

Transcript - Avoiding Credit Repair Scams Podcast

This is Carol Kando-Pineda. I'm an attorney at the Federal Trade Commission, the nation's consumer protection agency. One focus of my work is outreach to the military community, giving you tips and tools to avoid scams, watch your wallet, and protect yourself in the marketplace.

In these tough economic times, many people are facing mounting debt and perhaps damage to their credit reports. Today I'm going to share with you the warning signs of a credit repair scam. These crooks may try to convince you there's a fast, easy, overnight solution to credit woes. Well, you can nix the quick fix because there's no such thing as an overnight credit solution. The fact is there's no quick fix for creditworthiness. You can improve your credit report legitimately, but it takes time, a conscious effort, and sticking to a personal debt repayment plan.

The truth is that no one can remove accurate negative information from your credit report. It's illegal.

Alright, so maybe you've seen the ads. They're on TV, the radio, online, you may even get flyers in the mail. They make some pretty big claims. They can, "remove bankruptcies, judgments, liens, and bad loans from your credit file forever." They can "erase your bad credit, 100 percent guaranteed." Or, "create a new credit identity, legally."

Well, first, claims like that are classic signs of a scam. In fact, FTC attorneys say they've never seen a legitimate credit repair operation making those claims. They can't possibly do what they claim because it's illegal. No one can remove accurate negative information from your credit report. So after you pay them hundreds or thousands of dollars in fees, you're left with the same credit report and they've got your cash.

Alright, so here's how to tell if the company behind it is up to no good: They want you to pay for credit repair services before they provide any services. Under federal law, credit repair companies cannot require you to pay until they have completed the services they have promised. They don't tell you your rights and what you can do for yourself for free. Watch out if they don't recommend that you contact any of the three major national credit reporting companies. That's what you should be doing. Watch out if they tell you they can get rid of most or all the negative credit information in your credit report, even if that information is accurate and current. That's illegal.

Be careful if they suggest that you try to invent a new credit identity and then a new credit report by applying for an Employer Identification Number to use instead of your Social Security number. That is a big red flag.

And watch out if they advise you to dispute all the information in your credit report, whether or not it's accurate or timely.

Now, let me just issue a note of warning, here. If you follow illegal advice and commit fraud, you may find yourself in legal hot water, too because it's a federal crime to lie on a loan or credit application, to misrepresent your Social Security number, and to get an Employer Identification Number from the Internal Revenue Service under false pretenses. And that's exactly what these companies are suggesting you do. You could be charged and prosecuted for mail or wire fraud if you use the mail, telephone, or Internet to apply for credit

and you provide false information. So, aside from being a scam, it can really get you into trouble.

Okay, so here's a new twist on these scams, and it's a form of identity theft. So, the ad will say they can get you a new credit identity. So, you pay them, they send you a nine-digit number that looks like a Social Security number. They may call it a CPN, a credit profile number, or a credit privacy number. They'll tell you to apply for credit using the CPN, rather than your own Social Security number. Some lie and tell you that this is actually legal.

Here's what they don't tell you: In many cases, they're selling you someone else's Social Security number, often one stolen from a child. Using a stolen Social Security number to apply for a loan on another person's good credit record is identity theft. Pure and simple. By encouraging you to use the stolen number as your own, the con artists have involved you in their scam. It's a crime to make a false statements. We just talked about that. That includes misrepresenting your Social Security number. If you use the number they sell you, you could face criminal prosecution or civil fraud charges. So, as a result, they've pulled off a double whammy: They've created identity theft headaches for the families of children whose numbers they stole, and by selling you a stolen number to use on a credit or loan applications. They've put you smack in the middle of a federal crime. You really want to stay away from that.

Alright, so there are lots of things you can do on your own, for free, to repair your credit. But you know, it's perfectly understandable. Some people want the help and someone to walk them through the whole process, and you may want to go with a credit repair organization. There are legitimate ones but you need to do some homework before you choose one.

The Credit Repair Organization Act makes it illegal for credit repair companies to make false statements about what they can do for you and to charge you until after they've performed their services. FTC enforces that law, it requires them to give you: a copy of the "Consumer Credit File Rights Under State and Federal Law." Before you ever sign a contract you need to see that. You need to get a written contract that spells out your rights and obligations. That only makes sense.

Now, be careful to read these documents before you sign anything. That's always good advice. Before you sign know some of the dos and don'ts of what they're allowed to do. They can't make false claims. Claims that are illegal. And now you know that they're illegal so you know to look out for them. They can't charge you until they have completed the promised services. That's a big one. A lot of these companies will take your money up front and then they disappear or they pretend to do work for you and you're still stuck with the same problem. They take off with your cash.

Here's a big one, they can't perform any services until they have your signature on a written contract and they've completed a three-day waiting period. That's what we call the "cooling off rule." During this time, you can cancel the contract without paying any fees. It gives you a chance to go back and talk to family and friends, to talk to a lawyer, to talk to an accountant. To talk to a military financial counselor perhaps and get some advice. Call Military OneSource and find out if this deal sounds like it's on

the up-and-up and it's a good company. And if it doesn't, you have any second thoughts within that three-day period, you can cancel it no questions asked.

So, what kind of things—you're supposed to look over this contract—what kind of things are supposed to be in there? It should always be in writing. Don't accept an oral contract. And even a form—they can hand you something that looks like a form—that would still be a contract. You need to read it carefully so you can be sure that it's not just a lot of double talk or fine print.

The contract should always have the payment terms for services, including the total cost. You want to make sure that any hidden fees or recurring charges are factored in there. You want a detailed description of the services the company will perform. You don't want to just see something like, "repair credit," or "get credit reports." You want to know exactly what it is they're going to do for you and what results they're going to get for you.

You want to know how long it's going to take to achieve the result. You don't want to be on the hook for five years if they're going to do something for you that should take only six months. You just want to know how long they say they're going to take.

Do they offer any guarantees? Get it in writing. And make sure the company's full name and address is on that contract. You don't want them pulling a fast one. That's another classic sign of a scam. You may be talking to somebody and it appears that the company's name is this, but you get the contract and the company's name is different or it's nonexistent or it's incomplete. You want to make sure you have the full name and address and contact information so you can always go back and contact people if you have a problem.

And, I'd just like to stress one more time that there's a lot you can do to improve your credit. You can do it on your own, you can do it for free, and military counselors can usually help walk you through that process.

Okay. Say you've hired one of these companies. You think they're on the up-and-up, but you feel like you've been ripped off. What can you do? Well, you have the right to sue them in federal court for your actual losses or what you paid them, whichever is more. You also can seek punitive damages. That's money that punishes them for violating the law. And allows class actions, too, so you never know, there may be other people to join together in one lawsuit if they're ripped off a lot of people. If you win, the other side has to pay your attorney's fees. That's why it's very often a popular option.

In addition to that federal law, many states also have laws regulating credit repair companies. So, contact your local consumer affairs office or your state attorney general. Most of the AGs have toll-free consumer hotlines, so just check the Blue Pages of your telephone directory. You may be able to find a telephone number there. Or if you go to the Association for State Attorneys General, that's www.naag.org, they'll give you a list of state attorneys general and their contact information.

Maybe you need information about legitimate ways to deal with debt? Visit ftc.gov/moneymatters. You'll find lots of information there. You can always file a complaint with the Federal Trade Commission at ftc.gov/complaint.

And don't forget, you can go to Military OneSource for help. This free 24-hour service is available to all active duty, Guard, and Reserve members

(regardless of activation status) and their families. Consultants provide information and make referrals on a wide range of issues.