

## **Credit Repair Companies: Are They Worth the Cost?**

When you wreck your car, you take it (or have it towed) to an automobile repair shop. That's a pretty straightforward decision. Now, what should you do when it's not your car but your credit that's been "damaged"? Do you take your credit report somewhere and pay them to repair your credit?

Obviously, it's important to maintain a good credit rating. A good rating makes it easier to get low-interest loans and lines of credit. Your credit rating can even affect your ability to get a job or obtain an insurance policy. So if your credit report is marred, you may be considering using the services of one of the credit repair companies that advertise so frequently on the radio and TV. But before you take that approach, it's important to know how such companies operate. Most of the time, hiring a credit repair company will only be a waste of time ... and a lot of money.

### **A closer look at how credit repair companies work.**

Credit repair companies' main tool-of-the-trade is to dispute any negative items which are on your credit report. Even if the items are accurate – it makes no difference. Since the credit bureau will have 30 days to investigate, this method can, in fact, temporarily buy you some time. During the inquiry, your credit score will not include any of the items being questioned. If the creditor doesn't prove that the item is accurate, the credit bureau will remove it. Awesome, right?

Though this may sound like it benefits you, you need to be aware of the downside. First off, if the information the credit repair company is disputing turns out to be correct, this information will be re-reported the next time they submit data to the bureaus. Also, it is *illegal* for a credit repair company to dispute accurate information in an attempt to improve your credit. But the main point we want to make is this: The Fair Credit Reporting Act guarantees you the right to dispute items on your credit report with credit bureaus at no cost. So why would you pay a credit repair business to do this for you?

Here's another common practice used by credit repair companies you'll want to watch out for. It's called "file segregation." With this practice, the credit repair company will have you apply for an Internal Revenue Service Employer Identification Number (EIN). The credit repair company will then instruct you to use your EIN to apply for new credit, enabling you to build a completely new credit history. How cool is that! Well, not only is this practice illegal, it can work against you. By starting all over again with a blank credit history, you're more likely to find that lenders are wary of doing business with you.

### **DIY – a better way to repair your credit.**

Walk into any bookstore and you'll find a huge section of do-it-yourself (DIY) books. Well, DIY makes a lot of sense when it comes to repairing your credit. There are several things you can do on your own– depending on whether the negative information on your report is accurate or not.

**If the information is inaccurate**, contact the bureau and dispute the item. As mentioned earlier, there's no charge for doing this.

**If the information is negative but accurate**, here are some of your options:

- If you have a damaged credit history, consider getting a secured credit card to reestablish credit. With such a card you put down a cash deposit at your financial institution. The amount of your deposit is the credit line for that account. Now, simply use this card to pay for things. You will create a positive credit history by diligently paying on time and never carrying a balance on the card.
- If the debt is getting close to the date it will be removed, think about just letting it drop off naturally. Typically, negative information will not appear after seven years have elapsed since the date of last activity. Keep in mind, though, that Chapter 7 bankruptcy will show for 10 years and some other loans – such as defaulted student loans – may remain until they have been paid off.
- If you have an account in collections, see if you can pay it off in full. While it may be tempting to save some money by offering a settlement, remember that settled accounts don't look as good on a report as those that have been paid in full.

**Our advice: Avoid credit repair companies.**

Though credit repair companies would have you believe that they are the best way to repair damaged credit, never forget that you can do anything they can do ... and at little or no cost. Besides, no one – not even the biggest credit repair company – can legally remove accurate and timely negative information from your credit report.