulating from the initial missed payments.*
>
> *Because she cosigned the loan, Mary's credit report began to list these late payments right along with Vanessa's. Busy establishing her new life across the country, Mary didn't realize this was happening. Mary never received any default or late-payment notices.*
>
> *Eventually, Mary discovered the negative listings on her credit report, and began to pay all back payments and penalties. However, the late payments remained listed on her credit report. She had to reach out to the credit bureaus to have them removed, arguing that:*
>
> - *The lender acted deceptively in changing the loan terms*
> - *The lender reported a negative item to the agencies without ever notifying the sisters that they were in default*
> - *The sisters weren't billed for the missed payments*

- *Mary's credit report was misleading in portraying her as a bad credit risk, when she was willing to make her sister's payments and paid all her other bills on time*

Despite what seemed to be unethical actions by this lender, it still took Mary months of phone calls and paperwork to get the late payments removed. In the meanwhile, her credit was negatively impacted, making it harder for her to start her new life.

As Mary's story shows, there was nothing in her credit report that explained how those late payments happened. Mary's credit did not accurately represent her as a responsible borrower.

Your credit report is a cold, numbers-only accounting of what you've paid and what you owe. There's no context; it's just figures on a page.

This is why it's so important to get and read your credit reports. Until you do, you don't know how you look to lenders—and what you find may surprise you.

Get your credit reports—free

As a consumer, you are legally entitled to one free copy of your credit report from each of the three credit bureaus. Because your lenders are not obligated to report your payment behavior to the credit bureaus, your credit reports may look different from each other.

This is why I highly suggest that you take advantage of your free opportunity to periodically check all three—there may be a mistake on one that does not show up on the other two.

Once you've received a copy of your credit reports—and you can do so easily at https://www.annualcreditreport.com/index.action—you're ready to dive in and see what they say.

Your first step toward fixing your credit

Now that you understand what a credit report is and what's in it, you can take the first step toward repairing your credit: checking your credit reports for errors.

Carefully read your report to make sure every listing is correct. Remember, you're completely within your rights to ask that a credit bureau show you their documentation if you're unsure if a listing is correct.

Errors are commonplace in credit reports—don't assume anyone at a bureau has closely read your credit report. That's unlikely.

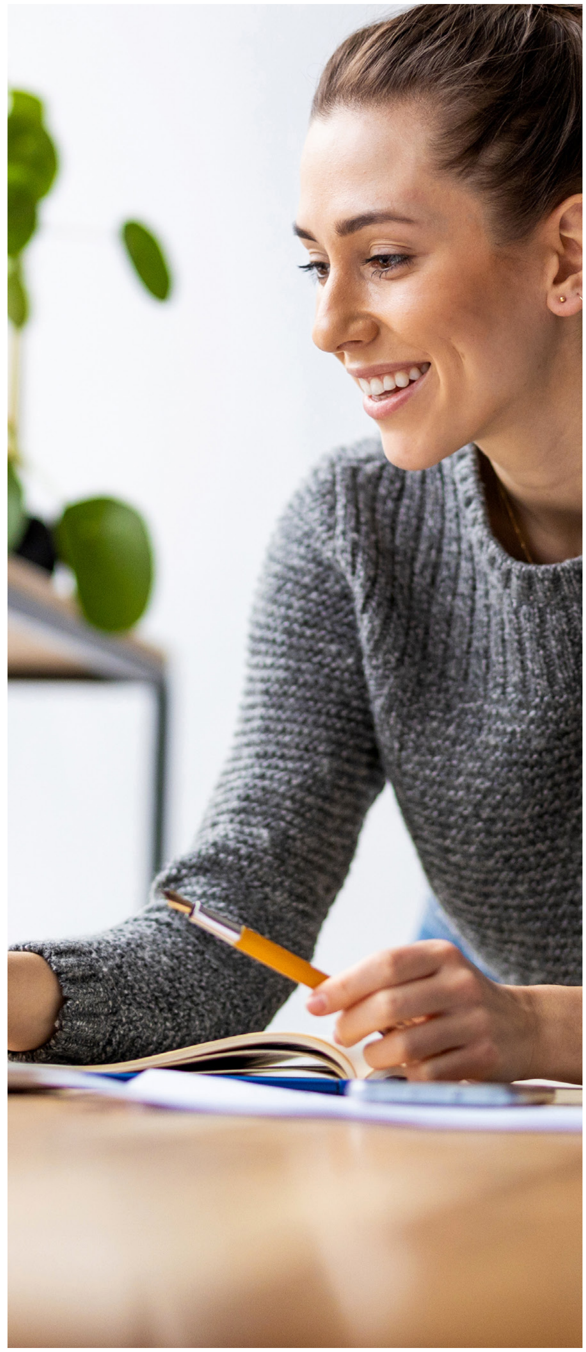
Always double-check your own records against their listings, looking for errors and incomplete or outdated information. Also scan for any items you don't recognize.

Thoroughly examining all three credit reports is the best way to identify items for possible correction or removal. Make a list of everything you find that seems inaccurate, incomplete or just plain wrong to you. That list will be the basis for your plan to improve your credit.

Why not all reports are created equal

You may wonder why there are three different major credit bureaus instead of just one. It's sort of like why there's Coke, but also Pepsi and Dr. Pepper—slightly different flavors for different tastes. Some lenders focus on one or the other of the bureaus when they check consumers' credit, preferring that agency's approach to credit reporting.

Each credit bureau has their own methods for compiling information. And you'll remember that some lenders only like to respond to one of the bureaus, so they may well each have a different set of information for you.



Why credit reports matter

Like we said at the beginning, the primary reason credit reports are so important is that all the items in them are boiled down to create your credit score. If your credit report shows you've paid your bills on time and established good credit, you'll likely have a higher credit score that will help you borrow at lower rates.

If your score is low, it's a major barrier to getting approved for a new line of credit or a loan, especially at a favorable interest rate.

What is this credit score, how is it calculated and why does it hold such power over our borrowing lives? The next chapter has all the details.

CHAPTER THREE

What is a credit score?

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What is a credit score?

In this chapter, you'll learn:

- How credit scores are calculated
- What affects your credit score
- Why you have different credit scores
- Who can see your credit score

While your credit report is a detailed recounting of your financial history, your credit score is simply a three-digit number. But that number can make a huge difference in your life.

Credit scores give lenders a faster way to size up your creditworthiness without wading through your entire credit report. Lenders and merchants wanted a standard they could use to quickly approve or deny credit requests. Credit scores provide an instant snapshot of your financial health.

Let's start by learning who creates credit scores and what they mean. Then, we'll look at how credit scores work—and how you can improve your credit score.

How are credit scores calculated?

Your credit score is calculated by using the information in your credit report to assign a numerical representation of your credit status. Each scoring method assigns a different weight to items in your credit report. This means that if you use a certain website to check your credit score for free, it may look different from the score your bank is showing you.

In general, there are two credit scoring methods that most lenders rely on: FICO and VantageScore.

The FICO Score is by far the most dominant score, used by 90 percent of major lenders today. You can get your FICO Score free from many major banks and Experian, as well as from the Discover Credit Scorecard.

You can get a free copy of your VantageScore through CreditKarma and Credit.com, as well as several major banks and credit card lenders, such as Capital One, JPMorgan Chase and US Bank.

FICO vs. VantageScore: there are differences

There are distinct differences in how the two scoring methods use the information in your credit report. For instance, FICO won't issue you a score until you have at least six months' worth of credit history, while VantageScore begins scoring after a single month.

Both consider your long-term credit history, but VantageScore puts more emphasis on the most recent two years. And if you have a small item go to collections, FICO is more lenient.

We'll get to FICO in a second, but first, here's a snapshot of what VantageScore values more and less highly:

- **Very high:** Total credit usage, balance and available credit
- **High:** Credit mix and experience
  Moderate: Payment history
- **Less important:** Age of credit history
- **Less important:** New accounts

Other factors that may affect your credit score include repossession or foreclosure, loans that you've cosigned for, settling debts with unpaid amounts, closed accounts, applying for new credit and bankruptcy.

Now that you know what credit bureaus look for, let's dig into the actual score numbers, and how they affect your credit.

What affects my credit score?

Although each credit scoring method calculates credit scores differently, FICO is the most commonly used. FICO weights credit scores this way:

- **35 percent:** Payment history
- **30 percent:** Amounts owed, credit utilization ratio
- **15 percent:** Length of credit history
- **10 percent:** Credit mix
- **10 percent:** New credit

Payment history

Payment history makes up about 35 percent of your FICO credit score. Put simply, payment history is a record of on-time and/or late payments on your accounts.

This factor has the biggest impact on your credit score, and certain records can remain on your credit report for up to seven years or more.

The primary goal of a lender is to determine what the odds are that you will repay a debt. Your payment history is the best indicator they have of your overall credit risk. The assumption made by lenders is that you will continue to behave in the future as you have in the past.

If lenders see that you have a solid payment history, you're more likely to get approved for a loan or credit card. Late payments and other delinquent items may keep them from lending to you. If they do lend to you, you'll likely be subjected to higher interest rates and other fees.

Amounts owed/credit utilization ratio

The rule of thumb is to keep your credit utilization at or below 30 percent of your overall credit limits.

To calculate your utilization ratio, take the amount of credit you're currently using and divide it by the total amount of credit available to you (e.g., the limits on your credit cards and other lines of credit). So, if you have $500 in debt and a total credit limit of $1,000, your utilization ratio is 50 percent.

Your credit utilization ratio applies to revolving credit, which includes accounts like credit cards. Credit reports look at your average utilization ratio for all your accounts as well as your utilization ratio for each individual account. What factors into your credit score, though, is your average utilization ratio for all your accounts. This makes up 30 percent of your FICO score.

Length of credit history

Your length of credit history is how long you've been using credit. This accounts for 15 percent of your FICO credit score. This part of your score looks at your oldest credit account and the average age of all your accounts. It also looks at the length of time since these accounts have been used.

Without credit history, lenders have no real basis for making a decision on whether to extend you credit. This makes you a significant risk when it comes to qualifying for a loan or a line of credit.

Typically, the longer a credit history, the better. In order to calculate a credit score, FICO needs to see an active credit account for a minimum of six months.

There are also misconceptions about closed accounts. You may think if you don't use a credit card now, but you did in the past and paid it on time, you'll have a good credit history. Once an account is closed, it usually remains on credit reports for seven to 10 years.

If you stop using credit, and these accounts fall off, then it will be as if you never had credit. Some consumers may not even be able to access a credit score because there is no longer enough information for credit bureaus to generate one.

Credit mix

Different types of credit account for 10 percent of your FICO credit score. The general rule of thumb when it comes to this component is to maintain a diverse mix of accounts. Lenders want to see that you have successfully managed a variety of accounts, which may include credit cards and home, auto or student loans.

There is no one-size-fits-all formula to determine the perfect credit mix, but the more diverse your accounts are, the better. However, you shouldn't apply for new accounts just to improve this part of your credit score.

New credit

New credit applications make up about 10 percent of your overall FICO score. This part of your credit score is calculated by looking at how often you've applied for new credit in the most recent 24-month period. This is why it's important to think strategically about credit and loan decisions.

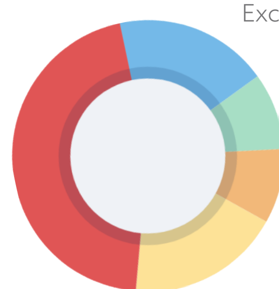
Each time you apply for a new account, a hard inquiry occurs. A hard credit inquiry is a formal request by another party to review your credit report. Unlike a soft inquiry—like when you check your own credit report—too many hard inquiries in too short a time period can negatively affect your credit.

If you have one or two hard inquiries, it's likely not going to have a significant impact. Applying for too many accounts in a short time period can drop your score even more and also raise a red flag to lenders. Opening new cards and taking on new debt just for the sake of your score is never a good idea. You should only make strategic choices based on your individual finances and needs.

What's a good credit score?

Both FICO and VantageScore rely on a 300 – 850 credit scoring range. You want the highest possible credit score number.

Here's the rundown of what FICO considers a good credit score:



VantageScore's scoring range is the same as FICO's, from 300 to 850. But its ratings are slightly different:

Very poor	Poor	Fair	Good	Excellent
300-549	550-649	650-699	700-749	750-850

Industry-specific scores

It's worth noting that some industries prefer credit scores specific to their lending type. Specialized credit score systems focus on the types of credit history those lenders care about most.

A couple of examples are FICO Auto Score and FICO Bankcard Score, which have scores up to 900 instead of the usual 850. Auto lenders are most interested in whether you repaid your last car loan, so they might pull a specialized report for this information.

Fluctuating scores

If you checked your credit score and it was low, don't get down on yourself. That score only captures a single point in time.

Your credit score is not set in stone. It's an evolving figure that changes as you make on-time payments, manage your credit usage ratios and fix errors on your credit report. If your bad-credit days are behind you, it'll also improve as items are removed due to age. Generally, after seven to 10 years, negative items will fall off your credit report.

That being said, your credit score can change within days or even hours, depending on when the credit bureaus issue updates to your credit report.

Who can see my credit score?

As with your credit report, you have privacy rights that protect your credit score. When you apply for a loan or credit card, your lender will ask you to give them permission to see your score or pull a copy of your credit report.

Other third parties such as employers or landlords also need your explicit permission to view your credit report. With that in mind, you should know who is reviewing your credit report.

When a lender views a copy of your credit report or score, this is known as a hard inquiry and is listed on your credit report. If you ever see a hard inquiry on your credit report attributed to a lender that you don't recognize, this may be a sign of identity theft or an error on your report.

What's not considered in my credit score?

Your credit score is meant to reflect your financial history, and that's all. Discrimination laws prohibit scorers from considering:

- Race
- Age
- National origin
- Gender
- Marital status
- Religion
- Salary
- Sexual orientation
- Occupation

While some of this information is listed on your credit report—such as your date of birth or place of employment—most of it is left off.

How credit scores affect your life

A low credit score may affect many aspects of your life. If your score is lower than 600, you may be able to get a loan, but the offer will often come with high fees and interest rates.

Beyond borrowing power, here are four other areas that low credit scores can impact:

1. Employment

Many employers check credit scores during the application process, knowing that a high credit score can signal trustworthiness. A low score can indicate a candidate is possibly less financially stable and a greater security risk.

2. Insurance

Since credit is linked to reliability, many insurance agencies take it into account. It may seem unfair, but they calculate their own credit-based insurance score. It helps them predict the likelihood you will have an accident or file a claim. A low score may mean they charge you higher premiums.

3. Utilities
When you open an account to get water, electricity and heat at your dwelling, the company will likely run a credit check. If your credit score is low, you may have to pay a hefty deposit.

4. House or apartment rentals
Landlords often look at your credit score to help decide if you'll be a reliable, on-time renter. Those with a low credit score may pay higher deposits, or may not be approved at all.

How good credit scores are built

There are many things you can do to improve your credit score. Some require you to develop good financial habits you'll use from now on. For others, you'll need to correct existing problems or errors in your credit report.

Adopt good financial habits
You can improve your credit score over time by changing how you manage your finances going forward. Here are some steps you can take:

- Make payments on time.
- Develop and maintain a budget.
- Keep balances low on revolving credit cards.
- Spread out credit card debt across multiple cards instead of maxing out one.
- Keep old credit cards open, to maintain the length of your credit history.
- Don't apply for too much credit in a short time frame—those become hard inquiries listed on your credit report.
- Always pay off your highest-interest debt first.

Fight errors and mistakes
Not everyone with a bad credit score is a high risk. Cases of identity theft, inaccurate information or unfair credit reporting may depict you in a negative light.

The good news is that federal law regulates the credit bureaus and how your information is reported. All your rights are outlined in Chapter 4.

Invisible credit

So far in this book, we've talked about many types of credit problems. But there's another way to end up with a low credit score—or no score at all.

It happens when you have little or no credit history. Often told they are 'unscorable' because they have too little credit history, people in this situation are known as credit invisibles.

Credit invisibility is quite common. The Consumer Financial Protection Bureau (CFPB) estimated in 2010 that there were 26 million Americans with no credit records at all. Another 19 million consumers had so little history they were considered unscorable.

This problem disproportionately impacts low-income consumers and communities of color, the CFPB study found. In low-income areas, roughly 45 percent of residents were credit invisible or unscorable. That compares with just 9 percent in higher-income neighborhoods. Roughly twice as many Black and Hispanic people were credit invisible compared to white people (15 percent vs. 7 percent).

There are several ways to end up credit invisible. People who are suspicious of financial institutions or the government and want to live 'off the grid' may never get credit cards or loans. In some religious groups, it's considered a virtue to save and pay cash rather than borrow.

Still others have well-off family members who want to help them avoid paying interest charges. You'd think these are all good things and something American citizens can choose as their lifestyle.

But the end result of these strategies is that you have no credit history for the credit bureaus to report to lenders. That makes lenders classify you as a subprime borrower who should pay higher interest rates.

Julie's story is a classic example of the missteps that can lead to credit invisibility.

Case study: credit invisibility

> *When Julie and her husband Devin were both just 19, they were engaged and looking to buy a home together. They'd saved up for a down payment, as they didn't want to waste money renting an apartment that didn't build equity for them.*
>
> *Even though Devin made good money as an electrician and Julie had nearly finished her teaching degree, they were considered high-risk borrowers because they had no credit history. They were teenagers and hadn't yet gotten their first credit card or loan.*
>
> *The only mortgages the couple could qualify for had sky-high interest rates and unaffordable monthly payments.*
>
> *"We literally had zero credit history…oops!" Julie recalls.*
>
> *Julie's parents stepped in with a solution: they took out a second mortgage on their own home and bought the couple's starter home. Then, Julie and Devin made monthly payments to Julie's parents.*
>
> *While this move got Julie and Devin into the small starter home, it didn't do anything to establish a credit history for them. Their solution as first-time home buyers was unique, but their problem was not: having no credit history can stand between you and owning a home.*
>
> *They had dutifully saved for a down payment, assuming that would impress mortgage lenders. Instead, Julie and Devin discovered that if you want a bank to give you a mortgage with reasonable interest rates, you also need a history of good credit.*
>
> *When they sold their starter home for $100,000 and bought their next home for twice that sum, the couple were able to pay off Julie's parents and provide a bigger down payment. More importantly, they also had a credit history they'd built in the meanwhile, by taking out low-limit credit cards and small personal loans. This time, they were able to get an affordable mortgage because they'd built good credit.*

As Julie's story shows, family help is a two-edged sword. It may solve an immediate problem, but doesn't help you build good credit that lets you easily and cheaply borrow in the future.

If you can't qualify for any credit on your own, consider finding a relative or friend who's willing to be a guarantor or cosigner for that first card or loan. That will start you down the road to establishing solo credit. Or, you can be listed as an authorized cardholder on someone else's account, to help you get a foot in the door.

"If I could do it all over again," Julie says, "I'd start working to build credit early so that buying our first house could go as smoothly as buying our second."

CHAPTER FOUR

Know your rights

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Know your rights

In this chapter, you'll learn:

- What laws are in place to protect you as a consumer
- How those laws have changed over time
- How you can use the law to repair your credit

Before any real rules were put in place, lenders and credit card companies could be deceptive or fraudulent. They often concealed important information that left consumers paying high interest rates, fees or unexpected penalties. There was little regulation of this emerging industry.

The biggest problem? Card users had few rights. Before 1970, consumers had no right to:

- See their own credit report
- Know their credit score—it was a secret between lenders and credit agencies
- Challenge items on their credit report, should they somehow get a copy
- Control who saw their credit report or sue anyone who viewed it without their consent
- Know if their credit report was used against them
- Know why a credit application was rejected
- A time limit on how long negative items stay on credit reports—the items could persist forever
- Be free of harassment from debt collectors, who could call at all hours, cursing and threatening
- Challenge a debt collector's information about a debt
- Credit in their own name, for married women
- Healthcare privacy—providers could tell lenders you'd been sick
- Protection from foreclosure or lawsuits while serving in the military

In addition, discrimination was rampant based on gender, skin color, religion and more.

American consumers were easily exploited by bad actors in the credit and lending industries. Rights weren't clear, and the road to fixing any problems was even murkier.

As a result of the outcry over deception and fraud, Congress passed laws that give you rights as a credit consumer. In this chapter, I'll go over what those rights are—and how they help you, especially when you're looking to repair your credit.

Your rights today

Below is a quick rundown of the laws that have been passed and the important rights they give you.

Big picture: these laws protect your credit information, empower you to dispute credit card charges, define what debt collectors can do, protect you from discrimination and much more.

It's a bit of an alphabet soup of laws and acronyms, I'll admit. But the first step toward improving your credit is learning about how these rights protect you. It's well worth your time to read through these.

I've listed these laws in date order, so you can see how your rights have expanded over time.

1968–Consumer Credit Protection Act (CCPA)

This initial umbrella bill expanded over the years to include many laws and protections for consumers in debt collection, credit reports, credit bills, leasing and bank transfers, also known as electronic fund transfers.

Key provisions on credit and borrowing that became part of the CCPA through the years include:

- **Truth in Lending Act** – This first CCPA law ended the confusing and misleading boilerplate in loan, mortgage and line-of-credit contracts. You have the right to clear, simple English information on your loan term, interest rate, fees, prepayment penalties and other vital details.
- **Title III** – This law has an unglamorous name, but it's a big one for anyone who's behind on their bills. Title III limits the amount that can be garnished, or deducted, from your paycheck to 25 percent of your after-tax wages for most debts. It's 50 percent for child support, bankruptcy judgments or overdue taxes.
- **Electronic Fund Transfer Act** – This 1978 addition protects you in electronic transactions, including at cash machines, online banking, checkout stands, phone-based bill-pay systems and more. This law gives electronic transfers the same protections your paper check has, and limits penalties for errors.
- **Consumer Credit Reporting Reform Act** – This 1996 amendment added privacy protection for your credit report. Employers must request permission from you to view it.

Quick summary: The CCPA covers four important areas. Your right as a consumer to:

- Safe products and services
- Truthful and accurate information
- Choose from among many products and services
- File complaints and be heard

1970–Fair Credit Reporting Act (FCRA)

Considered part of the CCPA you just learned about, this law gives you many useful rights. Among them are the rights to:

- Know what's in your credit report
- Get a copy annually from all three credit agencies
- Get another copy if you're a victim of identity theft, on welfare, unemployed, seeking work or have an application for credit denied
- Keep your report private
- Sue violators for damages
- Limit unsolicited offers made based on your report
- Challenge any incomplete or incorrect information
- Dispute an item on your report
- Have the credit agency investigate promptly, file a report and correct any errors
- Take legal action if you feel the agency ruled against you in error
- Prevent any information about your health from appearing on your report
- Ensure bankruptcies are removed from your report after 10 years
- Ensure all other negative items are removed from your credit report after no more than seven years
- Have items removed sooner in some instances

Section 609 of the FCRA

Section 609 of the Fair Credit Reporting Act outlines a consumer's right to order copies of their credit report and the information that appears on it. Section 609 doesn't explicitly discuss your right to dispute inaccurate information, but it does assert your right to a copy of all the information in your credit file.

Under section 609, you have the right to request:

- All of the information in your consumer credit files
- The source of that information
- Each prospective employer that has accessed your credit report within the past two years (unless it was to complete an investigation)
- Businesses that have made soft inquiries within the past year

And contrary to what some might think, section 609 does not require credit bureaus to provide proof of your accounts.

The FCRA gives you the right to dispute information you believe to be incorrect or unverifiable.

Credit reporting agencies are responsible for removing any disputed information that can't be verified or confirmed. They're also obligated to provide a description of the dispute process if you request it in writing. If the information is found to be accurate, the bureaus aren't required to remove it.

Quick summary: The FCRA protects you from discrimination based on the inclusion of certain types of information on your credit report.

1974–Fair Credit Billing Act (FCBA)

If you've ever gotten a shock when you opened your credit card bill and saw charges you didn't recognize, this act is your lifesaver.

It gives you the right to:

- Dispute charges within 60 days from the date the bill containing the error was sent to you
- Not pay the disputed amount until the issue is resolved
- Report a card lost or stolen and not pay any charges made after that point
- Limited liability of just $50 for unauthorized charges on a reported lost or stolen card
- Challenge errors in amounts, dates, your address, undelivered goods, math errors, failures to credit returns
- Request clarification or proof of purchase for any charge

Important note: You need to dispute items or request information in writing. Still, this law creates peace of mind that you won't end up on the hook for thousands of dollars' worth of incorrect or fraudulent charges.

Quick summary: The FCBA protects consumers from billing errors and lost or stolen cards.

1974–Equal Credit Opportunity Act (ECOA)

According to the ECOA, creditors and lenders can't discriminate against you on the basis of:

- Age (as long as you're old enough to sign a legal contract)
- Gender
- Marital status
- Skin color
- Religion
- National origin

If you receive public assistance—to cover application or loan fees, for instance—this cannot be considered, either.

You can only be evaluated on the basis of your credit history, length of employment and other financial details. Period. If you get asked questions about any of the above, that's against the law.

Other notable rights granted here:

- Married partners can each establish their own credit histories. This advance ended the era of married women in abusive relationships struggling to leave because they had no credit in their own name.

- You can keep your credit history if you change your name, get married, become elderly or retire, unless there's evidence you can no longer pay your bills.
- You must be given a reason why your application was rejected.

Does discrimination still happen? Unfortunately, yes. But with the ECOA, you can file a complaint and pursue justice, if you believe you are discriminated against in credit or borrowing.

Quick summary: The ECOA protects you from discrimination or evaluating you as a borrower based on anything other than your financial history and employment stability.

1977–Fair Debt Collection Practices Act (FDCPA)
This law defines what third-party debt collectors are allowed to do. These are businesses that have purchased your debt at a discount from your original lender, and now seek to collect the full amount to make their profit. Here are some of the protections you enjoy:

- Debt collectors must identify themselves
- They must provide details about the debt—how much you owe, from what lender
- They must notify you of your right to dispute the debt within 30 days, and to contact the original lender
- Debt collectors can't harass you—they can only call once a day, can't call outside regular business hours and can only contact you at work or home
- They can't yell or use profanity, or threaten that you'll lose your home or property
- They can't make false claims that you will be arrested if you don't pay
- They cannot threaten you with harm, legal action or imprisonment
- They cannot physically assault you
- They can call your family or friends, but can't reveal they're seeking information about a debt
- You can write a debt collector and demand not to be contacted
- You can demand 'debt validation'—proof that this debt is owed by you
- You have a right to hire an attorney to represent you
- If you hire an attorney, the debt collector must communicate only with the attorney

Of course, these rights don't mean that shady debt collectors have stopped making consumers' lives miserable. Abuses still happen—and I'll talk more about the schemes they pull and how to handle them in Chapter 16.

Note: A recent update to this law grants debt collectors the right to use social media, email and texting to reach you. But the law also grants you the right to opt out of being contacted in these ways.

Quick summary: The FDCPA defines how debt collectors are permitted to conduct their business and contact you.

1996–Credit Repair Organizations Act (CROA)
Have you ever had a credit repair company say they can make your bad credit disappear overnight? Unfortunately, there are many credit repair agencies that promise impossible results in order to gain customers.

Fortunately, the CROA defines how credit repair companies must behave. As a result of the CROA, credit repair organizations:

- Can't guarantee removal of negative listings from your credit report
- Can't encourage you to lie about your credit history

- Are prohibited from creating a false, 'new' credit file
- Can't accept payment until services have been completed
- Must present you with a credit repair contract that meets CROA guidelines
- Must inform you of your rights as a credit consumer, including the right to sue the credit repair organization

Legitimate, professional credit repair organizations, including my firm, Lexington Law, strictly abide by all CROA rules. If you think you've been dealt with unfairly by a credit repair company, this law enables you to report the problem and seek damages.

Additionally, if you're considering signing up with a credit repair agency and they violate any of the items listed above, it could be an indicator that they're a scam.

Quick summary: The CROA restricts what credit repair companies are allowed to say and ensures that they perform promised services.

1996–Health Insurance Portability and Accountability Act (HIPAA)

Unfortunately, medical debt is incredibly common and can often end up listed on your credit report.

HIPAA is a broad law that protects the privacy of your medical records. In general, they can't be shared between organizations without your permission, with only a few narrow exceptions.

HIPAA is used to protect your credit reporting by arguing that medical information has to follow the correct reporting process. Companies that work with protected health information (PHI) must have security processes to ensure they're HIPAA compliant. This applies to anyone who provides treatment, processes payments or has other operations in healthcare, as well as their business associates who must access patient information.

You wouldn't want your doctor to tell a lender or credit card company what diseases you've had when you apply for a loan or a card. Luckily, HIPAA strictly limits what information can be shared with third parties to only basic facts about any medical debt you have. No health information can be shared.

Healthcare organizations can only disclose:

- Your name
- Your address
- Your date of birth
- Your payment history
- Your Social Security number
- Your account number
- The name and address of the healthcare provider who created the file

Lenders or employers have no right to know if you had cancer years ago or recently recovered from a surgery. Your health history should have no bearing on whether or not you're approved.

Quick summary: HIPAA protects the privacy of your medical records even if you have medical bills listed on your credit report.

2003–Fair and Accurate Credit Transactions Act (FACTA)

This most recent update to the 1970 FCRA added these rights:

- You can get an annual copy of your credit report free, from all three agencies
- You can learn your credit score, often for a small fee
- You can get information about how your credit score was calculated
- You must be told if your report is used against you

- You can place a 'security freeze' on your report, so it's not shared without your OK
- Active military members can place a similar 'active-duty' freeze

Quick summary: FACTA protects your right to easily access the same financial information your lenders are seeing.

2003–Servicemembers Civil Relief Act (SCRA)
This law offers special protections to active-duty service members who have debts. The general idea is that you shouldn't have to worry about civilian problems while on active duty.

These points are among the most frequently used sections of the SCRA that involve your debts:

- Interest rates: Active military may not be charged more than 6 percent interest per year for loans originated before the call to active duty.
- Foreclosure: If you owned a home before joining the military, it can't be foreclosed on until a year after you leave the service. The only exception is if your lender receives a court order to foreclose.
- Repossession: If you miss payments on property—such as a car—while you serve, the item can't be repossessed (with the same exception as foreclosure).
- Taxes: If you can't pay federal, state or local taxes while serving, they can be deferred. No interest can be charged for the delay.
- Entrepreneurship: If you own a small business that has debts or payment obligations, creditors can't pursue payment while you serve. Your personal assets and military pay are also protected from business creditors.
- Anti-retaliation: Creditors can't sue you if you use this law, such as if you request that the 6 percent rule be applied to a debt. If a creditor tried to sue, any court action would be suspended until after you leave service. You also can't be penalized for failing to appear in court due to service obligations.

Note: While these laws help keep active-duty service members from losing their home, car or business, they don't keep any nonpayment from being reported to credit agencies.

Quick summary: The SCRA protects active-duty service members while they are unable to be physically present to pay or manage their debts.

Report lawbreakers and scammers

It's important to know how many rights you have as an American credit consumer, and how these laws can be put to work for you to fix your credit—simply by making sure that they are followed correctly.

However, I know reading through this may have rung some warning bells for people. Perhaps you've been scammed or wrongly treated in some way, by lenders, debt collectors, a credit agency, healthcare organization or credit repair company?

If you think anything illegal has happened to you, report it to the appropriate federal agency. The Resource Appendix at the end of this book has details, but I want to give you one big resource right away: the Consumer Financial Protection Bureau. It's easy to submit a complaint online to the CFPB.

A final note: All of the laws in this chapter are federal laws. Your state may have its own consumer-protection laws that offer you additional rights.

CHAPTER FIVE

Credit myths

CHAPTER FIVE

Credit myths

In this chapter, you'll learn:

- Popular credit myths to look out for
- How to avoid common mistakes by staying informed

There's a lot of false information floating around online about credit and credit repair.

In this chapter, I'll debunk the most popular myths we often hear at Lexington Law when we first meet a new client. Let's make sure you understand what really works to improve your credit—and what doesn't.

Myth #1: Credit agencies are part of the government

Many people believe Experian, Equifax, Transunion and the other credit agencies are official government agencies. This belief can make some consumers feel too intimidated to challenge the information in their credit report.

In reality, the credit bureaus are large, for-profit businesses. And they certainly do profit from collecting and marketing consumers' financial information.

There are federal laws that govern what the credit bureaus can and can't do. But these companies are not public agencies.

Myth #2: Equifax, TransUnion and Experian are all that matter

You hear those major three credit bureaus mentioned so often that it's easy to believe they're the only agencies you need to care about. In fact, there are small niche agencies that can also make a critical difference.

These niche bureaus collect information that might impact whether you are offered better terms, special offers, a job you want, good health insurance rates and more. Lexis-Nexis Risk Solutions, MIB (formerly the Medical Information Bureau) and Innovis are three examples of niche bureaus. Lexis-Nexis maintains a history of where you've lived, past phone numbers and your relatives, among other details.

These niche bureaus may gather 'visual analysis' data—noting if you post party photos on Facebook or other social media with you visibly drunk and holding a beer can, for instance. They may record your zip code, living circumstances, email addresses and where you've used them to register on websites and at stores. They may even learn your hobbies or interests.

If you're turned down for credit, loans or a job you want, it may be worth investigating whether specialized credit bureaus have negative information about you—and whether it's fair, accurate and substantiated.

Myth #3: My credit report is carefully reviewed

This is one of the biggest myths out there—that your report is the result of a human being reading through each line to make sure everything is correct.

Today, it's more likely that the credit bureaus have systems in place that automatically generate requests for information they send off to your lenders. Then, they may or may not get automated responses back from those data furnishers' computers. Information may be incorrect or missing.

If you dispute information on your report, or the report is such a mess that the computer can't read it, your report could get 'bumped over' for a manual review by an actual person. But otherwise, assume you're reading automatically compiled data.

You know what they say about computers—garbage in, garbage out. If someone hand-entered a wrong number at some previous point, the computer will keep repeating that error until a person—usually you—checks the figures, notices it and roots it out.

Automation enables credit agencies to quickly boil down your credit history to a single credit score. But that also has a downside. Only your own vigilance in fact-checking keeps the system honest.

Myth #4: Negative items must stay on my credit report for seven years

Many people believe in this supposed 'law': that once a negative item is on your credit report, it will be there for seven long years. It's set in stone.

In fact, that's not what federal law says. It says most items cannot remain on your report longer than seven years. That is the upper limit.

For a few items, such as a bankruptcy, the upper limit is 10 years. But again, credit bureaus are not obligated to leave that item on your report for 10 years. It's simply the longest time span it can possibly remain on your credit report.

If you call one of the credit bureaus and their customer service agent tells you, "Sorry, by law that has to remain on your credit report for seven years," that person is incorrect.

Can items come off your credit report sooner? Yes, they can. If you didn't know that, you might feel hopeless about repairing your credit. Once you know credit bureaus have more flexibility to deal with negative items, the door opens to challenging what's on your credit report—especially if there are errors, misstatements or special circumstances surrounding an item.

Myth #5: If I pay a charged-off debt, it will drop off my report

Unfortunately, this is untrue. The same goes for paying off a debt that's gone to collections.

Say you have an old debt that was charged-off by your lender. Then, you decide to make it right and pay it off. It might seem fair to you that the charge-off would then be taken off your credit report.

What happens? Nothing changes on your credit report. The charge-off remains a listed item. That you paid the debt off months or years later doesn't change the fact that, to the credit bureaus, you are a high credit risk.

It's a harsh reality of how credit works today. If you want that charge-off deleted from your credit even after you've paid it off, you have to request or negotiate for it to be removed.

The medical exception

When it comes to removing charged-off medical debt, there is some hope. Surprise medical bills often go unpaid and become charge-offs. But a 'No Surprises' law that takes effect in 2022 stops healthcare providers from slapping you with unexpected bills for out-of-network costs, particularly in emergencies.

The catch? Even under the new law, you still have to write to that lender and request they remove the charge-off from your credit history.

Myth #6: Canceling my credit cards will help my credit score

After you've paid down a mountain of credit card debt, your first impulse may be to cut up your credit card and immediately cancel it with your bank. You might think that because your credit card debt was hurting your credit score, you're getting rid of the danger of that ever happening again. But you notice that after your credit card is canceled, your credit score immediately takes a hit. Why?

Your credit utilization ratio. This ratio makes up 30 percent of how your credit score is calculated. Your credit utilization ratio is the amount of credit you're using divided by the amount of available credit you have.

Let's say you have two credit cards, each with an upper limit of $10,000, so you have $20,000 in available credit. If you have a $5,000 balance, that's a utilization ratio of 25 percent (5,000/20,000).

But if you cancel one of your credit cards, your utilization ratio will increase to 50 percent (5,000/10,000) and your credit score will take a hit.

The reality: closing unused credit card accounts may lower your credit score, for the reasons we've just discussed. If your credit limit drops, your utilization ratio increases. And that can negatively affect your credit score.

Why? Because a high credit utilization ratio indicates you're reaching the limits of what you can repay. If possible, try to keep your utilization below 30 percent to maintain a healthy credit score—and below 10 percent should be the goal if you're aiming for truly excellent credit.

Also note that with certain scoring models, regularly carrying a $0 balance on a card isn't as desirable as a utilization ratio between one and 10 percent. Banks want to see you using your cards at least a little bit—how else will they have a chance to charge interest?

Myth #7: Making a partial payment is better than nothing

This certainly sounds like a rational rule, doesn't it? Making what repayment you can should be better than paying nothing. And debt collectors are always happy to accept whatever payment you offer.

But unfortunately, partial payments won't improve your credit score at all. It may seem unfair, but making the occasional, partial payment can actually hurt your credit score, or at least prolong a negative effect.

This is because each time you make a partial payment, you refresh the default date on your debt item on your credit report. This extends the seven-year reporting limit further into the future.

While paying what you can now might help you pay down your debt someday, a partial payment may not be helpful to your credit profile.

Repaying debt shows character. But you're better off creating a separate savings account, socking away money until you have the full repayment amount or the monthly minimum, and sending it in all at once. Then, you could potentially get the item marked 'resolved' and improve your credit score.

Myth #8: Paying off a loan early will help my credit score

Unfortunately, credit agencies don't reward you for early loan payoffs. Only paying down or paying off revolving credit card balances helps. That shows you're not about to max out your credit cards and drown in more debt than you can handle.

If you have a five-year car loan for example, paying it off in two years won't help your credit. It's better for your credit to pay the minimum due each month on time than it is to pay off your loan all at once.

In some cases, paying off installment debt early can even temporarily decrease your score, because it decreases the diversity of your credit mix. If you've got excess cash and can invest in something that would yield a better rate of return than your loan's interest rate, go for it. Since federal student loans usually have low interest rates, you might do better that way.

Case study: graduating with student loan debt

> *There are two college graduates, Jane and Jack. They graduated at the same time, each owing $50,000 in federal student loan debt.*

> *Jane was able to get a fantastic job right after graduating and paid off her student loans in full within the year.*
>
> *Jack, on the other hand, continued to make his low-interest monthly payments over the next 10 years. At the time they both graduated they had the same credit scores and credit histories. After paying off their student loans differently, whose credit score is higher?*
>
> *You would probably guess Jane's score, right? After all, she's the one who was able to repay her loan the fastest. Surely, she should get some credit for that.*
>
> *And yet, Jane and Jack's credit scores would be about the same, if everything else was equal.*

Myth #9: Tax debt can hurt my credit score

No, tax debt can no longer directly hurt your credit. If your tax debt lingers until the government sues and puts a tax lien against your house, that lien won't show up on your credit report, thanks to a 2018 law. So, if you can't pay your taxes, your credit won't take a direct hit immediately.

However, tax debt can indirectly hurt your credit score over time. Outstanding tax debt, like any debt, will lead to interest and late fees. That shrinks the cash pool you have to help you with other expenses. This can create a domino effect, where other debt problems show up on your credit report because your tax debt is draining your resources.

If you're dealing with an outstanding tax debt, the IRS provides several alternatives for struggling taxpayers, including appealing to have your account marked 'currently not collectible.' That gets the IRS off your back for the time being. The IRS also offers installment plans—and you can apply online. Recently, the IRS added special tax-relief programs because of COVID, too.

Be up front with the IRS and come to an agreement, if you realize you can't pay your taxes on time. With a plan in place, the IRS may waive late fees, and won't file liens against you.

Yes, it can feel humiliating to go to the IRS and admit you can't pay. But the alternative is worse. Work out a plan to get your taxes paid—it'll keep you on good terms with the IRS, and allow more of your cash to go toward other debts.

Myth #10: Unemployment can hurt my credit score

Being unemployed, filing for unemployment insurance or receiving unemployment benefits does not affect your credit score. Although being unemployed may affect your financial circumstances—and your credit score—indirectly, it will not directly change your credit score.

As long as you're being careful in how you manage your finances while facing unemployment, you may be able to keep the negative effects to a minimum.

Your employment history might be on your credit report, but only if you've listed your job when applying for credit in the past. Filing for unemployment doesn't show up on your credit report at all.

Even though unemployment doesn't directly affect your credit, that doesn't mean your score is safe no matter what. Because unemployment can cause serious disruption in your financial management, it can still send your credit score in the wrong direction. This is a common situation that our clients face, and we'll dig into that more in Chapter 7.

Even though unemployment won't hurt your credit directly, being unemployed may affect your ability to apply for new credit. Most credit applications ask for your current employment status and yearly income, and a lack of both unemployment and income can influence your chances of getting approved.

Myth #11: Avoiding bankruptcy will always help my credit rating

Bankruptcy can be a relief for Americans in impossible financial situations. However, some people elect to tough it out instead. They struggle and do their best to pay off their debts.

This is an admirable approach. Many people pride themselves on repaying their debts. But sadly, if you take this approach, your credit score won't reflect that you did the hard thing and paid back your creditors. On the contrary, slowly working your way out of overwhelming debt often extends the credit damage longer than would a bankruptcy.

Up to a decade may sound like forever to wait for a bankruptcy to leave your credit report. But remember what we've discussed about how making a partial payment resets the time clock for when a debt is erased.

Myth #12: There's no negotiating with debt collectors

It's possible to negotiate with debt collectors, but you want to be sure to get any agreement in writing. Even if you can't afford to pay off your debts now, there are ways to deal with debt collectors.

Before you do, it's important to understand your rights and have a solid plan of action. While you'll likely need to pay back legitimate debt, you should verify the origin and amount of a debt before paying a debt collector. Additionally, you can hold debt collectors accountable under federal laws that govern the way they must act.

Myth #13: Credit repair is illegal

No, credit repair is not illegal.

Credit repair is the process of taking steps to improve a poor credit score by addressing or removing negative items that could be listed on your reports inaccurately.

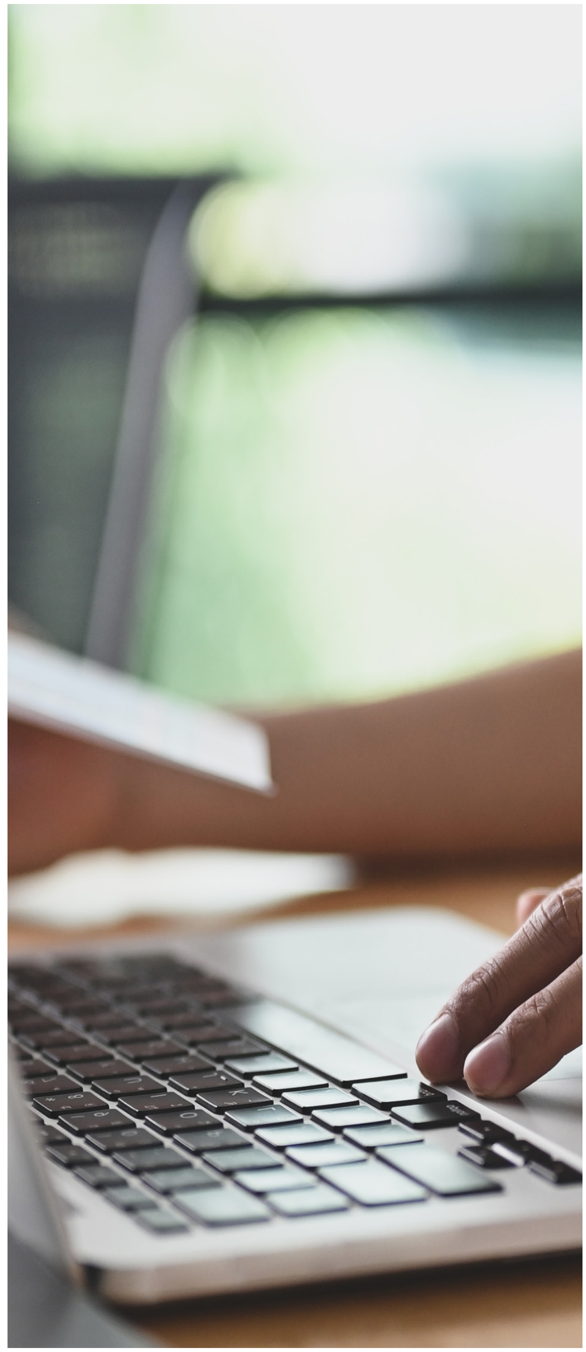
Everything we've talked about to this point—downloading a copy of your credit report, checking for inaccurate information, contacting the credit bureaus to have the information updated or removed—is the process of credit repair.

If you attempt to falsify information or adopt a new identity as an attempt to clear your credit, those practices are illegal. However, the legal process of credit repair is how you protect your own right to a fair and accurate credit report.

Myth #14: Checking your credit will hurt your score

Fortunately, checking your own credit score—and credit report—will not affect your credit in any way. Checking your own credit is known as a soft inquiry. And unlike with a hard inquiry, which is recorded on your credit report when you apply for a new line of credit, you can check your own credit as often as you wish without any concerns.

Your credit report is updated when credit bureaus receive information from your creditors and lenders. Since each creditor has different due dates and billing cycles, any changes to your credit score may take a month or more to appear.



Be informed

Now that we've addressed the most common myths about credit, you've got a realistic idea of how the credit industry actually operates. As you can see, the credit world keeps evolving, and tactics that once worked may not anymore.

With this knowledge gained, let's move on to look at the most common types of money problems—and what can be done to repair your credit in each instance. The vast majority of the credit problems I see in my practice involve one or more of these issues. I've got some specific advice for you on how to deal with each of these difficult situations, illustrated by stories of our clients.

That's why it's important to hire an ethical professional to assist you with credit repair if you're not doing it yourself. There's more on what to look for in a helping organization in Chapter 24.

CHAPTER SIX

Divorce

CHAPTER SIX

Divorce

In this chapter, you'll learn:

- Common ways divorce can impact your credit
- How to fix your credit during or after a divorce
- How to protect your credit

Nothing else blows your life apart like divorce. You're heartbroken at the end of one of your most important relationships, while also scrambling to build a new life with half—or less than half—of your previous assets.

It's worth noting that women often get the short end of the stick in a divorce, and so face special challenges in preserving their credit. Some 20 percent of divorced women over 65 live in poverty, recent Social Security Administration data showed. That's a higher percentage than never-married or widowed recipients.

As hard as divorce is, it's also commonplace. Roughly 15 of every 1,000 marriages now end in divorce, the 2020 census showed. That may seem like low odds, but it still adds up to a lot of family disruption each year—over 780,000 marriages ended in divorce in 2018, for instance.

When you go through a divorce, your life can feel like it's spinning out of control. You've got a judge looking over your shoulder, deciding which bills are your responsibility. Often, it's all happening while you try to quickly find a new place to live, new transportation and more.

With the many miscommunications and hurt feelings swirling around a divorce, the stage is set for your credit to get ruined. An angry ex-spouse often can't be relied on when it comes to paying off bills on shared accounts. That's exactly what happened to Donna.

Case study: the struggle of separating finances

> *Donna and her husband Dan decided to get divorced. In the divorce decree, the judge decided Dan would be responsible for all the couple's past debts.*
>
> *But Dan felt bitter about the divorce, so he stopped making the monthly payments due on three credit cards, as well as an auto loan. Meanwhile, Donna moved on, carefree in thinking she had no ongoing financial responsibilities from the marriage. She received no notices that bills were going unpaid, as she was no longer a listed responsible party.*
>
> *After a while, Donna decided to apply for a new credit card, but she was turned down. Thanks to being an original cosigner for the credit cards and auto loan, her credit report showed the multiple overdue payments her ex failed to make. The credit reporting agencies were never alerted to the fact that her divorce made her husband solely responsible. As a result, her credit score sunk too low to qualify for a new card with affordable terms.*
>
> *Donna challenged the accuracy of her negative credit listings, because the court had ordered her ex-husband to pay the debts. She was an original cosigner to these debts, but was able to argue that she was legally no longer responsible for them.*

Even if she were to be held responsible for the debts her former husband didn't pay, Donna was never notified that the bills were late—not a letter, an email or a phone call. As a result, she never had an opportunity to bring the bills current.

This is a situation we see often, when clients who've suffered a divorce come to us. In Donna's case, we were able to argue that the items on Donna's credit report were incomplete and unfair, because the divorce terms are not noted.

Her report lacked a statement explaining that she was not responsible for these debts, which the court had assigned to her ex-husband. The debts also could not be her responsibility due to the lack of proper notification.

The details of every divorce are different, so there isn't a single path to success. In Donna's case, creditors failed to notify her properly, so there was a case to be made for removing their items. Other divorce cases may present different credit problems.

One common thread: it's not an instant fix. Divorce is often a long process, and fixing the financial aftermath will take time, too.

Usually, it'll be several months of hard work to start to see improvement in your credit score.

Dealing with double divorce

The thing about getting divorced is that often, later on, you get remarried. Over 20 percent of marriages involve two people who are both on their second marriage, Census Bureau data shows.

In this situation, your credit problems may cause stress in your new relationship. That's what happened to a family where both parents were previously married. They wanted to fulfill their dream of becoming professional beekeepers, but found past bad credit from their divorces stood in the way.

Case study: building better credit together

Lena had dreamed of working with bees since she was a young child, but had a rough road to fulfilling that goal. She struggled with her health and with depression, and her first marriage ended in divorce.

After achieving a breakthrough that gave her a positive, new outlook on life, she met the man who became her second husband, Andre. He shared her beekeeping passion. After a lot of planning and thought, they set out to build their bee farm. But when they tried to get the loans they needed to start their suburban honey farm, they couldn't qualify.

The end of both of their marriages had created credit chaos that each had ignored. Their credit reports were riddled with errors and mischaracterized items that didn't fully explain the circumstances and financial responsibilities from their past marriages. Many items needed to be disputed or corrected, and their credit scores rose.

They were finally able to qualify for the credit they needed, and received their first couple of beehives to start their business. In fall 2020, they gathered and sold their first honey harvest. Lena says that it was amazing finally seeing their entrepreneurial dreams start to become reality, thanks to their improved credit rating.

Lena and Andre faced unusual challenges because both of their divorces created money troubles that lowered their credit scores. Since they wanted to go into business together as beekeepers, both these new spouses needed to improve their credit in order to cosign for their business loan. Once their credit improved, they were able to borrow the money needed to order their hives and start their business.

Since debts are often sold from one lender to another, sometimes over and over, a single debt from a previous marriage can easily become several negative items on your credit report.

In a typical case of credit repair post-divorce that we see, there are dozens of trade lines that need to be reviewed for possible errors.

Yes, it's time-consuming to challenge each of these items. But in cases like this couple's, the end result is a much-improved credit score and the opportunity to move forward with business goals. It's well worth the effort. If you're currently facing bad credit due to a divorce, here are some steps you should take.

Step 1: Get organized

While emotions run high during marital separations and divorces, if you can work amicably with your ex-spouse to organize your financial matters, it will benefit everyone involved in the long run.

To the extent that you are able, work with the other party to document any and all financial obligations incurred during the marriage, including mortgages, credit card accounts, medical bills, student loans and so on. You will want to have at your disposal full documentation of what you owe on each account, whose name is on the account and whether any of the accounts are past due.

If you are able to sort out these financial matters through court mediation, this may create a great savings opportunity for you versus taking the divorce to court. This is not possible in every scenario, but it is something to consider in terms of softening the financial blow.

Be as transparent as possible with the other party about your debts, ensuring that you have shared all information about financial obligations the other party could be held accountable for by creditors.

Step 2: Contact creditors

Once the divorce is finalized and the debts are divided, it is a good idea for you to contact creditors to ensure your name is not on the accounts for which you are not held responsible in the divorce settlement. While it's true those creditors can still come after you for the debts, it serves you well to create a paper trail of sorts. Record the names and dates of these conversations for future reference.

Step 3: Keep paying your bills on time

This is our mantra when it comes to protecting your credit score, and it still rings true even during a divorce. Because the divorce puts you at risk for future financial problems if your ex-spouse does not pay back debts, you need to ensure you are staying on track with your own.

The emotional toll of a divorce makes many people want to simply hide under the covers, and it can be unbearable to manage even simple daily tasks. But staying organized and on top of your bills, even during this difficult time, is crucial to protecting your financial future and your credit score.

Plus, you want to maintain an excellent track record with your own debts should you need to challenge a divorce-related blemish on your credit report. At the very least, you can show you have a solid track record when it comes to the debts assigned to you by the court.

Step 4: Ask for help and negotiate

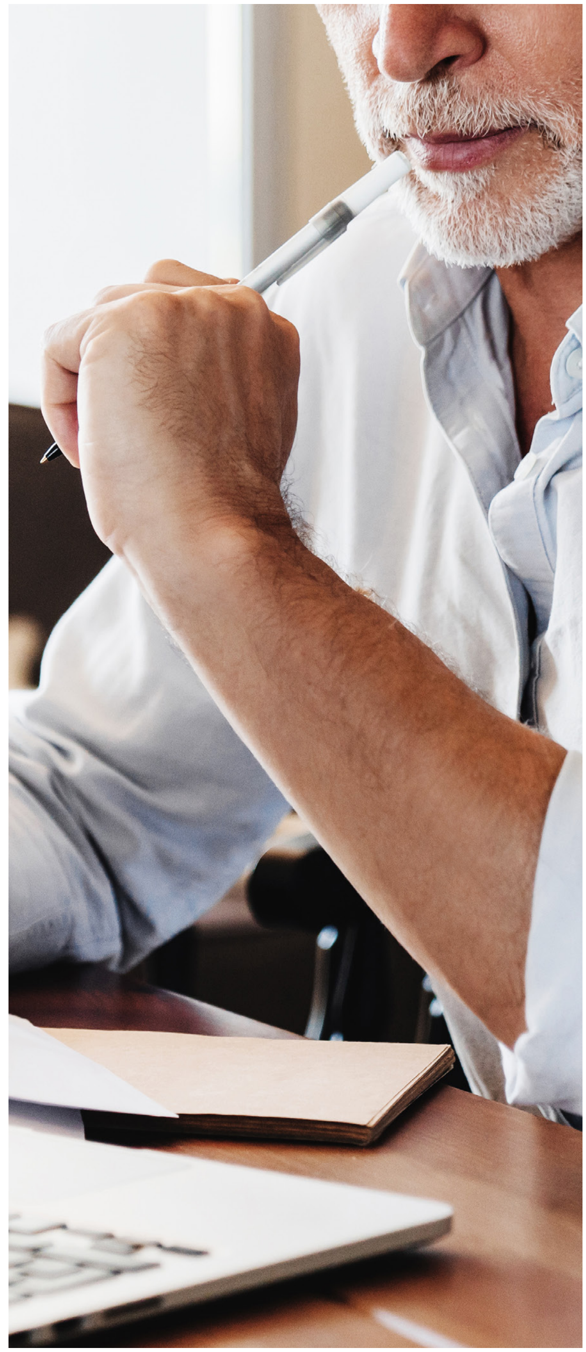
During the financial distress of divorce, consider and seek out any options available to you to manage your debts. In some cases, you may be able to negotiate with lenders for a modified payment plan until you can get back on track. You won't know until you try, and this includes how you pay your divorce attorney as well.

Consider every loan and every debt and explore ways to modify them if at all possible. It's also a good idea to cut back on all unnecessary spending, which may allow you to build some savings to protect yourself if you incur additional debt as a result of the divorce.

It will take some time to adjust to a new budget after the divorce: you may be used to what you spent on two incomes, and this may shift dramatically when you are left with one. Therefore, you should keep a close eye on all expenses and how they ultimately impact your credit score. Be wary of racking up credit card debt to make it through the divorce, as you may then find yourself ruining your own credit score.

Step 5: Keep a close eye on your credit report

You can obtain a free copy of your credit report every 12 months, and you should certainly take advantage of this after a divorce. You need to stay aware of any unexpected dips in your credit history that may be a result of your former spouse not paying debts. Even in amicable divorces, individuals cannot be complacent about checking this. It is up to you to act as your own best advocate when it comes to monitoring, protecting and ultimately repairing your credit score.



CHAPTER SEVEN

Job loss

CHAPTER SEVEN

Job loss

In this chapter, you'll learn:

- How unemployment can affect your credit score
- What you can do to protect your credit while unemployed

It's the nightmare of every American worker: you're called into the boss's office out of the blue and leave without a job. In a blink, your entire income is gone, making it hard to keep up with your bills.

In spring 2020, that worst-case scenario came true for 22 million people. For many, the pandemic-related layoff was long-lasting—over six months after the pandemic hit, 10 million were still out of work.

Even a temporary furlough of a month or two is a disaster for most people, much less six months or a year. Some 78 percent of Americans live paycheck to paycheck. If this applies to you, one missed paycheck can plunge you into deep financial trouble, and the impact on your credit could be terrible.

As soon as a week or two after losing your job, you might start sending payments late—or miss them altogether. Your bills might begin to pile up and overwhelm you—it's hard to keep track of what's more important to pay off first. The negative credit items could begin filling your credit report, and your credit score could plummet.

You may have been a totally reliable person until now, with a long track record of steady payments. The layoff could be due to circumstances beyond your control—like, say, a global pandemic.

None of that matters to the credit agencies, which simply tally up your late bills. Here's an example of what we often see.

Case study: the long-term effects of unemployment

> *Jim worked for AAA Movers in Boston for the last ten years. Jim lived paycheck to paycheck, but the work was steady and he liked the people he worked with.*
>
> *Subsequently, AAA Movers went under and Jim and the rest of the workers were all laid off. Very soon, Jim fell behind on his bills. He found another job in just a few months, but had to start over as a new mover and wasn't allowed to work as many hours. The pay was also less, and it took a long time to get caught up on bills.*
>
> *The result? Jim's credit score plummeted. It would be a struggle to significantly improve Jim's credit score for the next seven years, until the negative items from Jim's unemployment stretch dropped off his credit report.*

If this feels unfair to you—that Jim would be penalized so heavily despite his otherwise strong credit history—I wholeheartedly agree.

In reality, Jim was a responsible borrower and paid his bills on time aside from the few months he was unemployed. And once he was employed again, he quickly worked to catch up on his bills. However, because he was unemployed for just a few months, Jim would struggle with a low credit score for several years.

This is the way the credit system works. A lifetime of responsible, on-time payments can be wiped away by a short period of unemployment—even if that layoff wasn't your fault.

One action I'd recommend if you're laid off is to contact your lenders and creditors immediately, to advise them of your situation and see if you can work out a deal. Many forbearance programs for rent, mortgage payments, car loans and more were offered during the pandemic, for instance.

You might be able to keep a lender from reporting you're behind on payments if you communicate with them. You could buy yourself a couple of months to find a consolidation loan to pay off credit card debt, for instance, or save your credit so you can apply for a balance transfer card. That could lower your monthly amounts owed and help you stay current.

Another approach is to pay bills strategically, prioritized based on which would charge you late fees. Utilities and health insurers generally have a grace period, so you could prioritize credit card bills over other types, to keep late charges from eating up your available cash.

CHAPTER EIGHT

Identity theft

CHAPTER EIGHT

Identity theft

In this chapter, you'll learn:

- How identity theft affects your credit
- What you can do to protect your credit
- How you can repair your credit after identity theft

This credit problem is often in the news, because identity theft has become an epidemic. One in three Americans claims to have been a victim of identity theft in their lifetime.

It's an unsettling crime. You feel violated, knowing someone is out there, posing as you, making purchases. You may also feel terrified as you watch your accounts drain while thieves buy items with your money.

The problem is much bigger than mail thieves who might swipe a credit card out of your box before you've activated it. In that case, you usually do not have liability.

Major security breaches at big retailers and online platforms have caused many peoples' private information to fall into the hands of criminals—with devastating impacts on their credit. In recent years, hackers have breached the servers of well-known brands including Target, Nintendo, Marriott Hotels and the MGM Grand. It came to light in 2020 that the MGM Grand was the victim of a massive data hack when thieves started selling access to 142 million MGM guest records.

A data breach can expose your full name, email address, street address, Social Security number, credit card number or PIN, bank or online-payment account numbers and more. From there, it's easy for thieves to use existing accounts or get new credit cards based on your good credit.

If you don't check your accounts regularly, it can be weeks or even months before you discover the problem. Many cards limit your liability from identity theft to a small dollar amount, but with some types of accounts, the cutoff is triggered only when you report that you've been victimized.

In the case of data breaches at places you've stayed or shopped, it could take the company a while to investigate the problem and notify customers. In the meantime, charges could be stacking up.

Maybe you've had the experience of checking your credit card account only to find mysterious charges have drained hundreds or even thousands of dollars. Next thing you know, your cards are maxed out with purchases you never even made.

Challenging these charges and getting them refunded takes time. And sometimes, if your accounts are frozen, you may not have access to the funds yourself. Meanwhile, your bills are still due, so you may not be able to pay on time.

Even though you haven't made the purchases that led to the problem, defaults caused by identity theft can still hit your credit report. A thief's spending spree can lead to many negative items turning up on your credit report—items that really aren't your responsibility and shouldn't be listed.

This can have a drastic impact on your credit, as Lisa's story shows.

The best practice is to keep a close eye on your accounts so that you can spot any problems quickly. For more, check out the identity-theft prevention tips the U.S. government offers consumers.

Case study: protection after identity theft

> *"Being a victim of identity theft was the scariest thing I've ever gone through," Lisa says. "People talk about the big stressors being death, a move or something changing in your life. But when someone takes away your identity, and your ability to purchase the things you want in your life, it's definitely devastating."*
>
> *Lisa's credit score sunk dramatically after thieves stole her identity and racked up big bills. Once Lexington Law began working on Lisa's case, we discovered more than 38 erroneous items that were linked to the identity theft. Challenging those items and getting them removed restored her credit.*
>
> *"This can be the difference between getting a normal house payment or me not even being able to qualify for my next major purchase," Lisa notes. "It's nice to be able to sleep at night again."*

As a credit consumer, you should always take steps to protect your identity, such as not carrying cards you don't use in your wallet and making sure account passwords are kept private. But as you saw above, there are other ways thieves can get your information that are out of your control.

CHAPTER NINE

Medical debt

CHAPTER NINE

Medical debt

In this chapter, you'll learn:

- How medical bills end up on your credit report
- How to remove medical bills from your credit report
- When medical bills are sent to collections
- How to minimize the impact on your credit score

If you're older, you may remember when healthcare through your employer cost you nothing. Your employer picked up the cost of premiums and there were no co-pays or limits. Things have changed radically in healthcare in recent decades, though.

If you've recently had a medical cost that you know you can't afford to pay, you might be wondering if unpaid medical bills show up on your credit report. The answer is yes, they can—and they can potentially decrease your credit score. Medical bills are similar to other credit bills—if you make late payments or miss payments, they'll be reported to the credit bureaus. If your medical debt is sent to collections, that will also show up on your credit report.

Luckily, there are some actions you can take to challenge inaccurate, misleading or unfair reporting of medical bills from your credit report.

How medical bills end up on your credit report

If you miss or make a late payment on your medical bills, this data may show up on your credit report.

However, that's not usually how it works. Doctors and hospitals simply don't have the time to report every missed and late payment. Instead, they usually wait until a few payments are missed or late in a row, and then they opt to send the debt to collections instead. As a result, the first time medical debt shows up on consumers' credit reports is often when their debt is already in collections. Having a collection item on your credit report is damaging and can sink your credit score significantly.

When you can remove a medical bill from your credit report

To understand how you can remove a medical bill from your credit report, you need to first understand the process for reporting.

Medical bills often take some time to report to the credit bureaus after you miss or make a late payment. This grace period allows you to handle any potential errors that might occur during the billing process, which can be complicated. You can also use this time to work out a payment plan for the debt.

Once a medical bill appears on your credit report, you should review it for accuracy. If the debt was inaccurately reported in some way or seems to be a result of fraud, you can dispute it. I'll cover what the dispute process looks like below.

Additionally, if your bill should have been covered by your insurance provider, reach out to them—if your insurer pays your medical debt, the credit bureaus might remove it from your credit reports, because it's not right for you to be punished for an error caused by the complex medical billing process. But, if you pay the debt yourself, the credit bureaus are unlikely to remove the item from your reports for seven years.

How to dispute medical bills and medical collections on your credit report

Step 1: Write to the collection agency and demand validation

You can send a letter to the collection agency asking them to validate the debt or show that it actually belongs to you. You might also consider stating that you want the collection to be removed if not validated within 30 days.

Step 2: Break out the magnifying glass and look for errors

Suppose step one didn't yield a result that works in your favor. In that case, you can obtain a copy of all three credit reports and look for any inaccuracies—even minor inaccuracies matter.

Once you have the credit reports in hand, review them carefully for even the slightest inaccuracies. Consider all of the dates, names, balances owed and everything else detailed about the debt. If you spot any errors in the credit reports, you can dispute these with the relevant credit bureau. The credit bureau will, in turn, be responsible for investigating the errors on their end. And, if they cannot ultimately verify the information, they may drop the medical collection item from your credit report.

How medical bills affect your credit score

If a medical debt is sent to collections, it will show up on your credit report and hurt your credit score. Additionally, it will stay on your credit report for up to seven years, so the impact on your credit score will fade with time but lasts for a while.

However, medical bills in collections affect your score differently than other types of bills in collections. As I mentioned before, the most recent scoring models—VantageScore 4.0® and FICO 9®—give medical debt on your credit report less weight, so it won't impact your score as much. However, not all creditors use these scoring models, so medical debt in collections can still have a significant impact with some lenders.

When are medical bills sent to collections?

Note that medical bills can be sent to collections even as you're paying them. If you're making too-small payments or late payments or missing payments often, they can be sent off to collections. If you set up a payment plan with your medical care provider, make sure you get it in writing.

Medical bills can't be sent to collections earlier than a predetermined amount of time. Most healthcare providers have a waiting period of 60, 90, 120 or even 180 days before they'll send your medical debt to collections. You can ask your lender how long their waiting period is.

How to keep a medical bill from being sent to collections

Take the following steps to try and keep a medical bill from going to collections:

Review your Explanation of Benefits

Your Explanation of Benefits (EOB) explains how much your insurance provider will pay for each charge. The EOB will explain what the insurance provider should pay and what may be left over for you to take care of.

Ask for an itemized bill

Ask your healthcare provider for an itemized invoice of your charges. Review the charges so you can understand how much your insurance provider should pay. Make sure the hospital is accounting for all payments by your insurer and isn't overcharging you.

Check the accuracy

Never assume the medical debt is without errors. You should take the time to evaluate if all the charges are correct, if your insurance payments are accounted for and if all other details are accurate. If there are any errors, bring them up immediately.

Work on a payment plan

If you know you can't pay for your medical bill up front, ask your provider for a payment plan. Monthly payments can make the bill much more manageable. However, note that payment plans often charge interest and other fees.

Keep an eye on your medical debts

If you have many medical bills, it can be easy to have one slip by you and end up in collections. Unfortunately, even keeping in touch with your healthcare provider and insurer won't always help you catch every bill. So, make sure you're regularly checking your credit report. If a medical bill ends up in collections, you'll see it on your credit report.

How to negotiate medical bills with collectors

If your medical bill is already in collections, consider negotiating with the collection agency. First, verify that the account is actually yours and the amount is correct. Next, ask them to avoid reporting the bill to the credit reporting agencies. If you can offer a quick payment solution, most collection agencies will work with you and delay reporting.

If they've already reported the debt, you can make an arrangement known as 'pay for delete,' where you agree to pay the debt fully if they remove the debt from your report afterwards. Whatever plan you agree to with the collection agency, ensure you get it in writing so you have proof.

Should I pay a medical bill in collections?

Yes, you should pay a medical bill in collections if you can afford to do so. As we mentioned before, paying your debt yourself won't necessarily get it removed from your credit report, but it will update the account to show that it was paid. While the newest credit scoring models ignore paid collection accounts, older models will still factor your paid medical debt into your overall score. But a paid account will likely still look better to lenders, even if it doesn't increase your credit score, so don't discount this as an option.

Whether or not you pay your bill in collections, it should eventually drop off after seven years pass.

How to minimize the negative impact of medical bills on your credit report

Everyone gets medical bills, and it's not that uncommon for the bills to feel unaffordable. No matter how unpleasant the situation is, you can't ignore your medical bills. If left unaddressed, medical bills will impact your credit score and, therefore, your other lending opportunities.

Always communicate with your healthcare provider and insurer about your medical bills. If they send your bills to collections, you'll know and be able to react accordingly. You have options to reduce the negative impact of medical bills on your credit score; you just have to be proactive.

Medical debt can happen to anyone

Unfortunately, it's hard to guard against medical debt.

The cost of healthcare in America has spiraled out of control, hitting $3.9 trillion in 2019. That's almost 18 percent of the total U.S. gross domestic product.

Today, only about half of companies offer their workers health insurance at all. When companies do offer employees a healthcare plan, workers usually have to pay some of the premium cost.

A typical employee's annual premium has soared to over $6,700 in 2020, the U.S. Bureau of Labor Statistics reported in 2020. Just a decade earlier, that average cost was closer to $4,500—and fewer workers had to pay premiums or co-pays.

Though the costs are steep, those figures look great to people who are self-employed or unemployed. They're scrambling to pay full premiums, or paying higher rates through an insurance-continuation plan from a past employer.

The Affordable Care Act—better known as Obamacare—succeeded in its goal of getting more Americans insured. But it has yet to produce low-cost premiums for most users. And some 30 million non-elderly Americans remain uninsured. Even if you're able to afford health insurance, the monthly premiums are just the beginning of your healthcare costs today. Few plans cover every expense, leaving families with bills for all the extras.

A short hospital stay today can rack up a huge bill, far more than families that live paycheck to paycheck can easily cover. For instance, bills for COVID cases that required hospitalization averaged between $51,000 and $78,000, depending on patient age.

Given that, it's no surprise to learn that almost one-fifth of people presented with an unexpected medical bill can't immediately pay it. When that happens, you've got medical debt that gets listed on your credit report. If you can't work out a payment plan, the medical debt becomes a negative item.

That's what happened to one California couple, who thought they had all their medical costs covered.

Case study: medical debt in collections

> *Maggie and Dallin loved their jobs at a water park in San Diego. During the first years of their marriage, expenses were low. They enjoyed their jobs, good health and steady incomes.*
>
> *With all that going for them, they thought it'd be a good time to start their family. When Maggie became pregnant, they were delighted, especially since the water park had good health insurance.*
>
> *What the couple didn't know was that things weren't that simple. They didn't work directly for the water park, but for an employee leasing company, which provided their services to the venue. That leasing company turned out to be teetering on the edge of bankruptcy.*

When their little girl was born, the couple thought their $18,000 hospital bill would be fully covered, as their plan indicated.

Instead, their insurance sent the payment to the employee leasing company that signed Maggie's and Dallin's paychecks. Usually, that check would be forwarded on to the hospital to pay the bill.

Days after the check arrived, though, the employee leasing company declared bankruptcy and closed their doors. Bottom line: the hospital never got paid.

When hospital bills began to arrive at their apartment, Maggie and Dallin were confused. Why hadn't the insurance company paid the bill? By the time they figured out what had happened and requested that a replacement check be sent by the insurance company, the medical bills had been sold to a collection agency.

The black mark of a collection debt had already hit their credit report. Their credit score began to sink.

There was no possible way that a young couple with a new baby to care for could instantly come up with $1,800, much less $18,000. They sat by helplessly as their once-perfect credit score was destroyed by medical collection actions against them. This debt wasn't their responsibility, and yet they were paying for it.

Nothing about Maggie and Dallin had changed. They were both still hard workers who'd paid their bills on time. They still had the same jobs at the water park—now through a new leasing company. They joined that new company's health insurance plan as soon as they had the opportunity. Still, according to their credit reports, they were now a bad risk. Now, not only would it be more difficult to take out a mortgage or get a new car to accommodate their growing family, but they would also have to pay more with higher interest rates.

If Maggie and Dallin hadn't pursued the issue, their credit reports wouldn't have been corrected automatically. They decided to contact our firm, to see if we could help them fix their credit.

First off, our firm advised this couple to notify local police that their insurer's $18,000 medical-debt payment was duly mailed off to their employer—but wasn't received by the hospital. This would start a criminal investigation into the missing check's whereabouts. The police had more resources to locate a missing business than their amusement park's administrative office.

Creating a police report about the incident strengthened the couples' position. It allowed them to reach out to the hospital and work out a payment plan in the meantime. That way, their credit report showed them taking responsibility for the debt while the problem was investigated.

Law enforcement's involvement in the case helped document the payment's journey and demonstrated that Maggie and Dallin weren't responsible for the debt. Eventually, the issue was removed from their credit report, restoring their good credit.

If you're facing a medical debt that's hurting your credit score, don't hesitate to reach out for help, and know that you're not alone and that your experience is—unfortunately—all too common.

CHAPTER TEN

Student loan debt

CHAPTER TEN

Student loan debt

In this chapter, you'll learn:

- How to use student loans to build credit
- How to protect your credit score from student loan debt

Student loans present a unique challenge to anyone looking to repair their credit. These loans are often managed through federal programs, or by private lenders that sell and resell them. In some circumstances, this may create multiple entries on your credit report.

Rising college costs have led to record-high student loan levels. On average, tuition went up 55 percent from 2006 to 2016, and Americans owed over $1.7 trillion on student loans in early 2021. To break that down, over 43 million Americans owe an average of more than $39,000 on their student loans.

Over time, student loans are often consolidated, refinanced or put in forbearance. Given the substantial student loan debt many grads have today, loan terms can stretch across a decade or more. This can increase the odds that your credit report doesn't get properly updated as your loans are reorganized or sold off to another lender.

Interest rates on student loans are often quite low, so many borrowers feel they're not a top priority for repayment. Young new graduates may not understand the impact on their credit of late payments or nonpayment of student loans—until it's too late.

Over a million student loans go into default each year. Unpaid student loans are currently a problem for 9 million borrowers and their families, and 8 percent of student loans are in default.

Often, borrowers struggle with their student loans in part because they've been a victim of scams in the lending industry.

It's important to be aware of all your options as a student borrower, as lenders may not tell you about them, leading to higher payments and more financial pressure.

In this chapter, I'll explain how student loan debt can affect your credit—for better or worse—and how you can manage the impact of missed payments on your credit score.

How can student loans help build credit?

Used correctly, student loans can be a powerful credit-building tool. Here are three positive ways you can leverage your student loans.

Establishing a positive payment history

Typically, student loan payments aren't due until several months after a student has graduated. However, many loan providers allow students to make elective payments toward their loans before the deferment period has ended.

Lengthening your credit history

Many students avoid opening credit accounts during college, a decision that is in many ways a smart move, since it can stop you from overspending and falling into unmanageable debt. But when it comes time to buy a car or rent an apartment, having no credit is as unhelpful as having bad credit.

Fifteen percent of your credit score is determined by the average length of your credit accounts, so even after you've started building credit, it will take a while for your account lengths to start contributing positively to your score.

If you take out student loans to get your bachelor's degree, you'll have four years of account history already on the record by the time you graduate, which will help raise the average length of all your credit accounts.

Diversifying your credit

Another factor that impacts your score is how varied your credit accounts are. For example, having one credit card, one student loan and one mortgage is preferable to only having three credit cards. Spreading your credit across different types of accounts will diversify your credit—a factor that determines 10 percent of your credit score.

How can student loans hurt your credit?

Of course, like any debt, student loans have the potential to be harmful. If your student loans become overwhelming, missed payments or a default on your loans can significantly damage your credit score.

Below we've listed the three major elements of student loans that can harm your credit—and how to avoid or fix them.

Missed or late payments

Like any credit account, student loans incur fees and derogatory marks when a borrower misses or is late on a monthly payment. Especially since student loan payments tend to be due in the months after graduation, when many graduates are searching for jobs, relocating and adjusting to postgraduate life, those monthly payments can be a struggle for even those with an otherwise spotless payment history.

What to do: If you think you might be unable to make a student loan payment, contact your loan provider right away. You can put your loans into deferment or forbearance, which are two types of postponement options that should have no negative impact on your credit.

However, any late or missed payments from before you postponed your loans will most likely hurt your score, so it's important to act quickly.

Defaulted loans

Defaulting on a loan can also add costs to the amount originally borrowed. Lenders can add collection costs, and if the borrower winds up in court, legal fees will add to the overall cost of a defaulted loan.

A default can remain on your credit report for seven years from the date of your first missed payment.

What to do: The best way to deal with a defaulted loan is to avoid it completely by putting your loans into deferment or forbearance before you begin missing your student loan payments.

If your loan in default is a federal loan, you may be able to rehabilitate it by contacting the loan provider to negotiate a revised payment plan, and then making nine on-time payments over a period of 10 months.

High debt-to-income (DTI) ratio

Even if you make your payments on time and in full, student loans can be potentially harmful if your monthly payment is too high compared to your monthly income. For example, if your monthly loan payment is $800 and you only make $1,600 per month, that puts your DTI ratio at 50 percent.

Though your DTI ratio isn't reflected in your credit score, it's something lenders take into consideration when evaluating you as a borrowing candidate. Having a high debt-to-income ratio also increases the likelihood that you will have missed or late payments, which do harm your credit score directly.

What to do: Many student loan providers allow borrowers to adjust their payment schedules based on their income. If you contact your loan provider, you may be able to lower your monthly payments to a set percentage of your monthly paycheck. Not only will this make budgeting easier, but it may also make it easier for you to get approved for other types of credit, like a mortgage.

How to refinance student loans without damaging credit

Refinancing your student loans shouldn't impact your credit in a significant way—assuming you do it correctly. If you're smart and avoid some common pitfalls, refinancing your student loan can be a great decision that saves you money.

Here's how to avoid hurting your credit while refinancing a student loan:

Only apply for one refinancing loan

You should absolutely shop around for the best refinancing offer, but when it comes to submitting a full application, hold off until you're certain you've found the right lender. Like most credit applications, approval for a refinancing loan requires a hard credit check, which will affect your credit score slightly.

Many lenders will give you the option to prequalify or get a loan offer online for free. Typically, these offers only require soft credit pulls, which don't impact your credit at all, and collecting offers from multiple lenders will help you find the best refinancing deal.

Keep making loan payments until your refinanced loan is finalized

Though it may feel pointless to keep making payments on your original loan if you feel confident your refinance will be approved, it's essential that you keep making those payments until the refinance process is fully completed. Halting payments on your original loan before your refinanced loan is active will result in late or missed payments being recorded on your credit report.

Make payments on your refinanced loan on time and in full

Falling behind on your refinanced loan will have the same consequences as falling behind on your original loan, so it's just as important to stay current on your payments after refinancing. Many refinanced loan providers also offer options like deferment, forbearance, unemployment protection and more—but you must take advantage of these options before missing a payment in order to avoid harming your credit.

Is it true that student loans go away after seven years?

The answer to this is both yes and no. Defaulted student loans will generally fall off of your credit report after seven years from the final payment date have passed. However, during the seven years that you are in default, you'll likely have a poor credit score and difficulty securing credit approvals, and if your defaulted loan was a federal loan, you'll be unable to apply for any other federal student aid.

How to handle student loans the right way

1. Pay your student loans on time and in full.
As long as you can afford it, make absolutely certain that nothing gets in the way of your loan payments. If you have a hard time remembering to pay them, consider enrolling in your provider's auto-pay option.

2. Communicate with your loan provider
Options like deferment and forbearance can save you from hundreds of points' worth of damage to your credit score—but only if you activate them before you miss a loan payment. Establishing open communication with your loan provider early on will make it easier to request the help you need if you wind up struggling to make payments.

3. Pay extra whenever you can
If you're fortunate enough to be able to afford to make extra payments on your student loans, do so. Extra payments can help improve your credit and shorten the length of time it takes to pay off your loan, which will save you interest.

Like all types of credit, there's good student debt and bad student debt. Taking on student loans can open a world of educational opportunities and help you improve your credit, so long as you approach them the right way.

If you're still unsure whether your student loans are dragging down your credit, you can request a free credit report summary and consultation to get a personalized overview of your credit factors. The more you know about your debt, the more control you'll have over it.

Fraud and deception in student lending

Untrustworthy operators may neglect to inform grads about all the ways they could reduce their student loan debt burden. For instance, there are special programs for low-income borrowers that can reduce monthly payments. But your lender may not tell you about them, preferring to collect higher interest.

The Consumer Financial Protection Bureau received over 20,000 complaints about student loan practices in 2019. Top federal loan servicer Navient—previously a part of Sallie Mae—was sued by the CFPB, settling in 2020 in a deal that brought little compensation to the wronged borrowers.

Problems the CFPB found with the $300 billion debt servicer included failure to properly credit loan accounts or inform borrowers of their repayment options, as well as reporting forgiven loans as being in default. That last error devastated the credit scores of many borrowers, including disabled veterans.

Making matters worse, forbearance programs for student borrowers deliver far less than they promise. The Higher Education Opportunity Act of 2008 included an expanded student loan forbearance plan—but the program was never fully funded by Congress. Since then, only 1 percent of applicants requesting forgiveness on federal student loans have been approved.

Student loan forgiveness?

Currently, the burden of student loans is a topic of national discussion. The risk of leaving college with a big loan obligation prevents many students from attending college. In addition, servicing student loans is a drain on our economy that constrains consumer spending.

Some activists and politicians are advocating for free college and federal student loan forgiveness for current student borrowers.

That would be incredible news, both for future students and for the many Americans already carrying high amounts of student loan debt. But, as it stands today, a single late payment on a student loan can seriously impact a person's credit score.

Roger's story illustrates how quickly a student loan issue can wreck your credit, and how hard it can be to fix.

Case study: a student borrower's story

> *Roger had a great credit score before he fell behind on his student loan payments. Wanting to fix the situation, he came to an agreement with his student lender to bring his payments current again. In this deal, he made higher payments for nine months, after which the student loan was paid off ahead of schedule.*
>
> *After the student loan was paid in full, Roger was feeling pretty good. He assumed his credit score would rise, reflecting the fact that he'd paid off this debt.*
>
> *But he was in for a shock: instead, he discovered the student loan was still listed on his credit report as being in default. His credit score took a major hit. He'd received no credit for how hard he'd worked to pay off the debt. Instead, it appeared as if he was currently in default.*
>
> *Roger was understandably panicked, so he contacted his original lender. The lender directed him to Sallie Mae, the institution that administered his loan. Sallie Mae responded by mail, telling him to dispute the default with his original lender, to get it removed from his credit report.*
> *Round and round it went. Neither party wanted to take responsibility for the failure to report the loan as paid. While it was true that Roger had made a late payment, the listing on his credit report described him as in default now.*
>
> *Before turning to Lexington Law for help, Roger investigated credit repair. But he was repeatedly told by credit counselors that at this point, only time would make the negative listing drop off his credit report.*

As you can see, a typical student loan passes through more than one set of hands. It's easy for mistakes to occur—and it's common to face an uphill battle to get an error corrected.

That was the situation for another Lexington Law client. Neal is a Los Angeles-based educator who works with special needs children, a field that requires an advanced degree. He loves the rewards of helping kids who struggle academically, seeing them smile as they accomplish what others might have told them was impossible.

But the tradeoff was that he left college with a heavy student loan debt load. As with many new grads, it was his first time taking out personal loans—and he was unprepared for the burden, especially on a teacher's modest salary.

"It was my initial foray into heavy debt," he says. "It was really overwhelming for a young person to process."

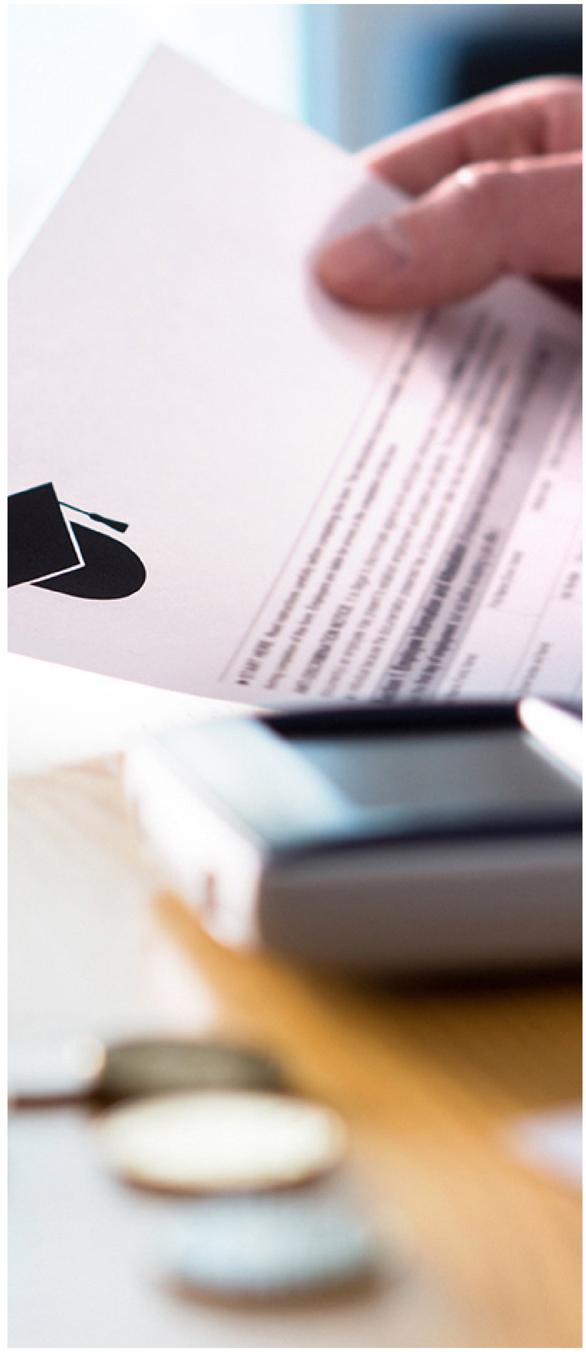
Neal wanted to buy a house but discovered his credit score was low. Investigating his credit report, he found 10-year-old student loans were still lingering on his record.

"In my opinion, some things on my record are outdated and old, but they're still impacting my credit picture," he says. "Personally, I don't want to be labeled for things that happened many years ago, when that was the best decision I could make at the time."

As Lexington Law began helping Neal remove outdated and incorrect items, he says, "I felt a sense of renewal and hope."

Both of these student borrowers' stories show how important it is to keep bank and loan records for at least seven years. That way, if an error is made, you can provide proof that you paid off the loan, complete with exact amounts and dates.

Without those records, it's hard to convince credit bureaus or lenders that their listing on your credit report is inaccurate.



CHAPTER ELEVEN

Military and public service

CHAPTER ELEVEN

Military and public service

In this chapter, you'll learn:

- Rights and protections you have while deployed
- How to protect your credit as an active military member

Serving in the military is a time-honored American tradition that continues today. Our current active-duty military force has nearly 1.5 million members across all branches of the armed forces. More serve in the Reserves and National Guard.

There are 19 million U.S. veterans. U.S. Gulf War veterans are the largest living veteran population today, and 11 percent of vets are women.

Most enlisted service members and other public servants earn modest wages. Many members live paycheck to paycheck and end up getting high-interest payday loans if they're struggling to make ends meet. This sets up a cycle of debt that can be hard to break, as borrowers struggle to cover the interest payments.

Of course, military members aren't the only people employed by our government. Over 21 million Americans work in the public sector, many of them in low-paying roles such as bus drivers or teachers. The median wage is around $26 an hour.

There's a reason low-earning military members and public servants end up with high-interest loans. As with any other applicant with a small income, traditional lenders aren't enthusiastic about extending them credit.

Military members may live on base. They're less likely to own a home or car, and so may have less of a credit track record to show, leading to a lower credit score. (See the upcoming section on invisible credit for more on this issue.)

Public service can mean frequent moves and time spent overseas. There can be missed connections that translate into derogatory marks on your credit report—even though the Servicemembers Civil Relief Act and the Military Lending Act protect military members from negative consequences due to their service.

Bill's story provides a useful example.

Case study: missed connections

> *When Bill left the Navy, he discovered that the military had inadvertently overpaid him. Not to worry, Navy officials told him—because it was the government's error, he wouldn't have to pay back the overage. Bill stopped worrying about it and moved on with his life.*
>
> *Unfortunately, Bill was wrong. As sometimes happens in the military, promises made by one department weren't shared with another department—in this case, the collections department. The Navy began to pursue a refund of their overpayment.*

After Bill left the Navy, he moved several times. This is often the case post-discharge—a service member might crash with a family member for a few months, then find a job elsewhere and move again. The Navy's collections department sent several notices to an address that Bill hadn't lived at for months.

Eventually, collectors working for the Navy reported the 'bad debt' to the credit bureaus. Overnight, Bill's credit score went from a healthy score to a much lower score. Bill didn't catch the error right away because he didn't check his credit score often, and only discovered the problem when he applied for a small credit line. Veteran or not, the Navy's collection action, which he'd had no knowledge of, had destroyed his credit.

The good news for Bill and other American military members is that notice is important in American law. If a creditor wants to collect a debt from you, the Fair Credit Billing Act requires that you be notified. Since the Navy never informed Bill that he needed to repay the government, he couldn't be held responsible for the debt.

Below, I'll go further into depth about what your rights are as a member of the military and how you can leverage them to protect your credit.

Rights and protections that active-duty military have while deployed

The present Serviceman Civil Relief Act (SCRA) (found at 50 U.S.C. App §501-597b) says if you are part of the Army, Navy, Air Force, Marine Corps or Coast Guard and you are on active duty; or if you are national guardsman or a reservist who has been called to active service for a period of more than 30 consecutive days; or if you are a commissioned officer of the Public Health Service or the National Oceanic and Atmospheric Administration, you are entitled to certain protections under the law while you are serving.

These protections for loans originated prior to your active duty go into effect the day you leave civilian life, if you are part of the regular Armed Forces, or when you receive mobilization orders, if you are part of the Reserves or National Guard.

And many of them continue for 30 to 90 days after service is terminated. These protections are not given just because of status in the armed forces, but also based on the idea that duties abroad impact the ability of those serving to materially defend themselves against court actions back home.

And while many of these rights can be waived, that waiver has to occur either "during or after the service member's period of military service."

Here are a few of the key protections laid out in the SCRA, especially for those in active service.

Protection against default judgments

A default judgment can occur when one party files a court action against a second party, and the second party doesn't show up to court to defend themselves. However, under the SCRA the court isn't allowed to hold it against you if you're serving abroad and your commanding officer declines to grant you leave. So, the court can hold off on the proceedings for a minimum of 90 days, as long as you have some kind of meritorious defense, no matter how weak.

If a default judgment does show up while you're on active duty, or within 60 days of termination, the case can possibly be reopened if you were materially affected in making a defense by your military service and you have a legal defense of some kind.

In other words, if you're abroad on orders and someone slaps you with a default judgment and you couldn't come back because you were out in the middle of the Indian Ocean, or stuck in a firefight in Kandahar, and you have any kind of reason for why there shouldn't be a judgment, you may want to talk to a lawyer—because that judgment may not belong on your credit report, or even be valid.

Stay of proceedings when service member has notice

This is kind of like a judgment, except in this case it applies to any civil proceeding. For example, let's say your ex-partner wants to change custody arrangements and figures you being abroad is a good time to make that happen.

If you are under the effect of a stay, you can't be penalized for not doing something you were obligated to do under a contract. And the court can choose to reduce or waive any fines or penalties if you were in military service at the time the fine or penalty was incurred and the obligation was materially affected by your service, like you were living in a tent in the middle of the desert on the other side of the world.

Statute of limitations

When someone wants to file a court case, they have to look at the statute of limitations. It basically means that at a certain point, what's in the past is in the past, and you're no longer allowed to bring it up anymore.

When you're deployed, they can't count it against you for the time you have to file a case in court. The Internal Revenue Service is the exception to this rule.

Maximum rate of interest on debts incurred before military service

There is a fixed limit on how much a service member, or an account that a service member holds jointly with their spouse, can be charged. That limit is 6 percent.

Sounds great, right? But there is some fine print. That 6 percent limit only applies during military service and for one year after, for mortgages. If you get your orders, go out to celebrate that weekend and put $500 worth of drinks on your card, those drinks don't fall under the 6 percent rate. This rate only applies to purchases before you enter the service, and you have to send the companies a written copy of your orders.

The good news is this is actually retroactive back to the date that you were called into service, so the important thing is to get it in. However, if a creditor can show a court that you make enough that the rate should be higher than 6 percent, you may not get the low rate. Keep that in mind.

Evictions

You know that guy who always has to find and exploit every loophole they can find in order to try to win whatever game they're playing? When it comes to this rule, many landlords are like that guy. Congress lays down a rule, and some landlords look for a loophole and exploit it until it collapses. So, Congress changes the rules to plug the hole, and they go looking for another hole.

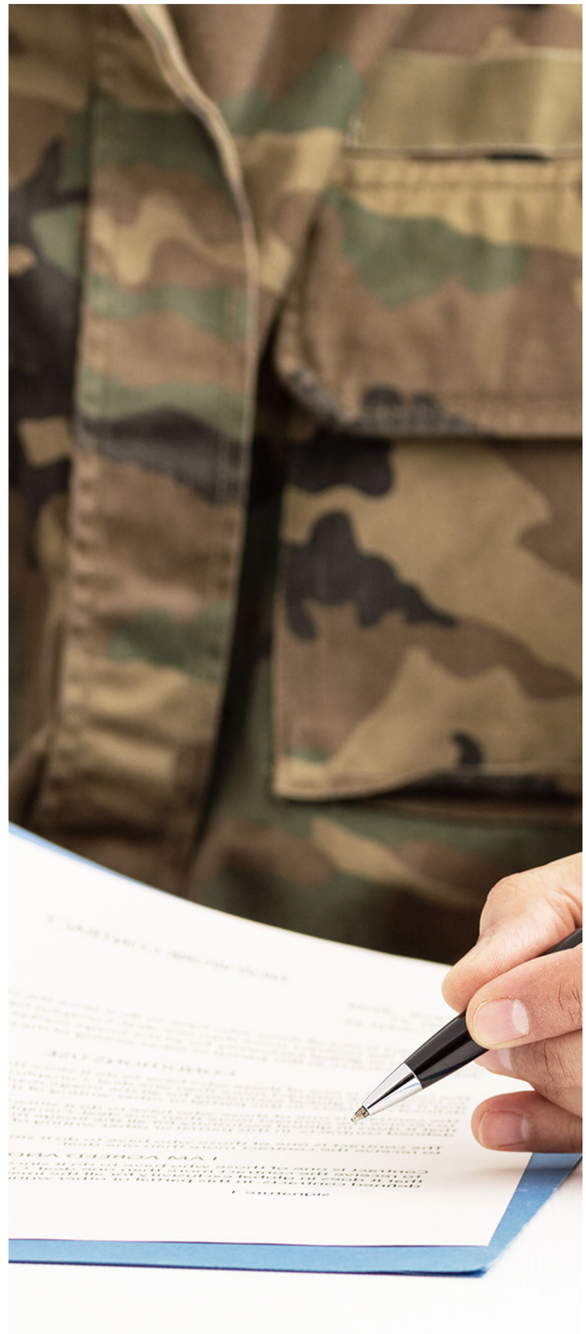
"Except by court order, a landlord (or another person with paramount title) may not—evict a service member, or the dependents of a service member, during a period of military service of the service member, from premises—that are occupied or intended to be occupied primarily as a residence; and for which the monthly rent does not exceed [$3,217.81 as of 2014], or subject such premises to a distress during the period of military service." Like most of the SCRA, this assumes the lease was signed previous to enlistment or active duty (50 USC App § 531).

Protection under installment contracts for purchase or lease

Life is good. You're stateside, good rotation, just leased yourself a new car, got the latest and greatest cell phone, then conflict breaks out in some obscure part of the world. Now you're shipping out to someplace hot and muggy like the summer in Mississippi, except it's nowhere near Mississippi. So, what are you going to do with that new car? And your cell phone contract?

If you just got in and will be active for at least 180 days without a break in service, or if they're sending you from the continental U.S. to someplace outside the U.S., you might be able to break the lease on the car. You can potentially break the lease on the place where you are living if you have a permanent change in station or deployment over 90 days, and you might be able to break the lease on your phone if you're going someplace where you won't get service.

Once again, written notice is required.



CHAPTER TWELVE

National emergency

CHAPTER TWELVE

National emergency

In this chapter, you'll learn:

- How a national emergency can impact your credit score
- What resources are available to you
- How to protect your credit

Prior to 2019, the phrase 'natural disaster' probably brought to mind a flood, earthquake or fire that affected a limited region. That all changed with the COVID-19 pandemic. Nearly every living person experienced what a global disease outbreak can do to your life and, in many cases, your credit.

For many consumers, it was a wake-up call to cut costs and keep payments up to date whenever possible. Jeri's story provides a good example.

Case study: national emergency

At the beginning of 2020, Jeri had plans to get back to the gym and travel more. Then, in March, she was told to stay home from work and was soon officially furloughed. Not long after, due to travel restrictions, she lost income from her Airbnb rental.

In a matter of a few weeks, Jeri went from planning her next vacation to having no income, burning through her savings and maxing out her credit cards.

She began learning about credit online and working with Lexington Law to improve her credit report as much as possible, to help reduce the impact of her income loss.

Her next step was to take advantage of all payment suspension, forbearance and debt-forgiveness plans offered by her creditors. This reduced her payment responsibilities during the pandemic and helped preserve her credit rating. While Lexington Law worked on correcting errors on her credit report, Jeri began writing down her financial goals. She notes her 'why' for working toward a higher credit score, including more travel with family.

"While I'm still in the process of improving my financial literacy and my credit score, I'm so happy I finally started the process," she says. "Credit repair doesn't need to be something you avoid, because the process isn't as scary as it might seem."

If you lost your source of income due to a financial disaster, specifically due to the COVID-19 pandemic, there are provisions in the CARES Act that may be able to help you.

Credit relief under the CARES Act

The Coronavirus Aid, Relief and Economic Security (CARES) Act didn't suspend negative credit reporting. However, it did modify adverse credit reporting and provide protections that could help prevent negative credit marks if they occurred during the time that the U.S. was in an official state of emergency.

The coronavirus outbreak blindsided the American economy and left many people scrambling when it came to paying student loans, credit card bills and basic living expenses. TransUnion reported that nearly 60 percent of Americans were affected financially by the pandemic.

It resulted in reduced work hours, lost wages and hundreds of thousands of layoffs according to the Department of Labor. A recent Zest AI study found that 62 percent of Americans ages 18 to 44 are concerned about how COVID-19 will affect their credit scores.

A change to negative credit reporting

The CARES Act amended the Fair Credit Reporting Act (FCRA).

The CARES Act states that your creditor has the option to offer you an 'accommodation.' Generally, this means that if you forbear or defer a loan, it will not negatively affect your credit score.

However, private creditors are not required to provide accommodations, and they will not automatically extend the offer to you. You must ask for them.

Accommodations can be any of these things:

- Partial payments
- Deferred payments
- Forbearance
- Loan modifications
- Any other assistance or relief

If you received an accommodation for a loan because you were affected by the coronavirus pandemic, and if you were current on the account before you received the accommodation, your loan provider must continue to report your account as current. (It doesn't affect your account status if you were already delinquent on payments.) This can protect your credit.

The economic impact of a national emergency

One of the benefits of the financial assistance provided by federal pandemic aid was that many consumers were able to pay off their debts and build a savings. The result? The average credit score actually improved by a few points in 2020. Consumers took advantage of pandemic-year federal unemployment extensions and other aid programs to ease their financial burdens. The result was that credit scores stayed strong for many. It's one of the most unfair things in the world of credit that a natural disaster makes you look like a bad credit risk to lenders. In the final chapter of this book, I've got some ideas on how to advocate for a fairer system.

CHAPTER THIRTEEN

Credit repair tactics: fixes that work

CHAPTER THIRTEEN

Credit repair tactics: fixes that work

In this chapter, you'll learn:

- How to address inaccurate items on your credit report
- How to address negative, accurate items on your credit report
- How to protect your credit

For every basic type of credit problem, there are actions you can take that may help improve your credit score. Don't worry if you have these issues—many times, there is something you can try.

You might be surprised how often you can make progress in removing negative listings if you know who to approach about your problem and what to say.

As you've learned, your credit score is calculated based on information listed on your credit reports. The first step to improving your overall credit score and credit history is to check your credit report for any negative or unrecognized information.

Once you find negative items, the next step is to determine whether they are accurately or inaccurately reported—there are different ways to remove items based on their accuracy, which I'll cover in the next sections.

How to address inaccurate listings

It's not unusual in our practice to find literally dozens of errors on a client's credit reports. Remember, you're completely within your legal rights to challenge these incorrect items.

Every single detail of a credit listing should be checked for accuracy. Common mistakes can be made with the following pieces of information:

- Name
- Dates
- Addresses
- Listed accounts and account balances
- Inaccurate account statuses—closed accounts listed as open or vice versa
- Duplicate accounts
- Collection accounts sold to third-party debt collectors
- Missing accounts
- Incorrect public records such as lawsuits, foreclosures or bankruptcies
- Loan terms and statuses
- Interest rates
- Payoff dates
- Days late
- Number of late payments
- Delinquencies
- Fraudulent activity
- Credit inquiries made

Don't be surprised if you find entire listings that don't belong on your credit report at all. They may be another person's debt, the work of identity thieves or too old to legally remain on your credit report.

Duplication is another form of error. Often, as loans are sold and resold, you'll see duplicate listings describing the same debt. A listing could also mischaracterize or not fully explain what happened with a debt.

That was the situation in Eduardo's case, which also highlights how many errors get corrected.

Case study: duplicate negative listings

> *Eduardo bought a television set from a department store in southern California. He and his family are not native English speakers and have little understanding of written English. The store worker suggested a payment plan for the TV set, which he said included a 'first six months free' offer. The Garcias accepted the payment plan on the basis of that offer, signed the loan agreement and took their TV home.*
>
> *Contrary to what the worker had promised, the written contract stated that monthly payments began immediately. Over the next six months, Eduardo received monthly bills for the television. He didn't understand the billing statements, and since he clearly recalled the worker telling him that his first payment would occur after six months, he ignored the bills.*
>
> *When the sixth month rolled around, Eduardo began making regular monthly payments. While Eduardo thought he was making on-time payments, the department store was marking each payment as 180 days late. Soon, there were multiple trade lines noting a late payment.*
>
> *When Eduardo went to purchase a family home, he discovered this ongoing late payment history on his credit report. It had lowered his credit score and made it difficult to purchase a home at an affordable interest rate.*
>
> *Eduardo hired a credit repair attorney, who wrote to the department store. After several rounds of explanation by the attorney, the department store relented, agreeing that the negative credit listings were in error.*
>
> *The store was likely anxious to avoid being accused of engaging in deceptive practices. It could appear they were exploiting the language barrier Eduardo clearly had, in having orally promised one thing and then writing up a loan contract with less favorable terms.*
>
> *To resolve the problem, the department store requested that Eduardo or his attorney dispute the negative listing with the credit bureaus. The department store would then decline to respond to the credit agencies' investigation requests. Without an objection from the store, the bureaus would delete the negative item as not verifiable.*

As you can see, a conversation with the credit bureaus and your lender is often needed to correct an error on your credit report. It can be time-consuming work, but well worth the effort. Removing errors is often a route to improving your credit score.

Step 1: Gather documentation

The first step to remove an inaccurate, unfair or unverified item from your credit report is to gather as much documentation as you can—any records of communication, contracts or other relevant information that can be used to substantiate your claim. It's important to do this before you contact the bureaus or your lenders because once you do, you will have a limited amount of time to dispute the item, and you don't want to lose time hunting down information.

Step 2: Submit a dispute

Once you have all your documentation together, you're ready to submit a dispute to the credit bureaus. You will have to submit a dispute to each of the three credit bureaus that:

- Clearly identifies the items you're disputing
- States your case
- Requests to have the listing removed or corrected

Here's where to submit a dispute with the three credit reporting agencies:

TransUnion
Online
Mail: TransUnion LLC, Consumer Dispute Center, PO Box 2000, Chester, PA 19016

Experian
Online
Mail: Experian, PO Box 4500, Allen, TX 75013

Equifax
Online
Mail: Equifax, PO Box 740256, Atlanta, GA 30374-0256

Although each of the credit bureaus allows you to submit your disputes online, I recommend sending your dispute through the mail with 'return receipt requested' so you can retain documentation of your dispute process.

Once the credit bureaus have your dispute, they have a time frame of 30 – 45 days to investigate your claim. Keep an eye out for their response: they are legally obligated to send you the results of their investigation.

Step 3: Have credit bureaus validate information with a 609 letter

Another way of challenging items on your credit report is by sending a 609 letter to the credit bureaus. Like I mentioned before, Section 609 of the FCRA states that you are legally entitled to access all of the information listed in your credit file. A 609 letter calls on this legal right to request that the credit bureaus provide documentation that validates an item on your credit report.

Under the rights afforded to you by the FCRA, a 609 letter may help you remove erroneous or unsubstantiated information in your credit report. The downside is that if the furnisher does successfully verify its accuracy, the information can be added back to your file.

Of course, you're still obligated to repay any legitimate debts, even if the credit bureaus delete the information from your file.

There's nothing proprietary about the format or wording of a 609 letter, although it does require your own personal identification documentation.

609 letter template

> *Dear (Experian, TransUnion or Equifax),*
> *I am exercising my right under the Fair Credit Reporting Act, Section 609, to request information regarding an item that is listed on my consumer credit report. (List account names and account numbers)*
>
> *As per section 609, I am entitled to see the source of the information, which is the original contract that contains my signature.*
>
> *As proof of my identity, I have included copies of my birth certificate, Social Security card, passport, driver's license, W-2, rental agreement and a cell phone bill. I have also included a copy of my credit report with the account I am requesting to have verified circled and highlighted.*

If you are unable to verify the account with the original contract, the information should be removed from my credit report within 30 days.

Sincerely,
(Signature)

(Address, Social Security Number, Date of Birth)

How to remove accurate listings

If an item has been accurately listed on your credit report, sadly, there is no guaranteed way of removing it. However, there are a few negotiation methods you can attempt to try with your lender that might convince them to remove it for you.

Send a goodwill request letter

A goodwill letter is a written correspondence that asks creditors to remove negative remarks from your credit reports. A creditor might be willing to take action based on a demonstrated effort on your part to handle credit and finances more responsibly or if you have a good history with them.

Creditors are never obligated to remove accurate negative items simply because you ask. And in some cases, creditors may not be able to remove the items due to internal policies or agreements with the credit bureaus.

What goodwill letters can remove

Goodwill letters are more likely to work on smaller negative items, such as late or missed payments. That's because many creditors have agreements with credit bureaus that they will not negotiate with individuals to have repossessions, collection accounts or charge-offs removed.

How long does a goodwill letter take?

A goodwill letter is an unofficial letter sent to the creditor. There's no timeline requirement or even an obligation for the creditor to respond to the letter. How long the letter takes to generate a response—or if any response is generated at all—varies.

A goodwill letter is not an official credit dispute letter. When someone finds an inaccurate item on their credit report, they can send a credit dispute or verification letter to the credit bureau. This prompts the credit bureau to launch an investigation, which comes with specific timelines that must be followed by the credit bureau and any creditor that is asked to provide documentation for the negative item.

How to write a goodwill letter

Write a goodwill letter as you would any business-related correspondence. Type and print it, and keep it professional, clear and concise.

While you can provide the details about the reasons for a lapse in payment or another negative factor, a goodwill letter should not focus on the emotional aspects. The goal should be to show the creditor that the issue was not indicative of how you normally handle credit or that you have substantially improved how you handle credit.

This helps the creditor see you as a more valuable client, which can encourage them to do a goodwill favor for you. The goal of a letter should not be to make the creditor feel sorry for you.

When writing your letter, include details that can help the creditor identify your account and the negative item in question. Then, provide a short description of why you think the creditor should remove the negative mark. You should include:

- Your account number
- The date and type of issue that occurred

- Information that identifies the negative mark
- Information about how long you have had a relationship with the creditor
- Information that shows this is not habitual behavior for you
- Sincere regret that this occurred
- A specific call to action that explains what you are asking of the creditor

Goodwill letter template

> *Re: Account No. XXXXXXX*
> *Creditor Name*
> *Creditor Street Address*
> *City, State, Zip Code*
>
> *To Whom It May Concern:*
> *I'm writing this letter to express my gratitude as a longtime customer of (Creditor Name) and to discuss a concern regarding my account. Specifically, I would like to discuss an item posted to my credit report regarding this account and request that it be revised.*
>
> *My account with (Creditor Name) began on (date). Since that time, I have enjoyed excellent customer service and benefits and have been happy with (Creditor Name). I have also been a customer in good standing, paying my account in a timely manner and (include any other information that identifies you as a valuable customer, such as whether you qualified for loyalty programs).*
>
> *However, (provide a short narrative of the events that led up to the missed payment, keeping it to a few sentences at most. For example: However, in May 2010, I was in a major car accident and spent a week in the hospital. This led to a temporary decrease in my income and obvious medical bills. While I was able to bounce back financially and now am continuing to pay all my debts as owed and on time, the first month after my injury was difficult, and this is when I missed that single payment.).*
>
> *I wish that I was able to continue with payments in my normal manner during that time and regret that I wasn't able to do so. Following that personal emergency, I'm working hard to repair any damage done to my credit and personal financial life, and I'm reaching out to you for support in that effort.*
>
> *I'm asking that (Creditor Name) give me a second chance at a fully positive credit history with your organization by removing the late payment mark from my credit report with all three credit bureaus. Please let me know if there is anything else I can provide to support you as you consider my request.*
>
> *Thank you for taking the time to consider this request. Sincerely,*
> *(Your Name)*

Send a pay for delete letter

The second approach is to contact the lender and propose a payment plan or settlement to repay some or all of your debt.

This type of letter—offering payment in exchange for removal of the debt listing—is known as a pay for delete letter.

The key step is to propose a repayment plan in exchange for the removal of the debt from your credit history. In essence, you pay the debt to get the negative item removed.

Even if you've gotten yourself out of debt and paid off collection accounts, without a pay for delete letter, negative credit items can remain on your credit bureau file for up to seven years.

Often, in order for a pay for delete letter to work, you must offer an amount greater than what the collection agency paid for your debt. There's no magic number, but generally knowing what the other party wants gives you more information about what to include in your pay for delete letter, increasing your chances of a successful negotiation.

Not all creditors will accept pay for deletion letters. Typically, many mainstream creditors like corporate banks, credit unions and even small-town banks aren't receptive to this strategy.

However, small utility bills, such as phone, cable and power bills that go to collection agencies are more likely to work. Here are a few cases in which you should try sending a pay for delete letter:

- **The credit reporting time limit is still several years away.** Is your debt old and about to fall off your credit report? If so, it will no longer impact your credit score after the time limit has expired, so a pay for delete letter isn't necessary. If the credit reporting time limit is still far away, you may want to send a pay for delete letter.

- **You have the funds to pay the full amount listed immediately.** If your pay for delete letter is approved, you often will only have a short window of time to make the payment, so only send one if you're confident you can pay the total amount.

- **You have sent a debt validation letter, and the debt collector has provided proof.** In some cases, collectors could request payment even if your state's statute of limitations on overdue accounts has run out.

Your pay for delete letter doesn't need to be long and complicated—or even full of legal jargon. Be sure to provide all the relevant information like dates, payment amounts and other details specific to your scenario.

Pay for delete letter template

(Your Name)
(Your Address)
(Your City, State, Zip Code)
(Collection Agency's Name)
(Collection Agency's Address)
(Collection Agency's City, State, Zip Code)
(Date)

Re: Account Number (XXXXXXXXXXX)

Dear (Creditor's Name),

I am writing this in response to your recent correspondence related to account number (XXXXXXXXXXX).

I accept no responsibility for ownership of this debt; however, I'm willing to compromise. I can offer a settlement amount in exchange for your written agreement to the following terms:

- *You agree to accept this payment as satisfying the debt in full (once you receive the agreed-upon amount).*
- *You agree to not list this debt as a "paid collection" or "settled account."*
- *You agree to completely remove any and all references to this account from the credit reporting agencies (Equifax, TransUnion and Experian) that you have reported to and validated this account.*

I am willing to pay the (full balance owed / $XXX as settlement for this debt) in exchange for your agreement to the above terms within fifteen calendar days of receipt of payment. Understand that this is not a promise to pay. This is a restricted settlement offer and you must agree to the terms above in order for payment to be made.
Should you accept, please send a signed agreement with the aforementioned terms from an authorized representative on your company letterhead. Once I receive this, I will pay ($XXX) via (cashier's check/ money order/wire transfer).

If I do not receive your response to this offer within fifteen calendar days, I will rescind this offer and follow up with a method of verification letter.
I look forward to resolving this matter quickly.

Sincerely,

(Your Name)

(Your Address)
(Your City, State, Zip Code)

Use this technique with caution, though. When you contact past lenders with this request, they may ask you to 'reaffirm' the old debt.

That would make the old debt a 'live,' current obligation again. That may negatively impact your credit score further, as it restarts the time clock to the seven-year anniversary when it would drop off your report. A careful cost-benefit analysis is in order if you use this strategy to try to lessen the impact of a bankruptcy or other old debt on your credit.

Now that you know the top strategies for credit repair, let's go deeper and look at specific approaches you can use with common types of credit problems.

CHAPTER FOURTEEN

How to remove a bankruptcy from your credit history

How to remove a bankruptcy from your credit history

In this chapter, you'll learn:

- How a bankruptcy impacts your credit score
- How to address a bankruptcy on your credit report
- How to remove an inaccurate bankruptcy listing from your credit
- How to improve your credit after a bankruptcy

To remove a bankruptcy from your credit report, you'll need to find evidence that the bankruptcy was reported incorrectly. Otherwise, it will only come off after seven or 10 years depending on the type of bankruptcy.

There's no dressing this up: declaring bankruptcy is like dropping a bomb on your credit score. Credit reporting and scoring takes a dim view of people who don't pay their debts. You've probably heard that bankruptcy is one of the few types of issues that can stay on your credit report for up to 10 years.

To be clear, there are differences in severity between a Chapter 7 and a Chapter 13 bankruptcy. According to the Fair Credit Reporting Act (FCRA), a Chapter 7 bankruptcy can remain on your credit history for up to 10 years from the filing date and a Chapter 13 bankruptcy can remain for a maximum of seven years.

The impact on your life can be dramatic, even beyond your credit rating, as one U.S. Marine discovered.

Case study: lingering bankruptcy record

After 10 years in the service based in California, David left the Marines, married a local girl and stayed in the Golden State. Time passed, and the couple added an 8-year-old daughter and 5-year-old son to their family.

David got a job in private security and began looking into buying a home, when he got a shock. His credit report listed a bankruptcy he'd had a few years back. This negative listing was a major obstacle for both his job and his home-buying dream.

"It was real scary for me, because I had a Secret clearance," he recalls. "With that clearance, they need to know you're trustworthy and financially stable, so you won't sell secrets." Losing his clearance could endanger his employment.

David put Lexington Law to work challenging incorrect items within his bankruptcy, reducing its impact on his credit score. He'd found that even with his military benefits and the special mortgage deals veterans enjoy, he still struggled to get an affordable mortgage rate. But within a year, his score rose substantially, and he was back on track to buy a house.

As David's story shows, it's not all doom and gloom here. What many people don't know is *that a bankruptcy grows less important as time passes. You don't necessarily have to wait 10 years to see your credit improve.*

But if it takes, say, five years to get your debts repaid, and then seven years more for the items to leave your credit report, it could easily end up more than a decade before these negative items leave your credit report and your credit score rises again.

Removing an inaccurate bankruptcy item

A legitimate and verifiable bankruptcy record cannot be removed from your credit report, but a bankruptcy can come off your report if it is inaccurately entered or otherwise incorrect.

In the case of bankruptcies—especially because they remain on the credit report for so many years—it's not uncommon for errors to creep in. The first step is to look at all the debts discharged in the bankruptcy. Sometimes, that discharge hasn't been properly recorded, or items related to the bankruptcy contain unfavorable errors.

Some of the most common errors my firm finds include:

- Debts that were discharged in the bankruptcy are still showing a balance.
- Individual accounts included in the bankruptcy are still appearing on the report after seven years. In both Chapter 7 and Chapter 13 bankruptcies, the individual affected accounts can only impact your report for seven years starting from the original delinquency date, not the filing date of the bankruptcy in which they were discharged.
- The bankruptcy is still showing up on a report more than 10 years after the filing date.
- Any sort of material error in how the bankruptcy was reported, from misspelled names to inaccurate addresses, phone numbers, dates, etc.

If any of these or other errors appear on your credit report, you have the right to challenge those errors. The reporting agency must remove them if the reporting agency cannot substantiate the item.

If there is an error, your first step is to contact the United States Trustee's Office to file a report. The case is typically referred to the F.B.I., then reopened. You may need to defend your claim in court in order to prove that the bankruptcy is fraudulent.

While the government is often understanding of those in a faulty bankruptcy predicament, the legal process for removing it from your records can be long and drawn out. The help of a trusted advocate can be essential.

CHAPTER FIFTEEN

How to remove charge-offs from your credit report

CHAPTER FIFTEEN

How to remove charge-offs from your credit report

In this chapter, you'll learn:

- How a charge-off affects your credit
- How to remove an inaccurate charge-off from your credit
- How to prevent charge-offs

So, you had a debt you didn't pay. Eventually, this debt was 'charged off,' or written off by the lender as a loss. Charge-offs have a very negative effect on your credit score.

How does a charge-off affect your credit?

Unfortunately, a charge-off is one of the worst types of negative items you can have on your credit report. It shows future lenders that you're not a reliable borrower and that you have a history of not paying back your debts.

A charge-off can typically stay on your credit report for up to seven years, it will likely impact your ability to get approved for credit for many years to come.

A charge-off can also lower your credit score by many points. Additionally, the months of missed payments leading up to the charge-off will likely lower your credit score significantly. And, if the charged-off debt is sent to a collection agency, having a collection account on your credit report will likely cause a notable drop in your credit score as well.

Paid vs. unpaid charge-offs

A charge-off will show up on your credit report as either paid or unpaid. When you pay the charge-off in full, it should be updated as 'paid' on your credit report. However, paying your charge-off won't remove it from your credit report and will have a minimal impact on your credit score. Still, future lenders who go through the effort of underwriting will be able to see that while you have a charge-off on your credit report, you did pay it in full.

And keep in mind that if your charged-off account goes unpaid, either the original lender or the debt collection company that bought your debt may attempt to collect the debt from you.

Removing a charge-off from your credit report

To potentially remove a charge-off, first, check for any errors. Did you really not pay that credit card bill? Or was there just a delay or a missed payment or two, and you did pay in the end? You can ask that any incorrect items be removed.

Second, consider using the 'goodwill request' approach outlined above, to see if a lender or credit bureau might be persuaded to delete your charge-off from your credit history.

Case study: repaying old debts

If you want to offer a repayment plan in hopes of improving your credit, don't go down the rabbit hole this couple did:

> *After their small publishing business failed, Stephen and Michelle declared bankruptcy. They were committed Christians whose faith motivated them to try to pay back their business creditors, even though the debts were discharged in the bankruptcy. They began making partial payments, and slowly chipped away at these old debts.*
>
> *There was no formal agreement—they simply mailed checks as they were able. Based on their experiences, the couple started a successful new business helping others avoid bankruptcy.*
>
> *Within a few years, the old debts were gone and their consciences were clear. However, the couple's credit scores remained exactly the same. The bankruptcy and all the items discharged in it stayed on their credit reports.*
>
> *Stephen and Michelle failed to make their repayments conditioned on the removal of their negative debt listings. Now, only time and building a positive track record of payments to new lenders would help improve their credit score.*

The lesson: don't repay old debts without a written contract that defines your goodwill repayment agreement. Otherwise, you could end up paying back thousands without seeing any improvement in your credit score.

Without a goodwill agreement, the credit bureaus will likely keep your charge-off on your credit report.

To make it disappear sooner, you might need to get your lender to help you. As Eduardo's case in Chapter 13 shows, if the lender agrees not to respond to the credit bureaus when you challenge a negative item, or if the lender acknowledges that mistakes were made when reporting that negative item, that can lead to the item's removal.

CHAPTER SIXTEEN

How to remove collections from your credit report

CHAPTER SIXTEEN

How to remove collections from your credit report

In this chapter, you'll learn:

- How collections are reported on your credit
- How to remove collections from your credit report
- How to negotiate with collection agencies
- Debt collector red flags

If you have a negative item because a lender sold your debt to a collection agency, you should work to remove this black mark.

As with every type of credit issue, the first step is to check for accuracy.

Perhaps your check was in the mail to your original lender when they were transferring the debt to a collection agency, so the debt never really landed in the collection agency's lap, but the records didn't get updated. Challenge any inaccuracies such as this.

If you find an inaccurately reported item in collections, the best way to remove it is to send a dispute letter to the credit bureaus.

Or, you could try sending a 609 letter to ask them to verify the information.

How to negotiate with a debt collector

As I mentioned earlier, it's a myth that you don't have the ability to negotiate with your debt collector. There are a few simple steps you should always take when you're contacted by a debt collector. Don't panic, because you have options, and if you understand the collection process, you can take positive steps toward getting your debt paid off.

While it's your responsibility to pay legitimate debts, you'll want to find a way to work with the debt collector to find an approach that works for your financial situation. Debt can be a burden, but it's important not to ignore debt collectors, as they may be able to take you to court for failing to pay.

Here are a few things to keep in mind when negotiating with a debt collector:

You may be able to set up a payment plan
In general, debt collectors want to start collecting something from you, so many are open to setting up a payment plan that works with your budget.

You can sometimes settle a debt for less than you owe, but there are drawbacks
You'll likely need to make a lump-sum payment if you settle your debt, and your credit score may drop. Also know that the amount of debt forgiven may be treated as taxable income.

You should get everything in writing
Oral agreements are generally not enforceable, so make sure to get any agreement for a payment plan or debt settlement in writing before making any payments.

Once you negotiate your debt, you'll want to begin making payments to get your finances back on track

There are many different strategies for paying off debt, like the snowball method, the avalanche method and the equality method.

Unfortunately, even after paying off your collection account, negative items may remain on your credit report for up to seven years, which can continue to impact your credit score over time.

Illegal debt collection practices to watch out for

The rules that cover debt collectors' actions are clearly spelled out in the Fair Debt Collection Practices Act. But where there are laws, there are lawbreakers—especially when there's money on the line.

Unfortunately, some debt collection agencies skate the edges of the law in their zeal to collect your money. They may call late at night or constantly, for instance, both prohibited activities under the FDCPA.

Fraud in the debt collection industry has grown so widespread that in 2020, the Federal Trade Commission began a crackdown. Operation Corrupt Collector included more than 50 actions aimed at stopping the 'worst of the worst' violators.

After thousands of consumer complaints, in late 2020 the FTC fined debt collection agency Midwest Recovery Systems $24.3 million and required the owners to sell a stake in another debt collection agency. The FTC found Midwest had placed fictional medical and payday loan debts on millions of consumers' records.

The company fraudulently collected over $24 million from consumers seeking to resolve these negative items.

As part of the FTC settlement, Midwest had to remove all the parked debt from consumers' records.

Here's an example of how Midwest defrauded consumers that the FTC cited in its settlement announcement:

> *A consumer was told when applying for a mortgage that an outstanding $1,500 medical debt placed on his credit report by Midwest Recovery had lowered his credit score and jeopardized his purchase. The consumer contacted the hospital to whom the debt was owed, who told him that he only owed an $80 co-pay. In spite of that, Midwest refused to remove the $1,500 debt and threatened the consumer with a lawsuit if he didn't pay.*

From this example, you can see why you need to carefully check debts that appear on your credit report, to make sure amounts are correct and the debts are truly yours.

Other collection agencies aren't quite as creative in their lawbreaking. In fall 2020, the Consumer Financial Protection Bureau announced a $15 million civil penalty plus consumer restitution against subsidiaries of Encore Capital Group. The FTC found that without making required disclosures, Encore sued or threatened to sue consumers over debts that were undocumented or beyond the time frame for collection.

Sadly, major federal actions that shut down fraudulent collection agencies are few and far between. Smaller fly-by-night operators tend to escape notice. Your best defense lies in being informed, asking questions, challenging anything that sounds 'off' to you and knowing your consumer rights.

Below is a quick guide to some of the tactics shady debt collectors frequently use.

Red flags to watch for

Debt collectors aren't allowed to do these things:

- Refuse to reveal their contact info
- Ask you for personal info
- Hound you over a debt you don't recognize as yours
- Pose as a government official
- Ask for a money transfer or prepaid card
- Threaten to tell family, friends or your employer what you owe
- Threaten you with a lawsuit or jail time
- Call incessantly or at inconvenient times

Here are some other common scams to look out for:

Phantom debt

Rather than legitimately purchasing your debt from your original lender in order to pursue payment from you, some collectors illegally obtain information about you. Then, they call trying to collect on debts you may not even owe, and certainly don't owe to them.

If you pay one of these shysters, they vanish with your hard-earned money. They'll never notify credit bureaus that you've paid off your debt. Really, you haven't—you've just been robbed.

Debt parking

One particularly nefarious technique the FTC targeted is known as 'debt parking.' The scam works like this: first, a company reports a questionable or entirely made-up debt to the credit bureaus. A negative item is placed onto that consumer's credit report.

Next, the company waits for you to notice that your credit score has dropped. When you get in touch, they try to get you to pay them the fictional debt in order to remove the negative item.

The bottom line here is to trust your gut. If something seems fishy, it probably is.

Tips for dealing with collection agencies

Here are a few things you can do when collection agencies call, to help verify if they're legitimate:

- Ask for a callback number—scammers won't want to provide it.
- Contact your original creditor—verify the debt has gone to collections.
- Check your credit report—see if this collection agency is listed as owning the debt.
- Get detailed info on the debt—if they can't provide it, that's a red flag; don't pay a collection agency without documentation.
- Submit a complaint to the FTC or your state attorney general if you suspect fraud or that your rights are being violated.

Remember, you don't have to answer the phone when collection agencies call. If you do answer and suspect you have a scammer on the phone, feel free to hang up.

Tips: Businesses with a track record of getting positive results for their customers will have rave reviews online. Angie's List (now known as Angi) and NextDoor can be good resources for getting local recommendations and finding past customers. You can also look for a Better Business Bureau rating.

CHAPTER SEVENTEEN

How to remove a foreclosure from your credit report

CHAPTER SEVENTEEN

How to remove a foreclosure from your credit report

In this chapter, you'll learn:

- How foreclosures are reported on your credit
- How to remove a foreclosure from your credit report
- How to improve your credit after a foreclosure

One of the toughest things to go through in life is a home foreclosure. Along with the heartbreak of leaving your family house and all those memories behind, you have a big black mark on your credit history. Usually, it'll stick around for seven years.

The challenge is that the unpaid amount in a foreclosure is often large—$100,000 or more. That makes future lenders very wary.

Begin by verifying that all the foreclosure listings are accurate. If there are special circumstances—perhaps you cosigned for a friend, were not properly notified of the impending foreclosure or believe your rights were violated by an unscrupulous lender—you may be able to seek removal, or perhaps a correction or notation on t he listing. You may also want to seek the advice of an experienced real estate attorney in this matter.

If the foreclosure listing is accurate, you can consider making a goodwill request to your lender.

You might think it's a hopeless quest, but mortgage lenders will sometimes help you. Since they foreclosed on your home, the lender may have recouped all or part of the amount due by reselling the property.

If home prices rose, they may have gotten more money than your mortgage promised them. They may also have received a tax benefit by writing off your mortgage as a bad loan.

These are ways you can appeal to your mortgage lender to allow the foreclosure to drop off your credit report. Time is your friend here—the more time has passed since the foreclosure, the more likely a lender is to cooperate. In our practice, we've seen clients get a foreclosure removed through a goodwill request before seven years elapsed.

How does a foreclosure affect my credit score?

A foreclosure can drop your credit score by up to 160 points.

A foreclosure means you were late on your payments before the foreclosure, which leads lenders to think you might not pay them back.

Thankfully, the negative impact of a foreclosure becomes less severe on your credit report as time goes by.

How long does it take for a foreclosure to come off your credit report?

Foreclosures can typically stay on credit reports for seven years. Seven years is a long time, and a foreclosure can impact your ability to find another place to live. Plus, a foreclosure can have a drastic effect on your credit.

How does a short sale affect my credit score?

Experian reports that short sales, which essentially are settled debts, are almost as bad as a foreclosure and can knock as many as 160 points off of your score.

A short sale is your last option before your home finally goes into foreclosure, and it can help you in the long run. You will need permission from your lender to sell your home for less than you owe, which the lender may or may not grant. The way a short sale appears on your credit report largely depends on how the bank or lender decides to report the short sale. If it's reported as paid, then you may not see a change in your credit score at all.

How long does it take for a short sale to come off your credit report?

Short sales are treated similarly to foreclosures, and can also stay on credit reports for seven years. However, it won't appear on your credit report as a 'short sale.' Instead, your mortgage may be reported as 'settled.'

Can I buy a house with foreclosure on my credit?

Yes, you can still buy a house even with a foreclosure on your credit reports, although it will be challenging. It's also likely that you won't be able to buy a house immediately after a foreclosure. In some cases, you have to wait a few years before you can qualify for another mortgage loan.

In this case, it may be beneficial to work with a mortgage professional who can help you explore other options, like government-supported loans. Having a foreclosure can also make buying a house more expensive. This is because lenders view you as a higher risk and are likely to charge you higher interest rates and fees.

However, you can still get a mortgage with bad credit if you're willing to pay higher fees and make a larger down payment.

CHAPTER EIGHTEEN

How to remove a repossession from your credit report

CHAPTER EIGHTEEN

How to remove a repossession from your credit report

In this chapter, you'll learn:

- How repossessions appear on your credit report
- How to remove repossessions from your credit report
- How to improve your credit after a repossession

Repossessions are difficult, to say the least—not only have you lost what has been repossessed, but now you have a negative mark on your credit report for the next several years.

There are a couple of things you can try to do to remove a repossession from your credit report.

Negotiate with your lender

Your lender loses money when they repossess. Paying off your debt is cheaper and more convenient for them, even if you pay less than what you owe.

You can try renegotiating with them to see if you can settle your debt and remove it from your credit reports. If they agree to this, make sure to get it in writing and to follow through with the terms you and your lender agreed to.

File a dispute

If you go through your credit reports and see anything reported inaccurately about your repossession, you can dispute it with the credit bureaus.

If you do this, the credit bureaus must investigate and will ask the creditor to verify the information regarding your repossession. If the lender can't prove that your debt is accurate, fair and substantiated, then the credit bureaus can remove the repossession from your credit reports.

How long do repossessions stay on my credit report?

A repossession can stay on your credit report for up to seven years, making it harder for you to qualify for other loans.

Repossessions have a severely negative impact on your credit and can show lenders that you may not be able to make payments on the property you purchase.

How do repossessions affect my credit score?

When you have a repossession on your credit report, you can expect your credit score to drop, but the specific amount depends on your credit situation. Here are some ways that repossessions can affect your credit:

- **Late payments:** Items can be repossessed because you missed several payments. Those will show on your credit report, and likely hurt your credit score.

- **Repossession:** Once something has been repossessed, the lender usually reports it to the credit bureaus and it may show up on your report for future lenders to see.

- **Collections:** If you still owe money even after the lender has resold the repossessed item, such as your car, they might decide to hand over your account to a collection agency. That collection account can appear on your credit report and lower your score.

All of this is telling other lenders that you can't be trusted to pay back what you owe, and as a result, they're less likely to approve new credit applications. Apart from losing your property, a repossession could lead to several negative items on your credit report, which will damage your credit score.

How do voluntary repossessions affect my credit?

A voluntary repossession, sometimes referred to as a vehicle surrender in the case of a car, is when a consumer can no longer make payments on the property they bought and voluntarily gives it back to the lender. There is a common misconception that a voluntary repossession is better for your credit than a forced repossession. In financial and credit terms, they're very similar.

Whether you voluntarily ask your lender to come and pick up their property or you are forcibly repossessed, the message is the same: you are unable to pay your loan and the lender is taking back their property.

One benefit of voluntarily surrendering your property is that it is less emotionally draining and embarrassing than having a forcible repossession, which can happen at any time and any place. Voluntarily repossessing your property gives you a bit more control and usually ends up costing less.

Do you still owe after a repossession?

Yes, a lender can come after you for money owed on the car known as a deficiency balance.' Once a creditor repossesses the collateral, they usually try to resell it to recoup their money. For things that depreciate over time, like cars, the lender may not recoup the full amount of the loan because the car is worth less than when the consumer first bought it.

When a lender sells items for less than what is owed, they'll come after the purchaser for the difference.

Can I get a loan after a repossession?

The short answer is yes, you can still get a loan after a repossession. But there are few lenders who are willing to take a risk on someone with bad credit or negative marks on their credit report. Those who are willing may require you to pay higher interest rates and fees.

However, there are reputable lenders out there who have approved applications with repossessions on them. For better chances of approval and better interest rates, you can find someone with good credit to cosign the loan for you.

You can also work to improve your credit and payment history to make yourself a better candidate.

How can I improve my credit after a repossession?

If you do get approved for a loan or a new line of credit after a repossession, making payments on time can help you build your credit back up.

If you dispute the repossession and can't get it removed, then you need to give it some time. The repossession will eventually come off your credit reports and your credit score should improve, especially if you are also managing new accounts and making on-time payments.

Case study: evicted and repossessed

If you've had a car or furniture repossessed for nonpayment on a loan, the situation is similar to foreclosure, but usually on a smaller scale. Take the case of Linda, who was affected by the Great Recession of 2008:

> *Linda, a Los Angeles-based television writer, also owned a dog-training company on the side.*
>
> *"I think of myself as an optimistic person," she says. "So you get the car that's just a little more than you can afford, or go on that trip, or go shopping, and make up the difference with credit."*
>
> *This was a risky approach, given the often-seasonal nature of TV employment. It all came crashing down in the double whammy of the Great Recession of 2008, which coincided with a lengthy Writer's Guild strike.*
>
> *Linda had high debt already when she lost her main source of income. In addition, fewer people needed her dog-walking services. She had little cushion to help her get through, and quickly fell behind on debt payments.*
>
> *She soon lost her apartment and furniture. In addition, her car was repossessed.*

Like other negative items, repossessions will eventually fall off your credit report over time. However, if you believe you have the opportunity to remove them from your credit report early, there's no downside to making an attempt.

CHAPTER NINETEEN

How to remove hard inquiries from your credit report

CHAPTER NINETEEN

How to remove hard inquiries from your credit report

In this chapter, you'll learn:

- The difference between hard and soft inquiries
- How to remove hard inquiries from your credit report

It's a classic story: a clueless young borrower, or someone who's had bad credit for a long time, decides to try to get a loan or a credit card. In hopes of improving their odds of acceptance, they apply for many different credit cards at the same time.

As a result, their credit report now lists multiple hard inquiries—credit checks that are triggered by applying for new credit. These are different from soft inquiries, which are checks that will not affect your credit, such as when you check your own credit or when you're preapproved for a credit card.

Why do lenders feel multiple hard inquiries are bad? They worry that you might accept multiple offers and end up drowning in debt.

The best antidote to hard inquiries is prevention. Be aware that generally, every application you submit will be noted in your credit report. So, instead of firing off dozens, compare offers carefully and only apply to your top few choices. Wait for a response before applying to other lenders.

Some loan applications are an exception to this rule, thankfully. Credit bureaus understand that you're unlikely to buy multiple cars at once, for example. If you apply for the same loan type multiple times within a 14-day window, your report will likely only show one hard inquiry.

If multiple hard inquiries are hurting your credit score, you can take action. First off, make sure you recognize all those inquiries—identity thieves often apply for new credit once they swipe someone's personal information.

Assuming the inquiries are all yours, a goodwill request can be particularly effective here. The lenders haven't loaned you any money, so there's little downside for them besides a bit of time spent helping you.

Contacting a lender to say, "I considered borrowing from you, but have decided not to go forward," may be enough to convince them to withdraw your application. If that doesn't work, be patient—hard inquiries only show up on your report for two years. Even during that time period, they won't affect your credit score too much, especially after the first six to 12 months have passed.

CHAPTER TWENTY

How to remove late payments from your credit report

CHAPTER TWENTY

How to remove late payments from your credit report

In this chapter, you'll learn:

- How late payments appear on your credit report
- How to remove late payments from your credit report

Lenders consider late payments a very serious red flag. That's why the credit scoring agencies count payment history as nearly one-third of your credit score calculation.

It's easy for late payments to happen, even if you're generally responsible. Kemi's story provides an example:

> *Kemi and her husband were excited to relocate from New Jersey to Texas after their daughter was born. Unfortunately, not all their mail was properly forwarded.*
>
> *The medical bills from the birth never arrived at the couple's new home. They had no idea there were medical costs still outstanding, assuming their insurance had paid the bills in full.*
>
> *Next thing Kemi knew, her credit score was sinking due to late payments on the medical debt. She had a derogatory mark on her credit report from a missed hospital bill.*

Fortunately, because she hadn't been notified, Kemi had a strong case to make that she shouldn't be penalized. She was able to appeal and have the negative item removed. Any time you have a situation where your legal rights have been disregarded—as with the right to notice in this case—you have a basis on which to appeal for the negative item's removal.

Once on your credit report, a late payment can potentially stay there for up to seven years from the date the delinquency is reported.

If you want to try to keep late payments from ever reaching your credit report, the key is to take action before or at the time the payment is due—call your creditor and discuss the situation with them.

Maybe the payment is in the mail. Or perhaps you see your payment is marked as arriving late or as still not arrived, when you thought you'd mailed it on time. Bills do get lost in the mail or take longer than expected to reach their destination, especially since postal service cuts that occurred during the Trump administration have led to slower delivery times.

Digital payments sometimes go awry as well. You may have thought you scheduled an on-time payment online, only to discover that it didn't go through.

In any case, contact your creditor and politely explain that you believe you made an online payment, or that you mailed the bill in plenty of time. Promise to mail it sooner next time.

Many lenders will grant you a one-time waiver of the late-payment status and late fee. It's good customer service to give the customer the benefit of the doubt.

Obviously, the strategy of appealing to your lender for a waiver isn't one you can repeat often with the same lender—they'll start to get suspicious. But used occasionally, it can help reduce the number of late payments that show up on your report.

If it's too late for this approach and the late payment is in the past, consider making a goodwill request that the late payment be removed from your credit report. The lender collected a nice, fat late fee from you over this. Maybe they'd be willing to do you a favor.

Tip: If you have multiple bills you're concerned about, prioritize those that have grace periods. Often, bills for items such as streaming services, utilities and healthcare will offer a grace period for late payments.

And, as always, make sure to check your credit reports to confirm all of the information related to any late payments is fair, accurate and substantiated. If not, you can attempt to dispute the information with the bureaus or your creditors.

CHAPTER TWENTY-ONE

What cannot be fixed

CHAPTER TWENTY-ONE

What cannot be fixed

In this chapter, you'll learn:

- What negative items cannot be removed from your credit report
- Ways to improve your credit when you can't affect negative items

You've learned a lot about common credit problems and how to repair your credit. I hope the strategies you've learned here make you feel more credit savvy and empowered.

There is usually much that can be done to repair bad credit. However, it's important to stop and take a moment to say: not all problems can be fixed.

You may have noticed a pattern in the preceding chapters, as we tackled various issues. The solution often is to find and eliminate mistakes, errors, inaccuracies and duplications. Barring that, you can make goodwill requests for removal of accurate items, or try to negotiate with your lenders.

Read your credit report and check that every item:

- Belongs to you
- Has correct contact and date information
- Reflects all payments and/or payoffs you have completed
- Reflects debts of which you were notified
- Lists accurate payment schedules and amounts
- Is without duplication, as when the same debt is listed by both an original creditor and a collection agency, or your mortgage loan is resold but listed by both institutions
- Truly characterizes what happened
- Does not violate any privacy, discrimination or consumer credit laws
- Has complete documentation justifying its presence on your report
- Is still within its seven- to 10-year time limit in which it can legally appear on your credit report

If all of these things are true, and a goodwill appeal or negotiation tactic fails, there is little that can be done to repair your credit in the short term.

However, you may be able to improve your credit score more quickly over time by taking actions to build better credit.

How to work to improve your credit

1. Pay your bills on time

As mentioned above, payment history is one of the most significant factors in determining your credit score because it tells lenders how likely you are to repay borrowed funds.

A history of consistent on-time payments will increase your score, whereas a single late payment can cause it to drop drastically. Keep the following in mind if you're working on paying your bills on time:

- Missed payments can remain on your credit report for seven years.
- You should contact your creditors if you know you'll have trouble making a payment.
- Paying off a collection account won't remove it from your credit report.

2. Report on-time utility bills

Typically, only things like loans and credit cards impact your credit score. However, you can use a service, like ExtraCredit, to factor things like rent, cell phone bills and utility payments into your score. If you make these payments on time, it may help raise your credit score.

These services can be helpful if you have sound financial habits with these types of accounts that would indicate responsible money management to lenders, such as having consistent cash on hand or having a history of positive account balances.

3. Only apply for new credit accounts when needed

I mentioned that your credit mix accounts for 10 percent of your credit score, which is true. However, opening new accounts shouldn't be the first thing you do if you're trying to improve your credit score, and doing so just to mix up your credit accounts likely won't improve your score. This strategy can easily backfire and end up lowering your credit score. Here's why:

- **Too many hard inquiries:** Too many hard inquiries can raise red flags with lenders—it can be viewed as an indicator that you're having money issues and need to borrow more money than you already have. Hard inquiries happen when you apply for things like a new credit card, an auto loan, a mortgage or another form of new credit. Hard inquiries stay on your report for two years but should only really affect your credit score for the first 12 months after they're initiated.

- **Lowering your credit age:** Remember that the length of your credit history makes up 15 percent of your score. The more credit cards or lines of credit you open, the lower your overall credit age will be. This is why it's important to proceed with caution and assess all possible effects that applying for a new credit account could have on your score.

4. Maintain a low credit utilization ratio

Keeping your credit balances low is critical to maintain a low credit utilization—which is how much credit you're currently using compared to the total credit you have available. Since credit utilization is the second most influential factor on your credit score, maintaining low balances and paying down debt are key focus areas if you're looking to improve your score.

If you're having trouble keeping your balances low, there are a couple of things you can do to help lower your credit utilization ratio:

- **Move your due dates:** If an inconvenient due date is causing you to miss paying off your balance each month, you can call your creditor and ask them to change it for you.

- **Raise your credit limit:** An increased limit raises your available credit, thus positively impacting your credit utilization. Keep in mind that you're less likely to be approved for an increase if you don't have a positive history with your creditor or if you already have a high balance on your credit card. This will also result in a hard inquiry on your credit report, so review your report thoroughly before deciding if this is the right move for you.

- **Turn on high balance alerts:** Most credit cards have a high balance alert function that will notify you when you're close to a high credit utilization ratio. This can stop you from adding more charges to your account before realizing you have a high balance.

5. Keep old credit cards open

Active credit cards with a longer history keep your credit age high (this is good for your overall account history age) and also contribute to your overall available credit, which positively impacts your utilization ratio.

Some companies may close old cards if they don't see any activity on them. One strategy to avoid this is to set up automatic payments on that card. For example, you can schedule a bill payment to be automatically paid with an older card, then set up an automatic transfer from your checking account to the card to pay off the balance regularly.

Keeping an old card open isn't always the best option—if there are annual fees or other expenses associated with it, it might cost you more than it's worth to keep it open. If you do wish to close a card, make sure to calculate your utilization ratio with the remaining credit you would have available to see where your ratio stands without it.

The most important thing to remember is that there's no shortcut to raising your credit score. You'll need to steadily work on addressing the different factors that are impacting your score to slowly improve it over time. While you won't see change happen overnight, consistently practicing good financial habits is the key to raising your score.

6. Avoid partial payments

If you're behind on your payments and don't have the full amount, you may be tempted to send in some of what you owe. You'd imagine it would be regarded favorably if you were to make some progress paying off your debt.

Sadly, if you can't make the entire minimum payment on that credit card or send the amount owed on an installment loan payment, sending a partial payment won't help preserve your good credit.

With the credit bureaus, it still earns you a black mark. Your credit card company will probably still charge you a late fee, too. It's better to preserve your cash and make all the on-time payments on other debts that you can.

For example: if you've got a choice between paying three bills late with partial payments on each or paying one on time and in full and two late, you want the latter. Always keep as many debts current as possible.

In looking at which bills to prioritize for on-time payment, pay special attention to grace periods. Often, bills for items such as streaming services, utilities and healthcare will offer a grace period for late payments.

You may have ten days or longer without penalty after the due date to make your payment, in some cases. Obviously, these are better bills to pay late than credit card bills that will immediately slap you with a $30 late fee and promptly report your late payment to the credit bureaus.

If you're paying off an old debt, making partial payments over time is the last thing you want to do. Why? Each time you mail in one of those small checks that doesn't totally resolve the debt, the seven-year timeline to remove the debt from your credit reports is extended. Your small payments keep the debt 'live' as you work to pay it off.

You're better off starting a separate savings account to accumulate the full amount you owe, earning interest to help you along. Then, make one payment to settle the debt when you can.

Beware of quick fixes

Please bear this in mind, if you see promises from organizations that assure you that your credit score will leap up into 'great' territory within days of hiring them: there is no instant fix for someone who has consistently damaged their credit over a period of years, and whose low credit score is the result of the information on a complete, accurate credit report.

The truth is that credit repair—even in instances where your report has fixable errors—will take months to accomplish. At the least.

Remember: Anyone who tells you they can make your bad credit disappear overnight is not telling the truth.

CHAPTER TWENTY-TWO

Tips for dealing with creditors on your own

CHAPTER TWENTY-TWO

Tips for dealing with creditors on your own

In this chapter, you'll learn:

- How to negotiate with creditors
- What to expect from a call with a creditor
- What you can do on your own, and when you need legal expertise

It could happen out of the blue. Maybe a lender or credit card company gives you a call, or maybe you reach out them yourself. If you're prepared to deal with these organizations, you'll have better odds of a good outcome.

Here are a few basic principles to bear in mind:

Remember—they're not on your side

When creditors call, they may take a friendly or at least polite approach. Don't be fooled—you are on opposite sides of a dispute here. They are not on your team.

Consider the fact that lenders generally have a vested interest in keeping your credit rating low. Your low credit score allows them to demand higher interest rates from you. Improving your credit rating doesn't benefit them—it only benefits you. That's why it may feel like you're rolling a heavy ball up a steep hill when you ask lenders for assistance in correcting your credit report.

Lending officers don't have much incentive to help a customer correct their credit report. That's why you'll want to approach these interactions like an actor playing a role.

The role you want to play is that of 'incredibly charming, calm, polite customer who plans to do more business with this lender in future.'

Keep it professional

As you know, it's not uncommon to find errors on your credit report. Suddenly discovering these mistakes can make you pretty mad. After all, this is someone else's screw-up. All you're asking them to do is fix it. But when you reach out to lenders or credit card issuers for help correcting credit report errors, try to stay calm.

First off, remember that someone else, or even a computer, may have made the error in question. You're asking them to help you and do something outside their normal tasks. Your odds of convincing them to do it if you're insulting or shouting at them are near zero.

What you're asking of them is time-consuming. Most of this reporting is usually done automatically by computers, but you're asking a person to get involved. That may mean that they'll have to locate the right form, fill it out, figure out the right place to send it to—or go into the credit bureaus' reporting systems, find that trade line and delete the item by hand.

It's a thankless task, from their point of view. So try to keep your tone neutral, and don't make things any more unpleasant for them than they already are. People often want to help those who treat them with respect.

They should offer you customer service and deal with your complaint. Feel free to politely ask for a manager, if the first person you get isn't cooperative.

Mention that you know it's an inconvenience. Let them know how much it means to you that this item gets corrected. With a little luck, they'll help you out. You can also keep this interaction professional by taking careful notes about what was said on any phone calls or in any emails or letters, as well as relevant case or complaint numbers.

As you'll see below, you may want to make your first call to a lender simply to ask which department or person is best to write to about your problem. That may work out better than asking for help from the first person to take your call.

Don't be impatient

It may take more than one call or email from you or your credit helper to get your loan officer or credit card company to take action. Even after they do, it can take weeks for the credit bureaus to update your records.

You may feel a tremendous sense of urgency that this error be fixed fast. It probably won't be.

If your credit attorney or other credit helper sent a letter to the credit bureaus a week or two ago about an erroneous item—or even if you mailed them yourself—you may have the urge to follow up with a friendly phone call.

Patience truly is a virtue in this situation. Credit correction takes time. If they respond to you or your helper quickly, that's great. If they don't respond, the next letter they get from a credit attorney may hint that your rights under federal law are being violated. That often gets them moving.

In any case, by remaining patient and not gumming up the works with a telephone call that they may see as hounding them, you remain in control of the situation.

Look at the big picture

You have federally guaranteed rights to pursue correction of items on your credit report, and you are acting to protect those rights.

Don't get pushed around. Don't beg. Don't threaten. Don't yell at people. Be patient. Simply state your case, and keep looking for corrections on your credit report.

As you read this book, you may have wished that the credit system was more fair, especially to lower-income people, women and minorities. You may find it outrageous that one late payment can tank the credit rating of someone who's been an on-time payer for decades. I agree with you completely.

In the final chapter, I'll talk about ways we can all advocate for a more equitable credit system—and ways in which the system is changing for the better. But before we get to that, let's address how you can decide whether or not you want professional help with your credit.

CHAPTER TWENTY-THREE

Should you hire a credit repair company or DIY?

CHAPTER TWENTY-THREE

Should you hire a credit repair company or DIY?

In this chapter, you'll learn:

- How you can fix your credit on your own
- What it means to hire a credit repair company

As you read this book, maybe you started to wonder if your situation really requires outside help, or if you can resolve it yourself. If that's your question, let me tell you a quick story about a situation where I decided to DIY it.

When I was a young law student, I took a semester abroad in Cairo. It's a fabulous city of about 16 million people, with several cultural and historical treasures such as the Sphinx and the Great Pyramid of Giza.

I was excited to be there—but there was a catch. I didn't speak Arabic and, at that point, had never been out of the United States for more than a few days. But I was confident and stubborn, and thought I could find the address of the student hostel where I was staying.

The address was simple enough—16 Mohamed Thakeb Street. The route to the hostel, in Cairo traffic, was not simple. After several hours of walking back streets and riding public transportation, I decided to hail a cab. Fortunately, the driver spoke excellent English and knew the city like the back of his hand. Once I got in the cab, I was at the hostel within a half hour.

That day, I learned that while I knew some about law, I didn't know a thing about navigating metropolitan Cairo. After that, I relied on Cairo's cab drivers to help me find cultural sites. I enjoyed discovering an 1,800-year-old Christian church, toured the pyramids and found the best dining the city had to offer, all with the help of cabbies.

The takeaway

Don't muck around trying to figure things out for yourself if there's a good guide available. You'll save a lot of time and frustration.

You can think of your credit problems in a similar way. You need to navigate a 'Credit Cairo,' an unfamiliar world where things can go wrong if you make a misstep. You don't spend all your time living here, so you don't know the shortcuts that quickly lead to a positive resolution, and the dead ends that are a waste of time.

As you learned in the chapter on credit myths, things that can seem intuitively smart when it comes to finances may actually work against you.

You don't want to skirt around the city and avoid it, even though your credit situation may feel like a tangle as bad as the worst rush-hour traffic jam. Making your way through this city successfully brings the advantages you want: a great home, automobiles, travel and education for your children. Some of the best things in life can be attainable with the help of credit repair.

Do you know enough to navigate the credit metropolis on your own? Will your problems be fairly simple to resolve, or do you need a guide?

Below are some tips to help you figure out your best way forward.

Questions to ask yourself

When you're weighing whether to do your own credit repair work, there are many factors to consider. Here's a list of questions to ask yourself to help you decide:

How dramatically is bad credit impacting my life?

If you're still able to borrow as you like and live where you want, your situation may not require a professional's help. On the other hand, if your credit score is so low you're afraid to apply for a credit card, mortgage or other loan, your lifestyle is clearly suffering.

You might also check the credit card offers you see online against those you qualify for to see if you're paying too much interest. High interest drains you of cash and makes it harder for you to become debt free.

How many items on my credit report need resolution?

Our typical client has many negative items or errors they hope to resolve. If it's just a matter of spotting one mistake on your credit report, you can potentially iron it out yourself.

How large are the amounts involved?

If you have a single bad debt for a small amount, it probably isn't impacting your credit score much. If you owe tens of thousands to multiple lenders, it will seriously impact your credit for a long time—unless you resolve issues more quickly.

How long has my credit score been low?

The longer your credit score remains low, the harder it can be to improve your situation. If a negative item just appeared and you think you can resolve it quickly on your own, your problem could be solvable without hired help.

Do I need to borrow in the near future?

Nothing is a bigger wake-up call about the need for credit repair than the knowledge that you need to access credit soon. If you don't need to borrow for anything major in the near future, maybe you can wait years for your score to improve on its own.

But if you're eyeing a new home, car, personal loan or credit card—or perhaps need a consolidation loan to get your debts under control—you could benefit from results sooner. That is more likely to happen with a professional in your corner.

Have I already tried to improve my credit myself, without success?

Many clients turn to us after trying—sometimes, for years—to repair their credit themselves. If you've already made substantial attempts to fix issues on your credit report, it's probably time to call in the pros.

Am I confident that I understand my rights under the law?

Consumer protection law is complex. If legal documents make your eyes glaze over, you're probably better off hiring someone who understands legalese.

How much time can I devote to this?

Credit repair is a time-consuming process. Try to realistically assess how much time you could spend calling the credit bureaus, writing and talking to lenders and so on. How long will it take, if you do it in your free time?

These questions should help you frame the discussion and give you a sense of whether you need professional help.

Try a consultation

There's another great way to figure out your best way forward. Many credit-focused law firms offer an initial free consultation, including us at Lexington Law.

Consider scheduling a first meeting. Tell your story and see what they recommend, and learn how it would take this problem off your plate and free up your time.

Questions to ask a professional

Many people don't take advantage of free attorney consultations because they feel intimidated. You may worry that you won't know what to say, or won't remember to ask the important questions.

To help you overcome any shyness you have about meeting with an attorney, here's a list of key questions to ask. They're the questions our clients usually ask us in our first meetings.

- How long will it take to fix my credit?
- Can my credit be fixed, or is my situation hopeless?
- What do I need to do to be successful in my credit repair case?
- Do I need to repay my debts, even if they aren't listed on my credit reports?
- Is credit repair appropriate for my situation?
- Do you guarantee results?
- If we move forward, what is your fee schedule and what amounts do you charge?
- Can you still help me even if my credit report is accurate?

I hope these questions make you feel confident that you can meet with credit helpers, including credit attorneys. Note that it's generally unlawful to guarantee results, so if your helper answers 'yes' to that question, run.

Maybe you thought I would end this chapter by telling you to hire a professional, since I am one. But it's simply not needed in every case. My hope is to provide a guide that helps you see whether hiring help is right for you.

CHAPTER TWENTY-FOUR

Inside the credit repair industry

CHAPTER TWENTY-FOUR

Inside the credit repair industry

In this chapter, you'll learn:

- Different types of credit repair services
- Credit repair red flags

By now, you can see that repairing your credit is a complex task. Like everything in the modern world, credit has grown more complicated over time.

In the same way, I quickly learned as a young public service lawyer that I'd never master every legal area. I needed to specialize in order to stay up on ever-changing laws and deliver expert advice to my clients. No lawyer can be an expert in every legal topic.

If your credit problems are serious, you'll likely get better results if you have professional help in repairing your credit. But who can help you? Here's a look at some of the different categories of people who provide credit help, along with tips on what to consider when hiring each type.

The self-proclaimed expert

The internet is overflowing with this type of credit helper. These are typically a one-person operation. Often, that person had a credit problem of their own, years ago.

Through trial and error, they figured out how to improve their own credit. They did a little research and tried various approaches until they got their credit score up.

Then, they started marketing themselves as a credit repair 'expert.' Maybe they even started a blog or put up YouTube videos to promote their services.

In sum, they're a self-taught, self-appointed influencer who believes their one-time, personal success in credit repair can be applied to others' situations with the same result. For a fee, of course.

When you don't know what you don't know

This sort of credit helper doesn't usually have a degree in finance, accounting or law. Likely, their services will be priced affordably—but you get what you pay for here. They may teach a cheap course and then expect you to go out and take action on your own, or they may propose that they work hands-on with your credit problems. But plans they suggest may be oversimplified, difficult to execute on your own or just plain outdated.

Self-appointed experts tend to be experts in their own personal experience, which may date back years or even decades. Meanwhile, new laws on credit and credit repair have passed, and old rules have been amended or abolished.

They may well be ignorant of those changes, and possibly give you bad advice as a result. In any case, they tend to have a limited set of strategies to use—the ones that worked for them. If you need a creative thinker, they may come up empty because their knowledge base is limited.

Tips: Ask them about how they became a credit repair pro, how long ago their own experience was and what, if any, credentials they possess. Listen closely to the answers. You may conclude you'll be better off hiring more qualified help.

Credit repair scams

Wherever there are desperate people looking for help, there are scam artists looking to take advantage. Here's hoping you never run across one of these scammers—but you easily could.

Scams are common in credit repair and debt relief assistance. These companies offer to help you with your credit, but many times it's an illusion.

They simply collect your hefty up-front deposit, which is supposed to get them started helping you improve your credit score. They often promise things no helper could really do, such as removing accurate negative items from your credit report overnight.

Then, they fail to deliver. Sometimes, they simply vanish with your hard-earned cash.

Only the biggest violators end up getting prosecuted, and the road to getting a refund is long. It's even possible you may never see that money again.

Take the case of Arete Financial Group. The Federal Trade Commission prosecuted Arete in fall 2019 for collecting millions from consumers in a student loan debt relief scam. The company falsely claimed to be associated with the U.S. Department of Education, helping it to establish credibility. The company did not in fact have the power to forgive or refinance student loans.

In spring 2021, the FTC proposed an $835,000 settlement of their case in California federal court. The order bars Arete from operating a credit business, and it levied a $10.8 million judgment to be triggered if Arete ever cheats consumers again.

As you can see, the wheels of justice grind slowly. And that settlement represents only a fraction of the money consumers lost. Better to be a wise consumer and make sure you hire a legitimate credit organization.

Tips: Before you hire a credit repair company, look for company reviews online and ask for referrals to happy customers. If a company claims to have ties to a government agency, call that agency to verify.

Credit repair nonprofits

It's one of the oldest rackets around—a business seeking to avoid regulation reorganizes its paperwork and becomes a nonprofit. Many consumers assume that nonprofits are staffed with do-gooders who honestly want to help people.

Reorganizing as a nonprofit is a move some unscrupulous credit repair companies make to evade the regulations businesses face in this industry. Beware.

Tips: If a nonprofit credit repair organization is marketing to you, look into their history. Were they a for-profit business in the past? How long have they been around?

You can verify whether they're really a nonprofit with the IRS. Also, nonprofits' tax forms are a public record you can read, using Guidestar and other resources.

Also note: Don't confuse credit-help nonprofits like this with credit counseling services. These are often legitimate nonprofits that merely advise you on the best way to resolve your debts and improve your credit.

The three types of credit attorneys

Finally, there's the category of credit helper I've devoted my career to: credit attorney. Using a credit attorney to help repair your credit is the best-in-class solution. A credit attorney can assist you with any type of credit challenge, including, in some cases, representing you in court.

Behind the scenes, credit attorneys put in endless hours studying new laws, learning about evolving credit agency procedures and reading recent court decisions.

The laws that govern credit reporting, lending, collection agencies, credit service organizations and the granting (or denying) of credit are complex and ever-changing.

It's a requirement of the job that lawyers continue with professional development throughout our careers. So credit attorneys regularly take classes to learn about emerging methods and industry best practices.

Credit repair touches on many other legal areas that a good credit helper should know, too. They include laws on divorce, bankruptcy, litigation, collections, medical privacy, consumer protection, tax negotiation, patents, contract law and more. To continue delivering the best possible advice to my clients, I focus a great deal of time on research, study and practice.

It's unlikely a self-appointed expert or credit repair mill makes this effort.

One important thing to know: not all credit attorneys operate in the same way. There are three very different types of credit attorney firms. Let's take a look at them one at a time.

Suing for damages

If you've fallen for a scam, or a lender or credit repair company has broken the law or violated your rights, you might want to sue for damages. That's when you turn to the type of credit attorney we might call 'damage collectors.'

They file a large lawsuit in hopes of collecting a sizable judgment—a big chunk of which will go to the law firm. These cases can drag on for years, draining your energy along with your pocketbook. If you're lucky, you'll end up with a lucrative court judgment at the end of the rainbow.

But these cases can take years to finalize. A damage-collector attorney may want to get you to take a quick cash settlement so they can get their cut sooner. Many trial attorneys work solely or partly for a percentage of the damages they win, so that motivates them to settle, whether that's your ideal outcome or not.

But if you think you have a clear legal case, you've been wronged and the damage to you is substantial, you may want to consider consulting this kind of lawyer. Meeting with one could help you see what your odds are of successfully suing.

It's important to note that damage collectors aren't focused on credit repair.

Credit repair after a lawsuit would be years down the road and a byproduct of the legal action, not an immediate focus. If your primary focus is credit repair, you'll want to get to know another type of credit attorney.

The hourly rate credit attorney

You can certainly engage a credit attorney who charges hourly to help you with your credit. The problem is that credit repair is time-consuming. It could very well cost thousands of dollars for your attorney to write all those dispute letters and goodwill requests, call on your various lenders and the credit bureaus and so on.

There's no telling how much it will cost—but the hourly rate attorney will give you an estimate and likely request half paid in advance. That can be burdensome, if you're already in financial trouble.

Fortunately, a new model has emerged for hiring a credit attorney. This option gives consumers access to highly trained credit attorneys without the large up-front costs or uncertainty about the size of your monthly bill.

The subscription credit repair model

Some attorneys realize that most individuals can't afford to pay hourly lawyer fees. They also know that credit repair clients may need help over the long haul as new issues arise, not just for a month or two. So they've created a monthly subscription model.

You pay a small, monthly fee to retain the law firm. As credit issues come up, the firm stands ready to resolve them. If you think you're in the clear, you're free to end your subscription at any time.

This is the model my firm, Lexington Law, uses to help our clients.

Some in the legal profession aren't happy that credit attorneys like me offer services for relatively little. They'd like to preserve the myth that attorneys always command high hourly fees.

Credit attorneys on the subscription model adopt this approach because they want to help more struggling consumers repair their credit. I think credit attorney-level expertise should be more widely available, so I embrace this model in my own practice.

Obviously, I'm biased toward this latter group of credit attorneys. This is my passion. I know how things can go wrong with the other types of credit helpers, and I want the best outcome for you.

I love being a credit attorney because I'm able to help my clients overcome challenging credit problems to unlock the doors to easier credit and the ability to live easier, happier lives. But I know not everyone needs to hire a credit attorney.

Our clients frequently have many negative items that need attention. Lenders and collection agencies may be hounding them. They're trying to focus their energy and attention on earning enough, paying off debt and just enjoying their lives as much as they can. They don't want to spend untold hours researching online, trying to become an armchair expert in credit repair. Their situations are often complex, where events may have been mischaracterized, untimely or recorded inaccurately.

If that's you, hiring a credit attorney with a flat monthly fee is a great way to take all your credit report problems off your plate at a fairly low cost. It allows you to focus on other areas of your life, knowing you have highly knowledgeable attorneys in credit repair with a professionally trained team including paralegals working on your behalf.

Are credit attorneys making a profit? Certainly. Law firms are for-profit businesses as well. But when you hire a credit attorney, you gain access to a broad range of services and deep knowledge of consumer credit law. And the monthly flat fee—charged only after specific services are completed—means their income is preset. They're not going to demand additional payments as you go.

Now that you might have some kind of idea what path you want to take—whether that's to hire someone in the credit industry or to try some credit repair work yourself—let's address how the credit system as a whole can be improved for all consumers.

CHAPTER TWENTY-FIVE

A call for credit reform

CHAPTER TWENTY-FIVE

A call for credit reform

In this chapter, you'll learn:

- Unfair practices in the credit repair industry
- The importance of financial literacy
- Opportunities for positive change

There's no dressing it up: there are many truly unfair things about how the credit system works today. Every day in my practice, I see the devastation a bad credit score can bring to good-hearted, hard-working peoples' lives.

It didn't used to be like this. Back when credit reporting agencies were mostly local, you could travel to a new place where no one knew you'd been evicted, made late payments or had a bankruptcy. You could find a new job, sign a new apartment lease. You could get a fresh start.

Now, your mistakes follow you wherever you go. Mistakes of your youth may linger for decades. Many well-intentioned steps you might take to show financial responsibility can actually hurt your credit in our topsy-turvy system. In other cases, your credit may suffer due to things that aren't your fault.

The persistence of our credit history and its tremendous power in our lives has spurred calls for credit reform. Many of us who work with consumers would like to see a better system. We can create better credit access for lower-income consumers, and policies that reward debtors for their repayment efforts. In addition, I'd like to see the credit system take additional factors into account that demonstrate good character.

I'm hopeful that the credit system will continue to improve and become fairer, particularly in how it treats lower-income people and minorities.

What do I mean? Here's a look at some of the issues where consumer advocates would like to see changes.

Bankruptcy: Chapter 7 vs. Chapter 13

Currently, if a person has a lot of debt and falls significantly behind on their payments, declaring personal bankruptcy is often the best option. In recent decades, bankruptcy has become easier and less stigmatized. Filing for personal bankruptcy can discharge all your debts immediately and start the seven- or 10-year clock to when this negative mark leaves your credit report.

But debt discharge only happens if you file for a Chapter 7 bankruptcy. Chapter 13 bankruptcy is also known as 'reorganization' because it helps you reorganize your debts and work out a feasible payment plan with your creditors. It does not discharge your debts immediately—instead, your debts stay current. Each payment you make may extend the seven-year timeline for when they'll disappear from your credit report.

Basically, the credit system penalizes people for not wanting to shortchange lenders or walk away from their responsibilities. What if instead, we gave people making Chapter 13 payment plans a shorter timeline for getting their bankruptcy listing removed? I think that would better incentivize consumer repayment.

Addiction and domestic violence

When substance abuse becomes a problem in a family, the damage is usually widespread. Domestic violence is common in households that include an addict.

A person who's deep in the throes of an addiction is probably a bad credit risk, whether they're a cocaine addict with a six-figure salary job or an unemployed alcoholic. But often, a family member's addiction will destroy more than just that single person's credit.

Case study: the financial impact of addiction

> *Jennifer loved her small businesses. She and her husband, Bill, had worked tirelessly to build a cooking supply store, and also owned a rental property that brought in great income. On top of her entrepreneurial passions, Jenn also held a regular job working for her state for 20 years.*
>
> *During their 15-year marriage, her credit had been stellar and she could purchase anything she wanted. But she still held back, just to make sure that she had an emergency fund.*
>
> *All Jenn's careful work building a nest egg and strong credit score came crashing down when Bill began a downward spiral into alcoholism. Bill began getting arrested and charged with DUIs, and soon lost his license.*
>
> *Ultimately, he became violent toward Jenn. After a single evening of physical abuse against her and their children, Jenn acted fast to get a restraining order. Nothing would ever be the same for their family.*
>
> *Without Bill's help, the businesses began to falter, and Jenn scrambled to keep the family afloat financially. To make matters worse, Jenn discovered she was pregnant with their fifth child.*
>
> *She knew she'd have to take time off from her state job with the birth, and would lose income during that leave. Bill was paying no child support, and Jenn knew disaster loomed ahead. She scrambled to sell the rental property and the cooking supply shop, but even that wasn't enough money to avert financial disaster.*
>
> *With five children and no income, the family ended up on welfare and needed food stamps during Jenn's maternity leave. As soon as she could, she returned to work. But her credit score had plummeted, and it would be a long road back to the great score she once had.*

It's clear that Jenn's husband was a truly bad credit risk. With his DUIs and the restraining order, who would want to extend him credit?

But Jenn is a different story. Her pregnancy combined with her husband's alcoholic meltdown turned a reliable, productive citizen into a deadbeat in the eyes of creditors.

It's not unusual for the spouse of an addict or alcoholic to see their own credit wiped out. But is it fair? There should be a way that spouses of addicts, or victims of domestic violence who've had to flee in the dead of night and start over, could be judged on their own credit history and have their circumstances taken into account.

The system should offer them an opportunity to separate their credit history from that of their partner's. A lifetime of good financial behavior shouldn't be discarded by the credit bureaus because of the chaos wrought by their less-reliable or abusive spouse.

Help for credit invisibles

People with no credit history deserve a chance to begin building one so they can more easily access credit in the future. Programs such as Experian Boost and Lexington Law's own Credit Builder service add monthly payments to utilities and telecom and streaming services to users' credit reports to help them start building a credit history.

Much more needs to be done in this area, from more financial education, to more starter bank account offers, to programs that give the un-banked better credit access.

Job stability

Even good people often change their jobs. This became especially common during the COVID-19 pandemic, as some business sectors were unable to operate.

But generally, sticking with the same line of work over many years is an indicator that a person is financially stable and responsible. Bouncing between a number of different jobs or industries could signal that a person is struggling, and is more of a credit risk.

While some loan applications ask for employment history or at the least 'time at current job,' your credit score doesn't consider employment. And it's your credit score that will almost entirely determine loan acceptance or denial.

If people with stable job histories had the option to include that information in their credit report, it could help people who've had a bump or two in their credit or who are low-income to demonstrate their reliability. It's something that helps paint a better picture of a consumer's overall character—and it should be part of the credit record.

Military service

Serving in the military frequently leads to debt trouble, between the low pay and frequent moves. When a National Guardsman is pulled away from their home and career for six months—and that turns into 24-months of active duty in Iraq—there will often be financial problems.

But these military members are loyal citizens and residents serving their country. They've shown they know how to commit to a difficult task. If nothing else, honorably serving in the military shows character.

To date, the credit scoring models have never captured information about military service, much less considered it as a factor in credit scoring.

If that data were included—perhaps optionally, at the member's request—then lenders could see how military service correlates to being a reliable payer as a borrower. Once they had that data, lenders might discover that military members and veterans are a group that's one of the best credit risks in America.

Partial payments

Partial payments do nothing to improve your credit, as things currently stand. In fact, making a series of small payments is in some ways the worst-case scenario because it keeps refreshing the current status of your debt, extending the time of its removal from your credit report ever farther into the future.

Of all the counterintuitive, nonproductive things the credit industry could do to discourage debt repayment, this is one of the worst. Why not set up a system where partial payments would accrue without resetting the seven-year clock, thereby encouraging debtors to pay off their debt?

Paying off debt

Here's another oddity of the credit system. You'd think it would help your credit score, to have an open credit card or line of credit you don't use much and decide to pay off the balance and close it.

In fact, it does the opposite. It means you have less available credit, so it raises your credit utilization ratio, possibly into the danger zone. It could also mean you have fewer types of credit on the books—and lenders like to see a nice credit mix.

It wouldn't be hard to keep a trade line in your credit report that reflects past accounts you had but closed for lack of need. Perhaps the limits on those past accounts could even figured into your utilization ratio, to form a more accurate picture of your credit use. In any case, the system shouldn't encourage people to keep open credit accounts they don't need or want.

Paying off bad debt

Sometimes, certain people get the urge to go back and pay in full an already written-off debt. If this is you, perhaps you'd think that would help your credit score, because you did the right thing in the end.

But it doesn't. In fact, it can be better for your credit if you never pay off that old charge-off. That's because it may be long gone from your credit report, or near to dropping off—and making a new payment reactivates the debt. Now classified as a current debt, your well-intentioned move earns you another seven years of waiting for the item to be removed.

Instead, what if your credit score increased if you paid off a bad debt? That shows you've got a strong moral code—you'd think it would be something lenders would want to know about you.

Tax payments

Another sign of good citizenship is prompt, full payment of your income taxes, year after year. That ought to earn you a positive notation on your credit report, right?

Unfortunately, it doesn't. Since 2018, we don't see either proof of taxes paid or notices about tax liens or nonpayments. It certainly wasn't fair to only penalize people who fell behind on their taxes and not reward people who are upstanding taxpayers. We may have moved in the wrong direction on this one, though. Adding a positive scoring impact for good taxpayers would be a step in the right direction.

Financial literacy education

There's a common theme in many of the stories I've shared: people got into financial trouble because they got no financial literacy education in school.

Even people whose parents taught them to balance a checkbook or helped them get a low-limit credit card in their youth often aren't aware of all the fine points of credit scoring.

For instance, how many consumers know they'll be penalized for using more than 30 percent of their available credit? Or that their credit score will take a hit if they apply for several credit cards at once?

We can all push our legislators to mandate financial education. No one should graduate high school in America without understanding the fundamentals of how credit works and what steps they need to take to safeguard their financial future.

Advocating for change

Ultimately, building a better credit system is up to all of us. It will take calls and letters to our representatives, pushing for change. In this time where important national conversations about racial justice and class inequality are taking place, there's already evidence of movement. It's up to us to keep the ball rolling.

For instance, one reform bill quietly passed the House of Representatives in early 2020. Sponsored by Rep. Ayanna Presley (D-MA), the Comprehensive Credit Act of 2020 (H.R. 3621) would:

- Improve the dispute process
- Make obtaining your credit score free
- Lessen the impact of student loan debt
- Tap the CFPB to regulate the credit scoring process
- Curtail the use of credit scores by employers
- Increase protections against identity theft and fraud

The catch? The bill has gone nowhere since being sent to the Senate.

Another House reform bill passed in May 2021 could help bring more minority and lower-income consumers better access to financial services. People who are un-banked or under-banked—more than 7 million adults—need more opportunities to establish and build credit, the bill states.

The Financial Inclusion in Banking Act (H.R. 1711) charges the CFPB with analyzing lower-income citizens' lack of access to credit. The CFPB is then charged with developing specific strategies to increase their participation and help credit invisibles build a credit history.

Like the 2020 credit bill, this bill passed the House. But as I write this, it languishes in a Senate committee.

Clearly, it's time for consumer advocates to apply pressure to break Congressional gridlock and get bills like these signed into law. We can all play this role, calling our representatives and letting them know we want a fairer and more inclusive credit system.

Credit repair empowers consumers

I hope this book has helped you learn about the steps you can take to repair your credit. It's hard to be a consumer credit advocate when your time is taken up with your own credit problems. With the knowledge and resources you now possess, I wish you a speedy resolution to your credit challenges.

If you're considering working with a credit attorney to repair your credit or address items on your credit reports, we're happy to set up a free, personalized consultation for you here at Lexington Law. For over a decade, our consumer advocates have helped clients work to challenge negative information that is unfair, inaccurate and unsubstantiated. Get in touch with our team to learn more.

Appendix

Appendix A: Resources

These resources are compiled from the sources noted and linked in this book. They are grouped by type. Each section is organized alphabetically by source name.

As links do change over time across the internet, we've provided article and report titles as well to help you track them if a site has changed its web addresses.

Consumer advocacy organizations and resources

American Association of Consumer Credit Professionals (AACCP): https://aaccp.org/

AnnualCreditReport.com

Better Business Bureau: https://www.bbb.org/

Consumer Action: https://www.consumer-action.org/

Consumer Reports: https://www.consumerreports.org

The National Association of Consumer Advocates: https://www.consumeradvocates.org/for-consumers

Credit reporting and scoring companies and programs

CFPB list of credit reporting companies: https://files.consumerfinance.gov/f/documents/cfpb_consumer-reporting-companies-list.pdf

Credit.com's ExtraCredit: https://www.credit.com/extracredit

Equifax: https://www.equifax.com

Experian: https://www.experian.com/

Experian Boost: https://www.experian.com/consumer-products/score-boost.html

FICO (formerly Fair Isaac Corp.): https://www.myfico.com/
The history of the FICO score–https://www.myfico.com/credit-education/blog/history-of-the-fico-score

TransUnion: https://www.transunion.com/

VantageScore: https://vantagescore.com/

Government agencies

Consumer Financial Protection Bureau: https://www.consumerfinance.gov/
CFPB Settles Lawsuit With Debt Collectors and Debt Buyers…–https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-settles-lawsuit-debt-collectors-and-debt-buyers-encore-capital-group-midland-funding-midland-credit-management-and-asset-acceptance-capital-corp/
Credit invisibles: https://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf
FDCPA Annual Report 2021 (includes info on Operation Corrupt Collector)–https://files.consumerfinance.gov/f/documents/cfpb_fdcpa_annual-report-congress_03-2021.pdf
Submit a complaint: https://www.consumerfinance.gov/complaint/

FDIC: How America Banks: Household Use of Banking and Financial Services–https://www.fdic.gov/analysis/household-survey/index.html

Federal Housing Finance Agency: Loan limits 1970-2007–https://www.fhfa.gov/AboutUs/Policies/Documents/Conforming-Loan-Limits/loanlimitshistory07.pdf

Federal Reserve Bank Economic Data & Reports:
Average Sales Price of Houses in the U.S., 1960-2020–https://fred.stlouisfed.org/series/ASPUS
Changes in U.S. Family Finances from 2016-2019–https://www.federalreserve.gov/publications/files/scf20.pdf
Changing the Rules: State Mortgage Foreclosure Moratoria During the Great Depression–https://files.stlouisfed.org/files/htdocs/publications/review/08/11/Wheelock.pdf
Household Debt and Credit Report, Q1 2021: https://www.newyorkfed.org/microeconomics/hhdc.html

Federal Trade Commission: https://www.ftc.gov/
FTC Stops Debt Collector's 'Debt Parking' Scheme–https://www.ftc.gov/news-events/press-releases/2020/11/ftc-stops-debt-collectors-alleged-debt-parking-scheme-requires-it
Lawsuit–Arete Financial Group–https://www.ftc.gov/enforcement/cases-proceedings/192-3040/arete-financial-group
Identity theft recovery tips–https://www.identitytheft.gov/
Debt relief and credit repair scams–https://www.ftc.gov/news-events/media-resources/consumer-finance/debt-relief-credit-repair-scams

Internal Revenue Service:
Apply for a payment plan–https://www.irs.gov/payments/online-payment-agreement-application
Covid relief: IRS Offers New Relief Options to Help Taxpayers Affected by Covid-19–https://www.irs.gov/about-irs/irs-offers-new-relief-options-to-help-taxpayers-affected-by-covid-19
IRS Taxpayer Advocate: Currently Not Collectible–https://www.taxpayeradvocate.irs.gov/get-help/paying-taxes/currently-not-collectible/
Tax Exempt Organization Search–https://www.irs.gov/charities-non-profits/tax-exempt-organization-search

U.S. Census Bureau:
Homeownership rates: 1950–https://www.census.gov/housing/census/data/ownerchar/ownerchar_1950.txt
Poverty and Poverty Rate 1959-2017–https://www.census.gov/content/dam/Census/library/visualizations/2018/demo/p60-263/figure4.pdf

Quarterly Residential Vacancies and Homeownership, Q1 2021–https://www.census.gov/housing/hvs/files/currenthvspress.pdf
Remarriage in the United States–https://www.census.gov/library/publications/2015/acs/acs-30.html
Who Had Medical Debt in the United States?–https://www.census.gov/library/stories/2021/04/who-had-medical-debt-in-united-states.html

U.S. Department of Education: Higher Education Opportunity Act–https://www2.ed.gov/policy/highered/leg/hea08/index.html

U.S. Department of Health and Human Services: Trends in the U.S. Uninsured Population–https://aspe.hhs.gov/system/files/pdf/265041/trends-in-the-us-uninsured.pdf

U.S. Department of Labor: Continuation of health coverage (COBRA)–https://www.dol.gov/general/topic/health-plans/cobra

U.S. Bureau of Labor Statistics:
Average employee medical premium–https://www.bls.gov/opub/ted/2020/average-employee-medical-premium-6797-dollars-for-family-coverage-in-2020.htm
College tuition and fees increase 63 percent since January 2006–https://www.bls.gov/opub/ted/2016/college-tuition-and-fees-increase-63-percent-since-january-2006.htm
Government employment–https://www.bls.gov/oes/current/999001.htm

Consumer laws

Consumer Credit Protection Act:
Lexington Law: How the consumer credit protection act affects your finances–https://www.lexingtonlaw.com/blog/finance/consumer-credit-protection-act.html

Consumer Credit Reporting Reform Act of 1996:
National Credit Union Administration: The Consumer Credit Reporting Reform Act of 1996–https://www.ncua.gov/regulation-supervision/letters-credit-unions-other-guidance/consumer-credit-reporting-reform-act-1996

Covid Relief bill's 'no surprises' provision:
NPR: In Coronavirus Relief Bill, Congress Also Curbs Surprise Medical Bills–https://www.npr.org/sections/health-shots/2020/12/22/949047358/congress-acts-to-spare-consumers-from-costly-surprise-medical-bills

Credit Repair Organizations Act:
Lexington Law: What is the Credit Repair Organizations Act? https://www.lexingtonlaw.com/education/credit-repair-organizations-act

Electronic Fund Transfer Act:
Investopedia: The Electronic Fund Transfer Act–https://www.investopedia.com/terms/e/electronic-funds-transfer-act.asp

Equal Credit Opportunity Act:
Lexington Law: The Equal Credit Opportunity Act–https://www.lexingtonlaw.com/blog/finance/equal-credit-opportunity-act.html

Fair and Accurate Credit Transactions Act:
Lexington Law: Understanding the Fair and Accurate Credit Transactions Act–https://www.lexingtonlaw.com/blog/finance/fair-and-accurate-credit-transactions-act.html

Fair Credit Billing Act:
Lexington Law: Fair Credit Billing Act: What is it and what do you need to know? https://www.lexingtonlaw.com/education/fair-credit-billing-act

Fair Credit Reporting Act:
Lexington Law: What is the Fair Credit Reporting Act? https://www.lexingtonlaw.com/education/what-is-the-fair-credit-reporting-act

Fair Debt Collection Practices Act:
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Appendix B: Financial jargon explained

Applicant–This is you, when you seek a loan or a credit card.

Application–The form you fill out when you apply for a loan or credit card.

Bad credit–When your credit score is low (like, say, below 600) and it's difficult for you to borrow or get a new credit card, you're considered to have bad credit.

Bad debt–A debt that is long overdue and not expected to be paid.

Charge-off–An account where you never paid your debt. The lender gave up trying to collect it from you and either sold the debt to a collection agency to recoup some of the money, or simply wrote it off as a bad debt.

Collection agency–A company that buys overdue debts at a discount, then seeks to profit by collecting more than it paid. Many laws govern what collection agencies can and can't do in their quest to extract money from you.

Consolidation loan–A loan you use to pay off multiple small loans or credit cards. The point of a consolidation loan is to simplify your finances and lower your monthly payments–usually, by finding a loan with a longer term or lower interest rate.

Credit–In a financial sense, your ability to spend money you don't have. When you charge an item and then pay off the cost over time, you are buying on credit.

Credit agency–A company that compiles credit reports. Also known as credit bureaus or credit rating agencies. The three largest and most important credit bureaus are Equifax, TransUnion and Experian, but there are many other regional and specialized credit agencies as well.

Credit mix–The different types of loans and credit you have. Many lenders like to see a mix of mortgage, car and student loans, as well as credit card usage, as it shows you've made a favorable impression on many creditors and lenders and can juggle multiple payments.

Creditor–A company or financial institution that issued you credit.

Credit report–A statement that compiles information about your credit history.

Credit score–A three-digit figure that boils down your credit report into a number, generally between 300 and 850. The two main issuers of credit scores are FICO (formerly known as Fair Isaac) and VantageScore.

Creditworthy–You appear to have good credit, from the banks' point of view. Financial institutions readily lend you money or issue you credit cards if they find you creditworthy.

Credit utilization ratio–The percentage of your available credit that you're currently using. If you use $1,000 of a $5,000 credit limit and don't pay it off before your balance is due, you have a 20 percent utilization ratio.

Consumer statement–A 100-word personal statement submitted with your credit report that explains circumstances surrounding a negative item.

Data furnisher–A bank, credit card company, retailer or other financial institution that provides information to credit agencies about your borrowing and payment history.

Debt parking–A technique that bogus collection agencies use, of placing made-up debts onto a borrower's credit report and then asking them to pay the debt.

Debtor–A person who owes money.

Default–When you fail to make an on-time payment, you are in default on your loan.

Dispute letter–A letter written to a credit bureau or lender, challenging the accuracy of a credit listing.

Equity–The value that resides within an asset, such as a partially paid-off home. If you sold the home, you would convert that equity into cash.

Financial institution–Any type of money-lending or credit-granting organization, such as banks, credit unions, credit card companies, auto loan providers and online money sites.

Forbearance–When a lender temporarily suspends, reduces or otherwise modifies your payment agreement due to a short-term problem, such as the COVID-19 pandemic.

Garnish–In a financial sense, to deduct money from your paycheck in order to help pay off a debt. Child support payments and student loans are two types of debts where prolonged nonpayment may result in having your wages garnished. Consumer protection laws govern how much of your paycheck can be garnished.

Goodwill request–A request to a past lender to remove their debt item from your credit report.

Guarantor–A person who cosigns a loan for someone who can't qualify otherwise or who wants to get better terms on a loan. If you guarantee a loan or other commitment for another person, and that person doesn't make the payments, the financial institution will turn to you as the source of payments.

Hard inquiry–When you apply to borrow money or get a new credit card, your financial institution will request a copy of your credit report to help them decide whether to approve your application. This request for your credit report from a lender is known as a 'hard inquiry.'

Interest rate–The amount you pay monthly or annually to borrow money, or to pay off your loan or credit card over time rather than all at once.

Lien–A legal tool used by lenders to collect unpaid amounts. When you owe a debt and don't pay but own assets such as a home, the debtor may be able to recoup their money by asking a court to issue a lien against your property. The lien means the bank will pay the debtor the amount owed first from any sale profits, paying you the remainder.

Mortgage–A loan for purchasing property such as a farm, home or land. Mortgages typically have a longer loan term than other loan types.

Negative item–An entry in your credit report that lists something that's a red flag to lenders. Bankruptcy and overdue payments are two examples of negative items.

Overdraft–When you spend more than you have in your bank account, creating a deficit. Depending on your relationship with the bank, the bank may temporarily cover the overdraft amount, or the deficit may result in a 'bounced' or returned check or payment. Also known as being 'overdrawn' at the bank.

Pay for delete letter–A letter you send asking a creditor to remove their negative listing from your credit report, in exchange for a single payment or a payment plan to repay the debt.

Payday loan–A loan secured by an upcoming paycheck. Interest rates tend to be high, setting up borrowers for a cycle of debt that's hard to escape.

Refinance–To get a new loan that replaces an existing loan. Refinancing is usually done to turn part of an asset's equity into cash, to get a lower interest rate or to obtain a longer term, or for a combination of these factors.

Soft inquiry–A request for your credit report made by you, or by employers and other third parties who are not lenders.

Third-party debt collector–See 'collection agencies.'

Trade line–A listing in your credit report.

Un-banked–A person who has no bank account or credit card is considered part of the 5.4 percent of Americans who are 'un-banked.'

Under-banked–A person who has limited access to financial services.

Still have questions?

At Lexington Law, we care about helping you understand your credit and how to fix it. Reach out to us today to schedule a free, no-obligation consultation.

Inside Credit Repair:
Insights from a credit attorney

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