

# 'ABOUT CREDIT'

*Your complete guide to understanding credit scoring, managing your scores and improving your credit rating.*

*Including: Free & Legal 'Credit Repair'.*

Fair, Isaac and Co. is the San Rafael, California Company founded in 1956 by Bill Fair and Earl Isaac. They pioneered the field of credit scoring for financial companies. They have expanded their enterprise to cover decision systems, analytics and consulting. Every credit agency, and most lenders, calculates your credit score using software from FICO (Beacon) or in house software based on the FICO rating system.

### **What does your score mean?**

This rating system is meant to develop a snapshot of the risk you currently represent to a lender. Several parameters in your credit file, including length of credit history, number of open accounts, loans, mortgages, public records, and others are formulated to produce a three-digit score between about 300 and 950.

There are other scores used by lenders and insurance companies (some of which are developed by FICO) such as Application and Behavior scores. These other types of scores take other information into account. Usually a lender will use a combination of your credit score with other factors when determining your risk. All lenders have the same objective; to determine the borrower's potential risk. Regardless of whether the score was generated by FICO or a system based on FICO parameters, they all yield an industry standard three-digit score. This score places the borrower in one of three main categories.

### **Prime and Sub-Prime or Worse**

**Prime** - If your credit score is above 680, you are considered a "prime borrower" and will have no problem getting a good interest rate on your home loan, car loan, or credit card.

**Sub-Prime** - If your credit score is below 680, you are considered a "sub prime borrower", and will likely pay a higher interest rate on your loan.

**Worse** - If your credit score is below 560, you can still get a credit card but you will likely be hit with a security deposit or high acquisition fee. In addition to that your interest rate will likely be 22 to 23%. You can forget about most home loans and the majority of new car loans at this score.

Below 560 is no place to be. You will pay much, much more in higher interest and unnecessary fees. You may even pay more for your insurance rates. A very low score can even prevent you from getting a job with many companies.

### **How much does a low score cost you?**

**Credit Cards** – Most, if not all, prime credit cards are entirely out of reach to consumers with bad credit. And the few credit cards that are available to them (known as “sub-prime” cards) typically require exorbitant setup fees or recurring monthly fees. They offer very low credit lines, require cash deposits, and in most cases do not even report your positive credit activity to the credit bureaus.

**Automobile Financing** - If you are making payments on a car, you are probably paying between \$5,000 and \$9,000 more just for having bad credit. This added interest shows up every month in a higher payment. Take a look.

<i>\$20,000 car paid over 5 years:</i>			
CREDIT STATUS	RATE	PAYMENT	COST OF BAD CREDIT
Perfect	10%	\$424.94	<b>\$0.00</b>
Mildly Damaged	14%	\$465.37	<b>\$4,722.54</b>
Damaged	20%	\$529.88	<b>\$8,593.30</b>

**Home Mortgage** - Bad credit in auto financing can really hurt, but it is nothing compared to the cost of bad credit when a home is involved. A typical home can cost between \$50,000 and \$130,000 more in interest if you are buying the home with bad credit.

<i>\$100,000 home paid over 30 years:</i>			
CREDIT STATUS	RATE	PAYMENT	COST OF BAD CREDIT
Perfect	7%	\$655.30	<b>\$0.00</b>
Mildly Damaged	9%	\$804.62	<b>\$50,155.24</b>
Damaged	12%	\$1,028.61	<b>\$130,791.63</b>

As you can see, a low score can cost you hundreds of dollars per month. This is why it is so important to obtain and maintain as high of a score as possible.

### **How are credit scores calculated?**

The methods of calculating your FICO may differ slightly depending on the credit bureau. When obtaining your score from one of the Credit Bureaus it is important to understand that your score does not come directly from FICO. It is adapted to each bureau and is given its own name: Equifax uses “Beacon”, Trans Union uses “Empirica”, and Experian uses “Experian/Fair Isaac.” These scores are also referred to as your “Bureau Scores.”

Since your score is derived from your bureau data, it will change every time your reports change. However your score is calculated, it will always take into consideration many categories of information. No one piece of information or factor determines your score. As the information in your credit report changes, the importance of one or several factors may change in your FICO score. Lenders look at many things when making a credit decision, including your income and the kind of credit for which you are applying. However, your FICO score does not reflect these facts as it only evaluates the information retained by the credit reporting agency.

### **What factors affect your credit score?**

There are five factors which are used in credit scoring calculations that determine your overall credit score.

#### **1) Previous Credit Performance (Payment History) 35%**

A lender wants to know what your payment history is like. Have you paid everything on time, and are you late on anything now? Your payment history is just one piece of information used in calculating your score, although it can be the very important.

Your score takes into account:

- Payment history on your accounts: These include credit cards, retail accounts (department store credit cards), installment loans, finance company accounts and mortgage loans.
- Collection items and Public records: This includes judgments, bankruptcies, suits, liens, collection items and wage attachments. Most of these are considered quite serious, although older items count less than recent ones.
- It's all in the details: This includes specific details on late and missed payments. Negative information/late pays are determined using three factors.
  - **Recently** - How long ago was the last delinquency?  
How old is the late pay? A 30-day late payment made just a month ago will affect your score much more than a 90-day late payment from five years ago.
  - **Severity** - What level of delinquency was reached?  
How late was the payment made? 30 days, 60 days, 90 days or worst of all, is the payment still outstanding?!?
  - **Prevalence** - How many credit obligations have been delinquent?  
What is the amount of negative items as compared to your total amount of available credit? For instance, 5 accounts showing 3 late payments are

much worse than 10 accounts showing 4 late payments. One of the biggest sub factors is how many accounts show no late payments. A good track record on most of your credit accounts will increase your overall FICO score substantially.

## **2) Current Level of Indebtedness (Amount Owed) 30%**

How much is too much? Can the borrower pay me and still afford to pay his other bills? Not necessarily. Having available credit can actually help your ratio of debt to available credit. These are the types of questions that most borrowers want to know and the answers are almost as important as your previous credit history.

Your score takes into account:

- **Total amount owed on all open accounts.** Paying off your credit cards in full every month does not mean that they won't show a balance on your report. Your total balance on your last statement is generally the amount that will show in your credit report.
- **Specific types of accounts, such as credit cards and installment loans are scored differently and in conjunction with the overall amount owed on all open accounts.** This also factors into your balance on each specific type of account. For instance, you have a credit card with a very small balance and no late pays. Even though the balance is low, this still looks very good as it shows that you are able to manage your credit responsibly.
- **How many accounts do you have open and how many have balances?** A large number of open accounts, even with small balances, can indicate a higher risk of over-extension. This is weighted in your FICO score but most lenders leave it to their discretion as they have access to your income amount. For the most part, though, it is good not to have more than three open revolving accounts. Usually, three is the maximum.
- **How much of the total credit that is available to you are you using?** In other words, are you close to maxing out? For example, if you have a credit card with an available credit line of \$1000 dollars and you have a current balance of \$850.00 or more, then you are nearly "maxed out." Several credit cards or other debts with balances approaching the credit limit will affect your score negatively. Even if you have made your payments responsibly. Your FICO score will factor your overall ratio of debt to your overall limits.

\* It is important to note that the FICO scoring method pays closer attention to revolving (credit card) credit than installment (home/auto loan) credit to determine if you are "maxed out"!!

<b>Overall Ratio</b>			
<b>Account</b>	<b>Amount owed</b>	<b>Limit/Loan amount</b>	<b>Percentage</b>
Visa	\$500	\$1000	50%
MasterCard	\$50	\$1000	5%
Car loan	\$11,000	\$25,000	44%
Home loan	\$95,000	\$145,000	65%
<b>Total</b>	<b>\$106,550</b>	<b>\$172,000</b>	<b>61%</b>

### **3) Amount of Time Credit Has Been In Use (Length of Credit) 15%**

Generally speaking, the longer the credit history the better your score. However, this factor only makes up 15% of your total score so even young people, students or others with short histories can still score high overall as long as the other factors show good. If you are new to credit then there is little you can do to improve this part of your score. Open an account and be patient.

Your score takes into account:

- How long your credit accounts have been open or the number of months you have been in the credit bureau's file.
- The age of your oldest account and the average age of all your accounts are taken into consideration.
- How long it has been since you used certain accounts as well as the mix of older and new trade lines.

### **4) Pursuit of New Credit (10%)**

Credit is much more popular today. Just look at the number of credit card offers you get via the Internet and in the mail. Consumers can now shop for credit and find the best terms to meet their needs. Each time someone runs a credit check on you, it creates an inquiry.

Fair Isaac has changed some of its calculations to account for these new trends!! Specifically, they treat a group of inquiries — which probably represents a search for the best rate on a single loan — as though it was a single inquiry (note: this only applies to auto or mortgage loan inquiries.) For example, auto loan inquiries that are within 20 days of each other only count as one inquiry. Whereas home loan inquiries within 30 days are counted as one inquiry.

Your score takes into account:

- How many new credit obligations have recently been assumed? Opening several credit card accounts at the same time can look bad. What FICO looks for is “To what extent is this consumer trying to open new credit accounts?”
- How recent were these efforts? How long it has been since you opened a new account? Primary consideration is given to the following:
  - Number of inquiries in last six months
  - Number of trade lines opened in last year
  - Number of months since most recent inquiry
- There are no good inquiries. Inquiries are typically seen as a request for credit and thus are factored as if you are searching for credit. Every time you fill out one of those credit card applications to get a free t-shirt or hat, you are also getting an inquiry. Every time you fill out an online application for a credit card, or other type of loan, you are getting an inquiry. Too many inquiries look bad. While there are no good inquiries there are neutral inquiries. Neutral inquiries are most often known as:
  - **Consumer initiated** - A request for your credit report shows as a consumer inquiry when you run a credit check on yourself. (provided that you don't call your mortgage broker buddy to pull your report)
  - **Pre-Approval** - If a potential lender has viewed your credit reports to determine whether they want to offer you a loan, these are not factored into your score. However, once you fill out a credit application, your full report will be reviewed and a “bad” inquiry will appear on your reports.

- **Periodic Review** - Many lenders will periodically review the credit reports of their current customers to see if there have been any major changes to their credit reports. If the lender discovers that your credit score is now too low for their standards, they may close your account. These inquiries created as a result of the periodic reviews are not supposed to be factored into your credit score.

Type	# of days ago	# of inquiries	Notes
Dept. Store	68	1	Applied for one dept. card
Mortgage	65	1	Two mortgage apps within 30 days of each other counts as only one inquiry
Mortgage	56		
Auto	25	1	
Auto	9	Not counted at all if within 30 days of first inquiry.	These two don't count at all as they were within 30 days of the first app and within 15 days of each other.
Auto	7		
Bank card	5	1	

- **How inquiries are computed is somewhat complex.** The above table is meant as a basic guide but does not cover all the different calculations. As a reasonable measure you should avoid unnecessary inquiries. The FICO system is designed to take into account 'rate shopping', but things like applying to credit card offers will add inquiries to your file.

### **5) Types of Credit Experience (10%)**

A healthy mix of different types of credit, like installment loans, retail accounts, credit cards, and mortgage. This score is not normally a key factor in determining your score but it can help a close score. It's not a good idea to try and open different types of accounts just to try and make this factor better. It will likely reduce your score in other areas. You should never open accounts you don't intend to use anyway.

What type of accounts you have, and how many, can make a big difference. The optimal ratio of installment versus revolving accounts depends on your profile and differs from person to person. One factor that seems to have significant influence is your percent of open installment loans. Too many can lower this portion of your score.

### Cracking the code

If you are denied credit, you will receive four reason codes which indicate why you were denied. These codes appear in order of importance, below. The first code has the strongest impact, followed in declining impact by the second, third and fourth reason.

A typical readout your lender might view follows. This particular readout presents information from all three credit agencies. In the example below, the individual failed to qualify for each credit agency and the reasons are listed in descending order. \*\*\*\*\*  
 BORROWER: JOHNSON, MIKE A. \*\*\*\*\*

TU Score: [00623]  
 Reason1=[022] Reason2=[016]  
 Reason3=[028] Reason4=[004]

Experian Score: [00629]  
 Reason1=[022] Reason2=[016]  
 Reason3=[028] Reason4=[032]

EQUIFAX: [00617]  
 Reason1=[022] Reason2=[016]  
 Reason3=[028] Reason4=[032]

All three credit agencies do not always have the exact same information therefore your three scores will differ slightly. As a general rule though, if you fail to qualify at one agency you are likely to still be denied if one of the other bureaus is checked. Most mortgage loans companies will run all three credit agencies and take the lowest score.

Reason	Experian	TU	Equifax
Amount owed on accounts is too high	1	1	1
Delinquency on Accounts	2	2	2
Too few bank revolving accounts	3	N/A	3
Too many bank or Nat'l revolving accounts	4	N/A	4
Too many accounts with balances	5	5	5
Consumer finance accounts	6	6	6
Account payment history too new to rate	7	7	7

Too many recent inquiries last 12 months	8	8	8
Too many accounts opened in last 12 months	9	9	9
Proportion of balances to credit limit too high	10	10	10
Amount owed on revolving accounts is too high	11	11	11
Length of revolving credit history is too short	12	12	12
Time since delinquent is too recent or unknown	13	13	13
Length of credit history is too short	14	14	14
Lack of recent bank revolving information	15	15	15
Lack of recent revolving account information	16	16	16
No recent non-mortgage balance information	17	17	17
Number of accounts with delinquency	18	18	18
Too few accounts currently paid as agreed	19	27	19
Time since derogatory public record or collection	20	20	20
Amount past due on accounts	21	21	21
Serious delinquent, derogatory, public record or collection	22	22	22
Too many bank or Nat'l revolving acct's w/ balances	N/A	N/A	23
No recent revolving balances	24	24	24
Proportion of loan balance to loan amt. too high	33	3	33
Lack of recent installment loan information	32	4	32
Date of last inquiry too recent	N/A	19	N/A
Time since last account opening too short	30	30	30
Number of revolving accounts	26	N/A	26
Number of bank revolving or revolving accounts	N/A	26	N/A
Number of established accounts	28	28	28
No recent bankcard balances	N/A	29	N/A
Too few accounts with recent payment information	31	N/A	31

Note that these codes change often, and may not represent the current codes as of this writing.

### **Improving your credit score**

Now that you know how your score is calculated, you can begin making changes to your current financial planning. The best things you can do are simple.

- Pay your bills on time. Sounds simple, but this is the biggest thing you can do to keep your score high. Delinquent payments and collections have a major negative impact on a score.
- Keep your balances low on unsecured revolving debt like credit cards. A high outstanding balances can affect a score.
- The amount of your unused credit is an important factor in calculating your score. You should only apply for credit that you need.

- Make sure the information in your credit report is correct. If its not, dispute it with the credit agencies and/or with the creditor directly.
- **Removing negative items on your credit reports has the biggest impact on your FICO score. Generally, negative items stay on your reports for seven years but you can utilize credit repair tactics to speed that process in most cases.**

## About Credit Scoring

Most anyone who has obtained a home mortgage in the past 5 years or so has heard about credit scoring. How many of you have been told "your scores are great", or "if your score were 10 points higher, your rate would be better by 1/4 point"? Probably most of you.

We in the industry started to become aware of "scoring models", as they are called, as early as 1994. The use of scoring models in the mortgage industry came about as the major secondary market players, known as Fannie Mae and Freddie Mac, started to develop automated underwriting systems. They had been in use for a long time for auto lenders and credit card issuers.

The early creators of the automated underwriting systems felt that, if someone could go to a Mercedes dealership at 10 am and drive off the showroom floor an hour later with a \$100,000 car (still more expensive than homes are in many parts of the country), they ought to be able to obtain a home loan the same way. The logic in this should be obvious... after all, cars are rolling stock, so they can disappear, they depreciate and usually people don't live in them. Houses are attached to a foundation, they usually appreciate and people usually live in them. Using that logic, the industry should be able to make the home buying process easier for everyone.

This theory sounds good, but it is only in the last year that we have seen some relief from the mountains of paper that go into loan files, and it is because the scoring models have become more refined. Still, there is progress yet to be made and the industry is grinding slowly in that direction. Scoring models figure prominently in the future of how people obtain home mortgages.

Most people know that most creditors use credit report agencies for obtaining information on a person when they have applied for any type of financing. However, there are actually two levels of credit reporting agencies. There are three major repositories of credit and background information. They are Equifax, Experian and TransUnion. When someone obtains credit, the creditor reports the payment history to these repositories. This is usually done monthly but may be done on an irregular basis. These repositories simply accept the information as it comes in electronically and they DO NOT check the accuracy of the information.

The credit repositories and other agencies also maintain other background information on every person in the country who has a Social Security number or other identifying information. The other agencies may include the Department of Motor Vehicles, the Medical Information Board, the FBI, local law enforcement agencies, the county recorders for each county (public records repositories), etc. Even the mortgage industry has a central repository for borrowers and lenders who may have been involved in fraudulent activities in the making of mortgage loans.

## **Credit Scoring and the Lending Industry**

When you apply for a mortgage, your lender will request a credit report from a credit reporting company. This is usually a local or regional company. This company pulls together a credit report electronically. It usually comes from one or more of the major repositories, but it can come from several sources.

Along with the information, the local credit reporting company receives a numerical score. The score represents a composite of the borrower's credit history, employment, ability to save, and so on. The most famous of these scores is known as the FICO score, which was a model developed by the Fair-Isaacs Company a number of years ago. It is believed that the Beacon and TransUnion scores are really scoring information provided by the Fair-Isaacs Company, but have been tweaked somewhat by the other bureaus. That is partly true, but what most people don't know is that, with information streaming into their credit file almost everyday, the scores can change daily. That is why someone can apply for a mortgage with one company today and have a FICO score of, say, 717, and apply with another lender a week later and that score can be higher or lower, depending on the information received at the repositories in the interim.

The truth is that the Fair-Isaacs Company and the major credit repositories do not divulge how the scoring model works. Due to the level of erroneous reporting to peoples' credit files, there has been pressure on Congress lately to make the credit repositories more accountable for the accuracy of the information they report AND to divulge what goes into the scoring models, so that people can know what to do to improve their scores.

Why is this important? The lending industry is moving toward "risk-based" pricing. In plain English, this means that the higher one's credit scores, the less paper they will have to provide to prove that they are creditworthy AND the interest rate and/or fees a borrower pays will be based on the level of their scores.

This system, while perhaps unfair to some, will be great for those who maintain impeccable credit. It's one way that good credit risks can be rewarded. In the past year, we in the industry have already seen a dramatic reduction in paperwork requirements and "risk-based" pricing (rates and fees) has become commonplace.

If you have recently obtained your credit report and you are not happy with what was reported, you can take steps to correct the erroneous information on it. There are also proactive things you can do to improve your scores, if you are anticipating applying for a mortgage anytime soon. While I intend to go into the details of correcting erroneous credit information in Part II, I can give you a few hints now as to how to be proactive in improving your scores from where you are today.

The first is the most obvious. Pay all your payments on time. The second is, don't apply for any new credit unnecessarily. Every time you sign and return a new credit card offering, or open that second account at a department store because you get a 15% discount, an inquiry will be generated and that will reduce your score. The third is that if

you must maintain credit card balances, try to keep them at a level that is 35% - 40% of the maximum credit limit. In other words, if the credit limit is \$1,000, try to keep your running balance below \$400. Believe it or not, consolidating all your credit cards onto one can hurt you, if the balance is at the credit limit. The fourth is, if you get into a dispute with the phone company and it isn't a huge amount, pay it and move on. Having one or more collections, even if they are small amounts, can really hurt your score.

There are many more tidbits, but I will save them for the next sections, when I will also discuss how to correct erroneous credit information.

## Dealing with Credit Bureaus

**It is essential to understand that Credit Bureaus are nothing more than record keepers.**

Simply put, they keep a record of who has given you credit, when they gave you credit, how much credit you are given and whether or not you paid it back on time. When you want to obtain credit cards, loans, financing for a car or home, leases, apartments and sometimes even employment, the lender or bank will check your credit to see your financial history.

Credit Bureaus are paid by the people who request your credit file. Credit Bureaus have no legal power over you. Banks, police or the government does not run them; so don't be intimidated by them. They are the Credit Bureaus because they own large computer systems capable of storing credit information on everyone in the United States. However, because of the tremendous amounts of information on their computers, their method of storing information is very basic and ridden with many errors. Since the bureaus have made so many errors in the past, all Federal Laws regarding credit information are very much in your favor.

## **Crucial Strategies**

The only thing you legally need to supply the credit bureaus for a copy of your report is your name, your social security number and a legal mailing address (P.O. Box is a legal address). If you don't want to chance harassment by creditors at this time, it may benefit you to acquire a P.O. Box. Did you know that many of the collection agencies are owned by the credit bureaus?

### **NEVER give credit bureaus more information than they need!**

The bureaus also have a right to request a copy of your social security card, but only give a copy of the front. They also may request a copy of something showing your address if it is different than what is showing on the report. Send them a billing statement that has your address. Do not send them a copy of your driver's license as they request. Remember these bureaus are information-gathering companies who sell your information, not only for credit, but also for promotional reasons.

Before going any further, you should have copies of your current credit reports. If you don't, you can use the sample letter on the following page as a guideline for requesting your credit reports from the 3 major bureaus.

The Credit Bureaus must send you copies of your credit file, free of charge if you were recently denied credit. They will also provide you with one free copy each year. We advise against having anyone you know get your credit file for you because this creates an "Inquiry" on your credit report, and makes it appear as if you are trying to borrow money from somewhere.

If you are in a hurry and cannot wait 5 to 10 days to receive your credit report, simply look in your local Yellow Pages under Credit Bureaus. If the Credit Bureaus have a local office or affiliates in your area, you may go there directly and obtain your credit file without delay.

When you get the reports, there will be an information page telling you how to read your report. And all three agencies use different formats. The first step is to find all the derogatory items.

Look for collection accounts. Equifax lists them at the end of the report, Trans Union mixes them throughout the report. Experian gives a brief paragraph explanation of all accounts. The collections may have a collector's name or account number you do not recognize.

If you don't recognize the account as being one of yours, please don't assume that it is!

## How to Request A Credit Report

The following is a sample credit report request letter:

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January 1, 2001

The Credit Agencies Name  
P.O. Box 8030  
Layton, UT 84041-8030

To whom it may concern,

Please send me a copy of my current credit file. The following is my current identifying information:

John K. Smith  
1111 Perfect Lane  
Collection, NY 11234

I have lived at the above address for the last three years.  
I was born 3/2/51  
My Social Security # is 111-222-3333

Thank You,

\_\_\_\_\_  
Your signature

Print your name

**IMPORTANT:** Included along with this form must be a proof of address. Show them a driver's license, phone bill, utility bill, billing statement from any major creditor, etc. It must be a copy of something with your name and current address. Also send them a copy of the front of your Social Security card.

## **Warnings About Hiring Credit Repair Agencies**

You see the advertisements in newspapers, on TV, and on the Internet. You hear them on the radio. You get fliers in the mail. You may even get calls from telemarketers offering credit repair services. They all make the same claims:

- "Credit problems? No problem!"
- "We can erase your bad credit -- 100% guaranteed."
- "Create a new credit identity -- legally."
- "We can remove bankruptcies, judgments, liens, and bad loans from your credit file forever!"

Do yourself, and your wallet, a favor. Don't believe these statements. Only time, a conscious effort, and a personal debt repayment plan will improve your credit report.

If you decide to respond to a credit repair offer, beware of companies that:

- Want you to pay for credit repair services before any services are provided;
- Do not tell you your legal rights and what you can do -- yourself -- for free;
- Recommend that you not contact a credit bureau directly; or
- Advise you to dispute all information in your credit report or take any action that seems illegal, such as creating a new credit identity. If you follow illegal advice and commit fraud, you may be subject to prosecution.

You could be charged and prosecuted for mail or wire fraud if you use the mail or telephone to apply for credit and provide false information. It's a federal crime to make false statements on a loan or credit application, to misrepresent your Social Security Number, and to obtain an Employer Identification Number from the Internal Revenue Service under false pretenses.

Thanks to the new Telemarketing Sales Rule, it's also a crime for telemarketers who offer credit repair services to require you to pay until six months after they've delivered the services.

### **What to do if you've had problems with credit repair agencies:**

Many states have laws strictly regulating credit repair companies. States may be helpful if you've lost money to credit repair scams.

If you've had a problem with a credit repair company, don't be embarrassed to report the company. Contact your local Consumer Affairs Office or your State Attorney General (AG). Many AGs have toll-free consumer hotlines. Check with your local directory assistance.

You also may wish to contact the FTC. Although the Commission cannot resolve individual credit problems for consumers, it can act against a company if it sees a pattern of possible law violations. If you believe a company has engaged in credit fraud, send your complaints to: Correspondence Branch, Federal Trade Commission, Washington, DC 20580.

The National Fraud Information Center (NFIC) also accepts consumer complaints. You can reach NFIC at 1-800-876-7060, 9 a.m. - 5:30 p.m. EST, Monday - Friday, or at <http://www.fraud.org> on the Internet. NFIC is a private, nonprofit organization that operates a consumer assistance phone line to provide services and help in filing complaints. NFIC also forwards appropriate complaints to the FTC for entry on its telemarketing fraud database.

## **How to Remove Negative Credit**

**The following techniques will help correct your credit and should be done with all Credit Bureaus.**

In this section you will learn the ways of removing negative items from your credit file. These methods are sometimes referred to as "Credit Repair". These are the exact same methods credit repair clinics and attorneys charge up to \$3,500 to perform. Since they do not always do it correctly, consumers have been taken for millions of dollars over the past years. We will also show you all the jealously guarded secrets on how to outsmart creditors who are damaging your credit!

### **What the Credit Bureaus Don't Tell You**

1. Each item on your credit report must be proven or it cannot remain in the report. If the credit bureau cannot verify the item when investigated, it must be removed from your file whether or not it's true.
2. Every negative entry on your report can be denied or challenged at any time. The bureau must reinvestigate and if that item cannot be verified within a "reasonable amount of time", it must be removed from the file.
3. Items when challenged can be mistakenly erased. Consumers say they often experience computer operator mistakes.
4. Many times the creditor does not re-verify in time or the credit bureau is busy and does not handle your dispute properly. It must then be deleted.
5. The older an item, the more difficult re-verification is. It is possible it cannot be verified because records may no longer exist after 1 or 2 years.

### **Steps to Repair Your Credit**

1. Obtain your three credit reports.
2. Review the reports and locate the negative items.
3. Dispute the negative items with the credit bureaus.
4. Disputed items are removed or corrected. Items that were not re-verified are removed.

5. Negotiate with creditors and collection companies.
6. After negotiating and making payment, creditors delete the negative accounts or change them to a positive rating. Get this agreement in writing before you send money.
7. State the item you are disputing, but do not use dispute forms or file numbers provided by the bureau. This will cause fewer delays by the credit bureau asking for clarification.
8. Do not confirm the account if any information about the item is wrong.
9. Do not use letterhead (you don't want to raise any Red Flags).
10. Do not photocopy a fill in the blanks form letter (another Red Flag).
11. Send disputes during busy times of the year. For Example: The first to middle of November can cause a delay in verification because of Thanksgiving. Christmas rush for the creditor and the bureau can catch them before they can thoroughly investigate within a reasonable time.

### **Your Rights Are Important!**

Fair Credit Reporting Act → <http://www.ftc.gov/os/statutes/fcra.htm>

Fair Debt Collection Practices Act → <http://www.ftc.gov/os/statutes/fdcpa/fdcpact.htm>

All Federal Laws are in the consumer's favor. This means you have the advantage. The specific law used here is the Federal Fair Credit Reporting Act.

One part of this law states that when you dispute any information contained on your credit file, the Credit Bureau must verify the accuracy of the information with the creditor who reported the information within 30 days. If they are unable to verify the information within 30 days, it must be removed.

Congress passed The Fair Credit Reporting Act (FCRA) because they felt we all deserve a second chance. This act gives you the right to correct, update, amend and tell your side of what happened to the credit community. These laws do not work though unless you initiate and use them. A copy of the FCRA is included in the Appendix for your review.

The Fair Credit Reporting Act sets certain guidelines which credit bureaus and your creditors must follow when reporting your credit file, as well as giving the consumer certain rights.

All of this brings us to the fascinating task of working on your credit reports. Begin by getting defensive about your credit report. Remember that these credit reporting bureaus are just private companies selling information about you and are not your friends. You

never authorized your creditors to sell this information and you are not sharing in the profits they and the credit bureaus are making.

### **Your Six Basic Rights under The Fair Credit Reporting Act**

1. You, the consumer, have the right to challenge the accuracy of your credit report any time.
2. The credit bureaus must reinvestigate anything you challenge without a charge.
3. The credit bureaus must reinvestigate within a reasonable amount of time. 30 days constitutes a "reasonable amount of time" unless the bureau notifies you otherwise (so keep accurate records).
4. If the credit bureau finds an error in the challenged item, they must delete or correct that information in your files immediately.
5. If the credit bureaus cannot or do not confirm the challenged item within 30 days, they must delete that information from your files immediately.
6. You have the right to submit a Consumer Statement of your view of the problem. If you, as a credit consumer, dispute the accuracy of certain information in your credit report and it is verified by the creditor as correct, then the credit bureau is required to include your explanation of your dispute, if you request, in your credit report. Limit your explanation to no more than 100 words.

### **Remove Negative Credit: Important Information on Credit Repair**

**Important:** You do not want us or any other company to file a dispute for you because if the dispute is sent from anyone other than you, the credit bureau will suspect that you have paid someone to repair your credit and this will not work as well as it could have if you sent it directly.

As the Credit Bureaus did not lend you money, they are not as concerned as you if the information they have is correct or not. They are only paid to store the information.

Consumers working on their credit reports say many times their letters are ignored by the credit bureaus. It is believed the credit bureaus try to discourage consumers from working on the reports by making it difficult. Consumer's say even with proof an item is not theirs, its removal from their report can take three or four challenge letters. When the credit bureaus say they have verified or confirmed an item, it seems all they have done is verified it is in their computers. THIS IS NOT ENOUGH PROOF!!! They need to provide greater proof, so read on.

Sending your dispute letter by CERTIFIED RETURN RECEIPT MAIL greatly increases your chance of a response. This should not be done with the first attempt. Keep a record of when you sent the dispute letters and what date you should expect a response. If you

have received no answer to your dispute after 30 to 37 days, attack the credit bureau with a certified return receipt letter, for an updated credit report demanding the disputed items be deleted. If the bureaus do not reply within the 30 days, it must be that the information was either inaccurate, or it could not be verified. In either case, according to the Fair Credit Reporting Act, the items must be immediately deleted.

Consumers have found it possible to eliminate negative marks on credit reports simply by going through this process of disputing items over and over again. Since many creditors won't take the time to defend the negative item, eventually you can "repair" your credit through default by your creditor not responding to the credit bureaus request to verify the item. This commonly occurs. The creditors do not always have time to deal with a bothersome piece of paperwork and that is your advantage. We'll go into this more later.

When you get the updated report carefully review it to see if you have lost the negative items and to see if anything else has changed. Consumers working on their credit report have found while disputing one negative item, for no apparent reason, another negative item or two disappeared. Usually some progress is made each time you challenge, but do not get discouraged if you don't get results each time. Remember, the credit bureau would like you to quit bothering them because if you aren't disputing the report, they can legally continue selling it as profitable information.

After you have received your response, repeat the process all over again. Consumers who have successfully cleaned their credit report say that they have denied a bankruptcy or judgment and have received verification from the credit bureau that it was in public record. They denied a second time and some even a third time, and finally the credit bureau deleted the bankruptcy from the report. So do not get discouraged! Patience and persistence are important keys to incredible success in repairing a damaged credit report.

The creditors who reported the items to the bureaus must be the ones to provide information to verify the dispute. These creditors do not always have the staff and proper records to verify all disputes within 30 days to keep the item from being removed. So you can see how possible it is to remove negative information from your credit file. How well is this going to work for you? The only way is to try. However, our research has shown that certain items are easier to remove than others.

### **Easier Items To Dispute And Have Removed**

- \* Items older than 2 years
- \* Discharged bankruptcies
- \* Charge-offs
- \* Inquiries
- \* Repossessions
- \* Late payments
- \* Accounts that were late but are now paid off

The reason these items are easier to remove is simple; when you dispute an older account or an item that is now charged off, the creditor is not too concerned with the account any more. They may not even be able to find the necessary information to verify the dispute. Even if the account was once seriously past due, but now is paid off, they usually will not take the time to verify the dispute since they have already been paid.

### **More Difficult Items To Dispute And Have Removed**

- \* Accounts that are currently past due
- \* Recent Bankruptcies
- \* Judgments
- \* IRS or State Tax Liens
- \* Current collection accounts

These are more difficult because creditors keep these types of accounts in their current files and they are expecting you to pay them. That is why it will be much easier for them to verify the information and keep the item on your credit file. However, it is always worth a try.

Important: It is completely legal for you to dispute items on your credit file even if you know they are correct. You are simply testing to see if your creditors have maintained the proper records to verify the dispute. You have a very bad memory and forgot that the negative accounts on your credit file are really yours.

**Federal Laws require that the Credit Bureaus verify all disputes. If they are unable to verify your dispute, the law says it must be removed from your file.**

**Step 1:** To dispute a negative item on your credit file you need to first identify the negative items that you want removed.

Once you know which items to dispute, DO NOT complete the Dispute Forms that the Credit Bureaus included with copies of your credit file that they sent you. It's much more effective to easily follow the outlines of these sample letters that follow.

Be sure to include a copy of your credit file and keep the original for your records. Highlight or underline the items you are disputing. Mail the dispute forms to the address listed on each credit file.

To dispute an inquiry, simply write that you never applied for credit with that company.

Make a photocopy of your dispute letter for your records and be sure to send it by Certified and Return Receipt Mail from your local Post Office. Mail your dispute form to the address provided with your credit file. Repeat the above process for each item that you want removed or changed.

**Step 2:** After reviewing your updated credit file and finding that most or all the negative items have been removed, you may now focus on building a positive credit profile. Positive information will always outweigh a few negative items that may remain on your file.

**Step 3:** This technique is extremely effective in removing any negative information that was supposedly verified as correct after your dispute.

Important: Always remember that if the dispute is sent in from anyone other than you, the Credit Bureau will suspect that you have paid someone to repair your credit. This raises all sorts of Red Flags. Since they make so many mistakes it is imperative that they believe you are working alone and trying to fix a real legitimate mistake.

If there is a negative item that you want removed from your credit, such as a bankruptcy, charge off or collection account, you may want to write that this is NOT your account and you want it removed immediately.

If the account is now paid off, but was seriously past due at one time, DO NOT write that it's not your account. Instead, write that it is your account but was NEVER past due and you need it updated to say that everything has always been current.

### **An Extremely Powerful Technique...**

This auditing technique is usually only practiced by attorneys. It would be very expensive to hire attorneys to do this for you. However, by following the instructions you'll get similar results as any attorney (you just won't have to pay).

If the Credit Bureaus were able to verify any disputed information as correct, it would remain on your credit file. So you'll need to contact the creditor who is reporting the information. The creditor who reported the item is listed on the left or bottom of your credit file. If their phone number is not provided, call directory assistance in their city and ask for the creditor's telephone number. Call and ask them to mail you written proof and documentation that this is actually your account, since you do not believe the account belongs to you.

Almost all creditors and collection agencies use computers to store information about debtors and they throw out original, signed contracts along with other original documents. This makes it easy for creditors to store and organize information BUT makes it impossible to actually prove the account is really yours and not just another mistake.

Federal Law requires that upon your request, all creditors must show you written proof that the account in question is in fact yours. Written proof is a copy of the contract you signed with the original creditor. As we explained before, you are stored on the creditor's computer and chances are excellent that they have thrown out all the proof that this is your account.

The only creditors that may have proof are the courts (Recent Bankruptcies, Unpaid Tax Liens, Unpaid Judgments & Unpaid Child Support).

**Again, all Federal Laws are in your favor. If you say an account is not yours and the creditor does not have written proof that the account belongs to you, they must remove the account from your credit file and cease all collection activity. If they don't have written proof that the account is yours, there are two ways to get the item removed (see items A & B in the next section\*\*\*).**

### **Important**

Only allow a creditor 7 days to get the proof into your mailbox (3 days to find it and 4 days for the mail). If it takes any longer they probably do not have proof and you should start taking the action listed below. If the creditor does supply you with all the written proof that the account belongs to you, go to Step 4.

### **Get The Edge Above Your Creditors**

A. \*\*\*Contact the Attorney Generals Office in the city of the creditor who is damaging your credit. Get the phone number through directory assistance. Tell them that you have a creditor who is damaging your credit by reporting an account that is not yours. You have requested proof that the account belongs to you and they do not have it. They will contact the creditor and have the account removed from your credit file. This is free legal service and almost guarantees they will get the item removed.

B. If you want to make some money off of the creditor then take them to Small Claims Court. To do this, you will need to call your county courthouse and ask about the proper procedure to follow to get a court date. It's very easy and you can do it all yourself. You'll be asked to fill out one or two simple forms stating your complaint. You may want to write that you wish to remove the item from your credit file since it is not yours and the creditor has no proof that it is your account. After you receive a court date, mark it in your calendar and make sure to attend at the proper time, place and date. Bring in the receipts from the registered mail you used for your disputes along with your phone bill and sue the creditor for your expenses and emotional stress. Remember, if they do not have proof that this is your account you will win and the account will be removed from your credit file! Also, if the creditor is out of state and does not show in court, you win by their default.

So far, we have not yet heard of any creditor showing up in court. They are simply far too busy to waste time on one person when they have thousands of other people to be concerned with. You may contact an attorney in your area for a free consultation about what your rights are concerning your particular situation.

**Step 4:** If the creditor is able to supply the written proof you request, offer to settle the debt for 10 cents on the dollar provided that you have the money. If you don't have the money go to Step 5. If you owe \$1,000, offer the creditor \$100. If they refuse, tell them that you will file Bankruptcy and they will get nothing. This will certainly open them up

to negotiating with you. Whatever you agree to pay them, it should be a lot less than you originally owed them. Do not agree to pay interest charges or penalties on past due or collection accounts.

**Step 5:** If you don't have the money to make payment arrangements, start back at Step 1 of this section. Remember that the laws are in your favor and you are legally allowed by Federal Law to dispute the negative items on your credit file every 30 days. You are allowed to repeat this process as many times as you wish until the Credit Bureaus cannot verify the item and must remove it. As you already know, the creditors do not have the staff to handle all the disputes they receive, so if you persist, eventually the items may be removed.

Sometimes the Credit Bureaus may sometimes reply telling you that they already verified the information as correct. If this happens, write back telling them that it's a Federal Law that they must verify your disputes and that you'll sue them for \$5,000 for each dispute that they do not handle properly. Once they know that you are aware of your rights, they'll become very cooperative.

### **Extremely Important**

If you agree to make payment arrangements with any creditor, do so only under one condition. The condition is that before you pay any money, the creditor must mail you a written agreement that they will report the account to the Credit Bureaus as current, paid off and never late! Otherwise, it may still remain on your credit file and **may not be worth paying.**

## So - Here's the Debt Validation Strategy

1. Send a [letter requesting validation](#) to the collection agency (our buddy Joe N in our example).
2. If you don't know the address of the collection agency, [here is a tip](#) to help you find it.
3. Dispute the collection with the credit bureaus.
4. Wait 30 days to hear back from the collection agency. Most likely they will not respond or they will respond saying that they received your letter. Only a letter which includes:
  - o Proof that the collection company owns the debt/or has been assigned the debt
  - o Complete payment history, starting with the [original creditor](#).
  - o Copy of the original signed loan agreement or credit card application.

is satisfactory.

5. If they haven't sent you satisfactory proof, send a copy of your receipt for your registered mail, a copy of the first letter you sent and a statement that they have not complied with the [FDCPA](#) and are now in violation of the Act. Tell them they need to immediately remove the collection listing from your credit report or you are going to [file a lawsuit](#) because they are in violation of the FDCPA, section 809 (b).
6. Wait 15-20 days to hear back after this second letter to the collection agency. They will either remove it or not respond.
7. If they do provide a contract with a signature from the original creditor showing that you owe the debt, there is one more thing you can try: see if they are legally licensed to collect the debt in your state. Here is a [good site](#) to begin your search.

Not all states require licensing, however. Here's a [little cheat sheet](#) (Word Doc) to see what the collection licensing laws in your state are. It's got a bunch of other handy dandy state law information as well.

If you believe that they are not licensed and licensing is required in your state, write them another letter and tell them they are in violation of your state's collection laws and are subject to prosecution and fines. (You'll have to cite your state's fines and procedures here. This is a last ditch effort, but has worked in some cases.

8. **Typically, your work will stop here, as most collection agencies will bow down to your demands and send you a letter agreeing to remove the listing. Now all you have to do is send a copy of the letter to the CRAs.**
9. If the collection agency did not agree to remove the listing, then you need to move on to the next steps.
10. [File a lawsuit in small claims court](#) against the collection agency on the basis of violating the [FDCPA](#).
11. Have the papers served to the collection agency. (You can find a paper server on the internet for about \$25). [Here](#) is a good link. And here is another: <http://www.1-800-serve-em.com/servicemap.html>
12. **In the meantime, in a parallel effort with your [lawsuit against the collection agency](#):**
13. If the collection comes back as "verified" from the credit bureaus, you now have proof of further collection activity from the collection agency (as the assumption is that the credit

bureau contacted the collection agency to verify the debt). Since the collection agency did not validate the debt, further collection activity is a violation of the FDCPA.

14. Contact the credit bureaus, and tell them that the creditors did not verify the debts under the [FDCPA](#), and send copies of your proof. Request the method verification, which is your right under the FCRA. It is **crucial** to contact the credit bureaus before filing a lawsuit. Make sure you state that the collection agency did not respond to your request for debt validation.
15. You can try sending them this [letter](#) to see if they will budge. They may tell you that the request needs to come from the creditor. This is baloney. They are basically being an accessory to the collection agency's illegal act of reporting you in the first place, and are teetering on the edge of "willful non-compliance" under the FCRA. Tell them so.
16. File a small claims suit in court on the credit bureaus, on the basis of defamation of character. This is the easiest thing to prove since the fact that a collection exists on your credit report hurts your character.
17. Have the papers served. (You can find a paper server on the internet for about \$25). Here is a great link where you can search for the local office of the credit bureau near you. <http://www.llrx.com/columns/roundup14.htm>
18. Notify the bureaus that you are suing them. You can use this letter. The credit bureaus will call the creditors and find out that there is a question about whether the debt is legitimate. They should delete it immediately. If you want more legal ammo, you might also try looking up similar cases to cite. We have a list of on-line resources here.
19. If you don't want to spend the \$25 to serve the agencies (it is well worth it, though, in my opinion), make sure you note the case number and court in which you filed the suit when you notify the credit bureaus you are suing them.

I hope these tips have encouraged you. Good luck on pursuing financial freedom!

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**Suing in small claims court is often called the "poor man's class action lawsuit."**

You know the old sayings, "Money talks" and "Vote with your dollars." Well, most companies (the credit bureaus and creditors included), are not going to change their ways unless it is in their best interest to do so. All of these companies have stockholders to report to, so if one of their practices is costing them a better bottom line, you better believe they will act to change their ways. One of these ways is for you the consumer, to take action legally against these companies when your rights have been violated.

**Profit while helping others**

The best news is that typically, each violation can be a \$1,000 fine, so it's money in your pocket. In addition, you are going to help make someone else's life better by suing someone who has broken the law. If everyone took action when their rights were violated, the credit bureaus would lose a fortune in legal disputes. It's time to protect your rights as a consumer as well as protecting the rights of your fellow United States citizens.

**So Who Can You Sue and What Can You Sue For?**

<b>Who</b>	<b>Why</b>	<b>Precedent/Law</b>	<b>Fine</b>
Creditors if they report your credit history inaccurately	Defamation, financial injury	US Court of Appeals, Ninth Circuit, No. 00-15946, Nelson vs. Chase Manhattan	Extent of damages incurred by the wronged party as deemed by the courts
Creditors, if you dispute a debt, and they fail to report it as disputed to the credit bureaus	Protection under the FCRA	FCRA Section 623.	\$1,000
Creditors if they pull your credit file without permissible purpose	Injury to your credit report and credit score	FCRA Section 604 (A)(3)	\$1,000
Credit bureaus if they refuse to correct information after being provided proof	Defamation, willful injury	FCRA Section 623  CUSHMAN, v. TRANS UNION CORPORATION US Court of Appeals for the Third Circuit Court Case 115 F.3d 220 June 9, 1997, Filed (D.C. No. 95-cv-01743).	Extent of damages incurred by the wronged party, as deemed by the courts

Credit bureaus if they reinsert a removed item from your credit report without notifying you in writing within 5 business days.	Consumer protection afforded by the FCRA	FCRA Part (A)(5)(B)(ii)	\$1,000
Credit bureaus if they fail to respond to your written disputes within 30 days (a 15 day extension may be granted if they receive information from the creditor within the first 30 days)	Consumer protection afforded by the FCRA	FCRA Section 611 Part (A)(1)	\$1,000
Creditors or collection agencies, and credit bureaus if they try and "Re-age" your account by updating the date of last activity on your credit report in the hopes of keeping negative information on your account longer	Consumer protection afforded by the FCRA	FCRA Section 605 (c) Running of the reporting period	\$1,000
If you dispute a debt, the collection agency fails to report it disputed to the credit bureaus	Protection under the FDCPA	FDCPA Section 807(8)	\$1,000
Collection agencies if they do not validate your debt yet continue to pursue collection activity (file for judgments, call or write you)	Consumer protection afforded by the FDCPA	FDCPA Section 809 (b),  FTC opinion letter <i>Cass from LeFevre</i>	\$1,000
Collection agencies if you have sent them a cease and desist letter and they still call you	Consumer protection afforded by the FDCPA	FDCPA Section 805 (c)	\$1,000
Collection agencies if they have not validated your debt and they still continue	Consumer protection afforded by the FDCPA	FDCPA Section 809 (b),	\$1,000

to report to the credit bureaus		FTC opinion letter <i>Cass from LeFevre</i>	
Collection agencies if they: - Cash a post-dated check before the date on the check - Cost you money by making you accept collect calls or COD mail - Take or threaten to take any personal property without a judgment	Consumer protection afforded by the FDCPA	FDCPA 808 Section	\$1,000
If a collector calls you after 9 PM at night or before 8 AM	Consumer protection afforded by the FDCPA	FDCPA Section 805. (a)(1)	\$1,000
Calls you at your place of employment if the debt collector knows or has reason to know that your employer prohibits the consumer from receiving such communication.	Consumer protection afforded by the FDCPA	FDCPA Section 805. (a)(3)	\$1,000
Calls any third part about your debt like friends, neighbors, relatives, etc. However they can contact your attorney, a consumer reporting agency, the creditor, the attorney of the creditor, or the attorney of the debt collector.	Consumer protection afforded by the FDCPA	FDCPA Section 805. (b)	\$1,000
The collection agency can not use any kind of harassment or abuse**	Consumer protection afforded by the FDCPA	FDCPA Section 806	\$1,000
Collector cannot claim to garnish your wages, seize property or have you arrested ***	Consumer protection afforded by the FDCPA	FDCPA Section 807	\$1,000

<p>Collector must you in a county in which you lived when you signed the original contract for the debt or where you live at the time when they file the lawsuit</p>	<p>Consumer protection afforded by the FDCPA</p>	<p>FDCPA Section 811 (a) (2)</p>	<p>\$1,000  Also a good grounds for getting a judgment vacated</p>
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\*\* (1) The use or threat of use of violence or other criminal means to harm the physical person, reputation, or property of any person. (2) The use of obscene or profane language or language the natural consequence of which is to abuse the hearer or reader. (3) The publication of a list of consumers who allegedly refuse to pay debts, except to a consumer reporting (4) The advertisement for sale of any debt to coerce payment of the debt. (5) Causing a telephone to ring or engaging any person in telephone conversation repeatedly or continuously with intent to annoy, abuse, or harass any person at the called number. (6) Placement of telephone calls without meaningful disclosure of the caller's identity.

\*\*\*If the collection agency get a judgment against you, then they will be able to garnish your wages and seize property, but until that time, no.

## Contacting the credit bureaus

### **Equifax**

Equifax Credit Information Services, Inc  
P.O. Box 740241  
Atlanta, GA 30374  
To order report: 1-800-685-1111  
To report fraud: 1-800-525-6285  
Web site: [www.equifax.com](http://www.equifax.com)

### **Experian (formerly TRW)**

National Consumer Assistance Center  
PO Box 2002  
Allen, TX 75013  
To order report: 1-888-397-3742  
To report fraud: 1-888-397-3742  
Web site: [www.experian.com](http://www.experian.com)

### **TransUnion LLC**

Consumer Disclosure Center  
P.O. Box 1000  
Chester, PA 19022  
To order report: 1-800-888-4213  
To report fraud: 1-800-916-8800  
Web site: [www.transunion.com](http://www.transunion.com)

**\*\* Note: When dealing with Equifax, some states are covered by CSC Credit Services. This is a company that Equifax purchased and still does business under the CSC name. It is OK to deal with them.....However, all initial disputes should go through Equifax FIRST.**

**AND.... Always send verification with your letters of communication. If CSC sends a ‘Verification Letter’ to you, they are STALLING!!! If this happens, send verification to BOTH CSC and Equifax.**

**Verification is a photocopy of your Driver’s License, Social Security Card, an electric bill with your name and address.... Ect. Verification is for YOUR protection, but it is sometimes used as a stall technique by the agencies.**

**Important: Never, ever, ever copy the letters that follow this page.**

These are guidelines only, and meant to get you started. For best results, you want to personalize this process so the agencies do not wrongly conclude that you have hired a professional credit repair organization to represent you. The use of personal language proves that you are emotionally attached to the issues being disputed. You will have better luck if you show emotion.

**Why?**

Approximately 1/3 of all dispute letters are from credit repair clinics..... and the 'Big Three' credit reporting agencies do not like credit repair clinics since they eat into their profits by mass mailing out dispute letters. SO MAKE IT PERSONAL!!

**General Dispute To Collection Agency**

Date

Collection Agent  
Address

RE: Acct. # ...

To whom it may concern:

When living in New Jersey, I received service through \_\_\_\_\_ Telephone Company. During that time, there were numerous billing errors. I kept being mixed up with another family. Though time consuming and aggravating for me, the phone company always found and corrected the errors.

Before moving to New York, I stopped service and paid the final bill. I never thought I would continue to be plagued with \_\_\_\_\_ Telephone Company errors.

I am sure if you speak to a human being and not a computer at \_\_\_\_\_ Telephone Company, there will be a record of the problems we were having with wrong billings. I am also certain you will discover this is not my debt.

Though I was assured by the phone company at the time that my name was not the cause of the errors, I'm not so sure.

I would truly appreciate your assistance.

Sincerely,

Your Name  
Address

**Dispute of Collections Account**

Date

Credit Bureau  
Address

RE: Acct. #...

Dear (Credit Bureau Name):

I have just received my credit report and have noted that it contains erroneous information regarding the following accounts. I would like them deleted from my record:

Collection Account \_\_\_\_\_ This is not correct, please remove.

1st Nationwide Mortgage - This is not mine.

Mobil Oil (acct. # \_\_\_\_\_) When I questioned Mobil Oil about this account, they told me they requested this be removed from my credit report. How were you able to confirm it?

American Express \_\_\_\_\_ This is not mine

Sears \_\_\_\_\_ This was not mine

Lamont Furniture \_\_\_\_\_ This is not mine.

Please re investigate and delete these disputed items. 30 days constitutes a reasonable time to check these out. Please notify me if it takes longer. Please send names and business addresses of those persons you contacted for any verifications Also, as per the Fair Credit Reporting Act, please send me notification that the items have been deleted. Please send an updated copy of my credit report to the following address:

Sincerely,

Name  
Address  
Social Security Number

**Dispute to Collection Agency**

Date

Name \_\_\_\_\_

Collection Agent

Address

RE: Account number \_\_\_\_\_

Dear \_\_\_\_\_:

Your company is showing a collection account number \_\_\_\_\_, on my credit report that I have no knowledge of. You are listing the client as \_\_\_\_\_.

Please explain this account and who your client is. I do not agree that this belongs to me and this is the first I have heard about it.

Your cooperation in this matter is greatly appreciated.

Yours truly,

Name

Address

**Negotiating a Settlement**

Date

Creditor  
Address

RE: Account # \_\_\_\_\_

Dear Creditor:

I am writing to request assistance in correcting erroneous information pertaining to my accountant # \_\_\_\_\_ shown on my credit report.

I was involved in a traumatic divorce which necessitated leaving my home. All outstanding accounts were to have been taken care of in the proceedings.

With changes to my address and marital status, perhaps any billings that were sent, concerning unpaid accounts, missed me.

While trying to rebuild my life, I discovered these accounts such as yours that were never settled. I am trying to correct my credit after going through this set back by trying to settle these accounts, and doing the best I can.

The outstanding account # \_\_\_\_\_ has a balance of \$2296.00 which is a large sum for me at this time.

I am writing to inquire if there is any hope for a reduced amount to satisfy the account in full. In this way I may realistically be able to settle this outstanding balance with you.

I am also concerned about the negative information now on my credit file. I am advised this negative information you have placed on my files could remain in my credit reports for 7 years after payment is made. However, I have the right to remove any information from this credit report through the suppliers of information.

I am requesting, because of my horrible situation, your company notify the Credit Bureaus to delete this account from my files when paid in full, as it does not reflect my personal willingness to pay my debts.

Thank you in advance for your attention to this unfortunate situation.

Sincerely,

Name  
Address

**Negotiating a Settlement with Utility Companies**

Date  
Regional Utilities  
Address

To whom it may concern:

Please be advised that this correspondence is an effort to once again satisfy the obligation listed with your company as account number \_\_\_\_\_ and with (Credit Bureau Name) as account number \_\_\_\_\_ in the amount of \$\_\_\_\_\_.

You state, "In order for us to maintain the integrity of all the accounts that we refer to Equifax, we will only cancel accounts if they have been referred due to an error on our part."  
I doubt that this is the first time a meter was not transferred from one owner to another correctly.

My request does nothing to breach your integrity concerning other accounts with(Credit Bureau Name).

It is the popularly held standard that the Fair Credit Reporting Act concludes that paid collection accounts may be reported for seven years from the date of last activity. Thus, if a consumer, such as myself, were to pay off a debt, one would be burdened with the negative trade reference for an additional seven years above and beyond that time which may have already passed.

It is my goal to be free from an additional seven years of negative credit data pertaining to this account. In my last correspondence dated \_\_\_\_\_, ( see enclosed copy), I requested your assistance in putting this error to rest by making payment, even though I was not the recipient of the services being billed for. I thought I had made it clear chat this proposal is being made only for the purpose of compromise and is not in any way to be construed as an admission of any liability, wrongful or negligent conduct or bad faith on the part of either party.

Accordingly, I am again requesting your help in deletion of this account from my credit reports when payment in full is received as this is not accurately portraying what happened. In this instant matter, your company will collect the obligation in full and I will face no more of a credit reporting burden than that already sustained.

Sincerely,

Name  
Address

## Negotiating Settlements with Creditors

Date

Creditor  
Address

RE: Account # \_\_\_\_\_

Dear Creditor:

I am writing in an attempt to settle the account you are listing under my name and social security number.

I agree \_\_\_\_\_ Company should have been paid for service rendered but I do not agree with this being on my credit report as a bad debt. I would like to put this account to rest as I hope you would. I did not use your services but am negligent in not making certain the person buying the residence had changed the billing from my name to his. I never received a statement or overdue notice. I no longer was living in the home so I had no reason to suspect a payment problem.

My concern is if I made payment to you in an attempt to stop negative reporting to the credit bureau, the balance in my credit file would show Zero PAID COLLECTION, and then those negative ratings would continue for another seven years.

This would be wrong as it is not a true indicator of my willingness or ability to pay debts. I believe I am caught in the computers and a credit reporting system that does not tell what truly has happened.

I am requesting your help in deletion of this account from my credit reports when payment in full is received as this does not accurately portray what has happened. I have been informed by reputable source that this can be done and is within the purview of the law.

I look forward to your prompt attention to this matter and an expedient favorable resolution.

Sincerely,

Name  
Address

**After NO RESPONSE from a Credit Bureau**

Date

ATT: Consumer Assistance

Credit Bureau  
Address

RE: \_\_\_\_\_ Social Security Number

Dear (Credit Bureau Name):

On March \_\_\_\_\_ and April \_\_\_\_\_, I sent you letters requesting items be investigated on my credit report. (see enclosed copies).

As of yet I have not received a response from you. Under the Fair Credit Reporting Act you are required to respond within a "reasonable period of time."

I am sending this letter certified so I will know you did receive it. In this way I will have no option but to pursue my legal rights if I do not receive a response.

Sincerely,

Signature  
Name  
Address  
Social Security Number

## Disputing Specific Items and Inquiries

Date

Credit Bureau  
Address

RE: Acct. #...

Dear (Credit Bureau Name):

Going over my credit report I have found it has many errors. I request your investigation of the following:

1. Sears I spoke with Sears again to verify my records. They confirmed this as my account and that there were no late payments to this account. They will draft a letter if needed to correct this error. Please contact this creditor
2. Foreclosure 5/92 I did not have a foreclosure in 1992 or since then. Please remove this.
3. Collection Account \_\_\_\_\_ I have tried to get to the bottom of this with the information your company supplied. How are you able to confirm when I cannot? (See enclosed copy). This is not mine. Please remove this.

The consumer has no protection against automobile salesman who are not concerned about a persons credit report or what problems multiple inquiries can cause. Your credit bureau has legal responsibility in this matter. There should be more supervision on access to credit files by salesman with these dealerships.

I did not authorize the following inquiries and demand they be remove from my file:

1. GMAC There are 4 different days in November of 19\*\* . Why would this be? Please remove 3 of these entries. I only authorized one time.
2. Nissan Motor Acceptance Corp. I only authorized one. Please remove the other 4 entries.

These listed accounts are not my debts nor my authorized inquiries. Please correct this by the removal of these items from my credit report. Please send a copy of my corrected possible to my address listed below.

Sincerely,

Your Signature  
Name  
Address  
Social Security Number

**Request a Reinvestigation of Items Still on Your Credit**

Date

ATTN: CUSTOMER RELATIONS DEPARTMENT  
Credit Bureau  
Address

Dear (Credit Bureau Name):

I have been around and around with your company regarding the errors which I have. And they continue to remain in my consumer credit report.

I am again noting that problems have been discovered and they continue to remain unresolved. I don't know how to better state my problem nor do I know how to correct the errors.

The following accounts are not mine.

Account Name & Numbers

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Since you have not given me names of persons with their business addresses that you contacted for re-verification of the information, so that I could follow up as I requested, I assume that you have not been able to verify the information I have disputed.

If this problem continues and I am forced to seek some form of professional assistance, you have been forewarned of the harm which this problem is causing me.

I shall assume that 30 days constitutes a "reasonable time" to complete these actions unless you immediately notify me otherwise.

Send me an updated copy of my credit report with these items deleted.

Thanks,

Signature  
Name  
Address  
Social Security Number

**When Credit Bureau's Request More Information**

Date

ATTN.: CUSTOMER RELATIONS DEPARTMENT

Credit Bureau  
Address

RE: Investigation of credit file.

Dear (Credit Bureau Name):

On \_\_\_\_\_ (date), I wrote to (Credit Bureau Name) at this address and filed a dispute of information in my credit report. This dispute indicated that the information was in dispute and identified the data from the language used in the credit report.

I also gave my address and copy of my drivers license. And I've enclosed those documents again now.

Please expedite my original request dated \_\_\_\_\_. It has now been 14 days and I am still burdened with inaccurate credit reporting.

Sincerely,

Signature  
Name  
Address  
Social Security Number

### **How to Speak with Representatives from the collection agencies.**

When you contact a person by phone always ask them what their name is and write it down. This helps put you in control and keep accurate records.

"Hello, who am I speaking with? My name is \_\_\_\_\_ and I would like to speak to someone about my account, please."

"My account number is \_\_\_\_\_"

"My social security number is \_\_\_\_\_"

Be aware that your creditor is reviewing your credit report and knows you are in trouble. During your conversation always maintain your composure and be humble, (even if you want to yell).

Listen to what they have to say and don't offer any information.

You want to find out your balance, the interest owed, penalties and your past due amount.

Key points to emphasize and go back to during conversation:

"My intentions are to honor this debt"

"My economic situation has changed since our agreement"

"Please work with me so I can realistically make payments"

"I would rather do it this way instead of going bankrupt"

"This is an effort to pay my debt"

"This is only a temporary situation"

#### **Your goals are:**

To get the interest lowered or stopped.

To stop penalties.

To establish a payment plan you can realistically maintain.

Always use "please" and "thank you". Always keep you composure

If you get lost or feel you are loosing control, just excuse yourself by saying:

"Excuse me (persons name), may I have your phone number and extension. I have a small emergency and will need to call you back. When would be a good time?"

**Attempt to Validate Debt.**

Under the Federal Debt Collection Practices Act, you are allowed to challenge the validity of a debt that a collection agency states you owe to them. Use this letter and the following form to make the agency verify that the debt is actually yours and owed by you. Keep a copy for your files and send the letter registered mail.

Your Name  
123 Your Street Address  
Your City, ST 01234

ABC Collections  
123 NotOnYourLife Ave  
Chicago, IL

Date:

Re: Acct # XXXX-XXXX-XXXX-XXXX

To Whom It May Concern:

This letter is being sent to you in response to a notice sent to me on September 30, 2002). Be advised that this is not a refusal to pay, but a notice sent pursuant to the Fair Debt Collection Practices Act, 15 USC 1692g Sec. 809 (b) that your claim is disputed and validation is requested.

This is NOT a request for "verification" or proof of my mailing address, but a request for VALIDATION made pursuant to the above named Title and Section. I respectfully request that your offices provide me with competent evidence that I have any legal obligation to pay you.

Please provide me with the following:

- **What the money you say I owe is for;**
- **Explain and show me how you calculated what you say I owe;**
- **Provide me with copies of any papers that show I agreed to pay what you say I owe;**
- **Provide a verification or copy of any judgment if applicable;**
- **Identify the original creditor;**
- **Prove the Statute of Limitations has not expired on this account**
- **Show me that you are licensed to collect in my state**
- **Provide me with your license numbers and Registered Agent**

At this time I will also inform you that if your offices have reported invalidated information to any of the 3 major Credit Bureau's (Equifax, Experian or TransUnion) this action might constitute fraud under both Federal and State Laws. Due to this fact, if any negative mark is found on any of my

credit reports by your company or the company that you represent I will not hesitate in bringing legal action against you for the following:

- Violation of the Fair Credit Reporting Act
- Violation of the Fair Debt Collection Practices Act
- Defamation of Character

If your offices are able to provide the proper documentation as requested in the following Declaration, I will require at least 30 days to investigate this information and during such time all collection activity must cease and desist.

Also during this validation period, if any action is taken which could be considered detrimental to any of my credit reports, I will consult with my legal counsel for suit. This includes any listing any information to a credit reporting repository that could be inaccurate or invalidated or verifying an account as accurate when in fact there is no provided proof that it is.

If your offices fail to respond to this validation request within 30 days from the date of your receipt, all references to this account must be deleted and completely removed from my credit file and a copy of such deletion request shall be sent to me immediately.

I would also like to request, in writing, that no telephone contact be made by your offices to my home or to my place of employment. If your offices attempt telephone communication with me, including but not limited to computer generated calls and calls or correspondence sent to or with any third parties, it will be considered harassment and I will have no choice but to file suit. All future communications with me MUST be done in writing and sent to the address noted in this letter by USPS.

It would be advisable that you assure that your records are in order before I am forced to take legal action. This is an attempt to correct your records, any information obtained shall be used for that purpose.

Best Regards,

*Your Signature*  
Your Name

# Cease & Desist Letter

This makes collection agencies 'Go Away'

Your Name]  
[Your Mailing Address]  
[Your City/State/Zip]

Certified Mail, Return Receipt Requested # [Insert the Certified Mail Receipt Number here]

[Insert Date of Mailing]

[Insert name of collection agent, if available]  
[Insert name of collection agency]  
[Insert address of collection agency]  
[Insert City/State/Zip of collection agency]

REF: Account # [Insert either the original account number or the collection agency's account reference number here]

Dear [Insert name of debt collector calling--if available--here]:

1. You are hereby notified under provisions of **Public Laws 104-208**, also known as the ***Fair Debt Collection Practices Act***, that your services are no longer desired.
2. You and your organization must **CEASE & DESIST** all attempts to collect the above debt. Failure to comply with this law will result in my immediately filing a complaint with the Federal Trade Commission and the [Insert your home state here] Attorney General's office. I will pursue all criminal and civil claims against you and your company.
3. Let this letter also serve as your warning that I may utilize telephone recording devices in order to document any telephone conversations that we may have in the future.
4. Furthermore, if any negative information is placed on my credit bureau reports by your agency after receipt of this notice, this will cause me to file suit against you and your organization, both personally and corporately, to seek any and all legal remedies available to me by law.
5. Since it is my policy neither to recognize nor deal with collection agencies, I will settle this account with the original creditor.

Give this matter the attention it deserves!

And have a nice day.  
**[Sign your name here]**

**[Insert your name here]**

## Method of verification - secret credit repair tool!

Everyone, it seems through mass media coverage, knows how to dispute negative credit listings on your credit report. This is a good thing. However, many people are foiled in their disputes because of the way the credit bureaus "investigate" the disputes.

If you get a notice from your the credit bureaus telling you the information you disputed has been *verified* as accurate, you can request the *method of verification*, which is your right under the FCRA section 611 (a) (7). The credit bureau must give you this information within 15 days of the request.

### Why the CRAs are not doing their job

Each credit reporting agency has a different process for handling credit report disputes, but all three use a similar system. The three bureaus collaborated through their trade organization to automate the entire reinvestigation process using an online computer program, E-Oscar.

All disputes received by the credit bureaus are done via written letter, the telephone or the credit bureaus online dispute service. Even if the credit bureau receives a written dispute highly detailed and with documentation, each dispute is reduced to a two-digit code - the best guess of a minimum wage employee.

Under the FCRA, the credit bureaus are required to send the information on to the furnisher of the consumer's account (in other words, the original creditor), but all they receive is the two-digit code.

According to [testimony](#) from Leonard A. Bennett, Testimony Before Subcommittee on Financial Institutions and Consumer Credit of the Committee on Financial Services Regarding "Fair Credit Reporting Act: How it Functions for Consumers and the Economy," June 4, 2003, Leonard A. Bennett P.C. on behalf of the National Association of Consumer Advocates (<http://www.naca.net>):

The employees of all three CRAs operate under a quota system whereby each employee is expected to process all of the disputes of an individual consumer in less than four minutes. Worse still, the "codes" used by both the CRAs and their subscribers (the furnishers) are limited in number and rarely describe the actual basis for the consumer's dispute.

For example, in two of my recent cases, both identical, consumers wrote dispute letters to all three bureaus. The disputes were conveyed in great detail and explained that the consumers were not responsible for the disputed accounts and that any signatures claimed to be theirs were forgeries. Each consumer dispute letter also enclosed copies of handwriting exemplars such as signatures on driver's license, military IDs and other credit cards. <Name omitted> had also obtained a copy of the forged note and included it in his dispute letter. When Equifax and TransUnion received the letters, their employees

simplified the disputes to a code and the description "not his/hers." The [two-digit code indicating "not mine"] was all the furnishers received.

In a deposition taken in a Pennsylvania case, TransUnion's responsible employee explained the CRA's "investigation procedure."

**Q.** [T]he dispute investigator looks at the consumer's written dispute and then reduces that to a code that gets transmitted to the furnisher?

**A.** Yes.

**Q.** Does the furnisher ever see the consumer's written dispute?

**A.** No.

**Q.** Are there any instances in which the dispute investigator would call the consumer to find out more about the dispute?

**A.** No.

This is consistent with CRA testimony in every other case of which I am aware. The Bureaus do not convey the full dispute or forward any of the documents to the furnishers. As an expected result, nearly all consumer disputes are verified against the consumers.

## **My Experience**

So how do you go about requesting *method of verification*? I'll tell you about my own experience with a bogus tax lien which had appeared on my credit report.

I was refinancing my house and my loan officer called to tell me I was approved **but** I would have to pay off my \$5000 Missouri state tax lien. *Excusez-moi???* I have never lived in Missouri, so I wouldn't have needed to pay state taxes (you have to be employed in Missouri for this to happen); therefore, it was impossible for this lien to be mine. I explained this to the loan officer (who happened to be a friend of mine for many years). As you can imagine, I was extremely embarrassed.

## **The conversation with Equifax**

I called Equifax (the CRA who had this listed) and disputed the tax lien. To my surprise, it came back "verified". I called the toll-free number listed at the top of the report sent to me by Equifax and asked for method of verification. The response: "We have documentation."

"What kind of documentation do you have?" I asked.

"Documentation."

Silence followed. "Who did you call? Did you call the county clerk?"

"We never call the original creditor," the Equifax employee responded.

"Never?"

"No, Ma'am."

Stuttering in surprise, I asked for the number and name of the court house. With disgust so palpable that I could feel it through the phone line, I was given the name and number of the Missouri courthouse.

### **My own investigation efforts**

Naturally, I immediately called the Missouri courthouse, asked for the records clerk and explained the situation. The very nice woman on the other end of the phone said, "Well, I can tell you that no credit bureau has ever called here." She then asked for my social security number and name and after comparing them, "Honey, the social security numbers aren't even close! This definitely isn't yours."

I breathed a sign of relief and asked, "Can I get a letter from you stating this tax lien isn't mine?"

"I'm afraid we can't do that, as this information is private. The tax lien isn't yours."

"Can I give Equifax your name and number and have them call you so you can tell them what you told me?" The clerk assured me that would be fine, and I wrote down the information.

### **Forcing Equifax to comply**

I called Equifax back, and recounted what the clerk had just told me. I then insisted that Equifax call the clerk to verify what I had said. "Oh we can't do that," was the reply.

"You better do that, or I will sue you for willful non-compliance with the FCRA. You are required to investigate my dispute, and consider all information."

"Does this mean you want to open up a new investigation?" I held back the expletive which was on the tip of my tongue, and replied that yes, I did want to open a new investigation. I gave her the clerk's name and direct line. I was given a new confirmation number for my dispute.

### **The Results**

10 days later I received a letter from Equifax that the account was removed from my credit report. My loan went through.

## The Method

After this experience, I did a little more investigation on the credit bureau's methods of investigation and someone pointed me to the [Bennett](#) testimony. Based on my own experience and what I learned, I came up with the following procedure which seems to be working for people:

1. [Challenge the listing](#) in the normal way.
2. If verified, with a copy of the investigation result in hand, call the CRA at the toll-free number listed at the top of the report. (If not, you're done, you lucky dog!)
3. Give the report reference number and ask for method of verification per FCRA Section 611(a)(7) .
4. They will have never called the OC (original creditor), but will have relied on a third party database to verify, which they may or may not admit to you. If they can't cite solid evidence like "we called the OC and they verified", ask for OC's phone number.
5. Call OC and ask for the records.
6. If the OC doesn't have them (they will typically tell you that the collection agency has them and they don't keep them), get the person's name and direct line. If they do have them, demand a copy under the new FACTA act.
7. If you are sent records, review them and see how good they are. If they are not conclusive, take the next step.
8. If the OC has no records
  - o Call the CRA back and tell them the OC has no records.
  - o Inform the CRA that they need to open another dispute. The new information for the disput is the name and number of the person to whom you have just called at the OC.
  - o If they refuse, inform them you will sue for willful non-compliance under section FCRA § 616.
  - o If they still refuse, send the information via certified letter along with an [intent to sue letter](#). If not, they will give you a new confirmation number (write it down! and the date!). This acts as a new investigation, and the CRA has 30 days to get back to you.
9. If you have written records proving the OC can't back up the negative listing(s) they are reporting on your credit report
  - o send them registered mail to the CRA along with an [intent to sue letter](#) if the account is not removed.