



---

## Credit Repair Companies - 5 Reasons to Avoid Them

© 2009, Home Buying Institute. All rights reserved.

The phrase "credit repair companies" is practically a synonym for "scams." In my opinion, the two terms are interchangeable. Unfortunately, many Americans don't realize the bad reputation this particular industry has, so they are easily lured in by big promises.

In this lesson, I'll explain what a credit repair company is, and why it's usually a good idea to avoid them altogether. We will also look at some better alternatives for consumers who are trying to improve their credit scores.

If you ever receive a letter or email like this ...

"Our credit repair company can help you remove derogatory information from your credit reports, thereby improving your score. We use little-known but highly effective techniques to repair your credit history. For a small up-front fee, you can have access to our in-house tools and expertise, and you can get on the path to better credit!"

... then you should delete the email (or trash the letter) and ignore the company that sent it to you. Why? I'll tell you why. In fact, I'll give you five good reasons to avoid credit repair companies entirely. But first, let's start with some of the glaring inaccuracies of this claim:

- First of all, there's no such thing as "little-known" techniques for credit repair. The most effective techniques for improving your score are public knowledge (and you can find them all over this website).
- Charging people in advance for such services is illegal in the United States. Specifically, it's a violation of Section 404 of the Credit Repair Organizations Act. So the companies who ask for up-front payment are operating beneath the radar and against the law.

Aside from those obvious red flags, there are many reasons to avoid credit repair companies and the services they claim to provide. But in the interest of easy reading, I've boiled it down to the five biggest reasons:

### 1. The FTC Warns Against Them

When the federal government has to step in to regulate an "industry," you know there's a problem. That is exactly what happened with credit repair companies in the U.S. In addition to passing laws to regulate this industry, the FTC goes so far as giving clear warnings against them:

Eileen Harrington, a deputy director with the FTC, says that these companies "charge hundreds of dollars, but don't deliver on their claims." (citation) Jodie Bernstein, a director of the FTC's



---

Bureau of Consumer Protection, echoes the sentiment: "The FTC has never seen a legitimate credit repair company."

This does not mean that all credit help organizations are scams. On the contrary, there are many legitimate organizations that can help you reduce your debt and improve your credit score. But these are usually placed under the umbrella of "credit counseling agencies." We will talk more about these groups in a moment.

## **2. Most Credit Repair Companies are Scams**

Why does the federal government feel this way about the credit repair industry? Why do laws have to be passed to tightly regulate them? Because most of these companies can be classified as scams. Plain and simple. In fact, their entire business model revolves around a very specific lie -- that you need to hire a company to improve your credit. This is clearly false, but many consumers don't realize it. Thus, they are enticed by the big promises and "easy fixes" offered by credit repair companies.

## **3. They Charge In Advance - For a Reason**

Any company that charges in advance should send up a red flag in your mind, regardless of what industry we are talking about. There's a good reason why credit repair companies charge up-front fees for their "services." They know they can't deliver on their promises, and that nobody in their right mind would pay them for failing to deliver. So they charge in advance (which is also illegal, by the way).

Why can't these companies deliver what they promise? Because nobody can remove derogatory information from your credit report, if the information is accurate and timely. The credit reporting agencies will only remove derogatory information for one of two reasons:

The negative entry is a mistake, such as an account that's not even yours.

The negative entry has been on your credit report longer than the law allows (seven years for most derogatory information, and ten years for bankruptcies).

Aside from these two reasons, the reporting bureaus have no obligation to remove blemishes from your credit report. If it's a legitimate entry, and it's not beyond the maximum time frame established by the FTC, the negative entry is going to stay on your report. Credit repair companies cannot do anything to change this. And this is why they still try to charge in advance.

## **4. You Can Do It Yourself**

All of the actions that can improve your credit score fall into one of two categories. They are either (A) changes in financial behavior or (B) corrections to a credit report. And you can do both of these things for yourself. In fact, you're the only person who can change your financial



---

behavior for the better. And as far as correcting a credit errors on your credit report, you can do that as well -- for free.

A credit repair company cannot perform any kind of magic. Despite what these companies might tell you, they do not have access to "little-known techniques" or tricks. You can obtain a free copy of your credit reports by visiting [AnnualCreditReport.com](http://AnnualCreditReport.com), and you can read through it for errors. They are easy to spot. When you find an error, you can dispute it through the company's website that produced the report -- Experian, TransUnion or Equifax. So why would you pay somebody hundreds of dollars for this simple task that you can do for yourself? Some credit repair companies don't even go this far, but will take your money all the same.

In truth, fixing errors on your credit reports will only improve your score by small amounts. If you really want to improve your credit score, you must pay all of your bills on time, reduce your credit card balances, and other things listed in this video tutorial. It's important to note, yet again, that you're the only one who can change your financial behavior -- and that's the key to making serious credit score improvements.

## **5. Legitimate Credit Counseling is a Better Option**

The best option for people trying to improve their credit is to (A) educate themselves on the process and (B) change the behavior that led to bad credit in the first place. You can do these things for yourself, but if you do need help, you should seek a legitimate credit counseling agency. Remember, there's a big difference between "repair" companies and "counseling" organizations. Groups such as the National Foundation for Credit Counseling are a good place to start.

---

### **About the Consumer Credit Blog**

The Consumer Credit Help blog gives consumers a place to go for straight answers to tough credit questions. It is a free service offered by the publishers of the Home Buying Institute. To learn more about the Consumer Credit Help blog, please visit [www.HomeBuyingInstitute.com/help](http://www.HomeBuyingInstitute.com/help).

### **About the Home Buying Institute**

Home Buying Institute is one of the Internet's largest libraries of home buying tips, tools and resources. The website offers hundreds of articles from expert authors, with new articles added every week. Visitors will also find mortgage calculators, a home-buying glossary, dozens of tutorials, and tools for ordering credit reports and obtaining mortgage quotes -- all in one place. Learn more by visiting [www.HomeBuyingInstitute.com/help](http://www.HomeBuyingInstitute.com/help).