Improving a Credit Profile

Steps to improving a credit profile

- STEP 1. Order your credit Report
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- STEP 3. Is the personal information accurate?
- STEP 4. Are the tradelines accurate?
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- STEP 6. Use the Debt Validation process for accounts in collection or charge-off status
- STEP 7. Debt Negotiation & Settlement process

STEP 1. Ordering your credit reports

- www.annualcreditreport.com – This is the official free credit report under the FACT ACT. It does not include credit scores.
- You are eligible for one free report from each of the 3 bureaus per year.
- Select the option for the free report (it is not necessary to pay for scores). You will also encounter sales messages trying to sell credit scores and monitoring services for a monthly fee. These are not necessary.

STEP 2. Evaluate & Develop a plan

- What are your goals? Is your need for scores short term (like trying to make a major purchase sometime soon) or long term such as repairing credit and positioning yourself for future family plans?
- What are the extent of the credit challenges?
- Set a realistic timeline for achieving success
- Budget to set aside funds needed to pay down or pay off accounts
- Enlist a non-profit credit counselor for help if challenges seem too overwhelming to tackle on your own

STEP 3. Is the personal information accurate?

- One of the most common problems in a credit profile is the presence of inaccurate or incomplete personal information. This could include:
    - Wrong Social Security Numbers
    - Aliases (nicknames or assumed names)
    - Other people’s names mixed in the report
    - Incorrect addresses or employer information
- If inaccuracies are identified, the consumer will need to dispute these with the bureau to make sure what is being reported belongs only to the consumer.
- For each error, a specific letter should be drafted to each bureau that contains the inaccurate information. It is good to provide as much proof as possible with the letter to substantiate the consumer’s request.
- Keep copies of all letters sent and documentation. The bureau has 30 days to investigate and resolve your request. Once your request has been resolved the bureau will send you a brand new report showing the accurate representation of your credit profile

STEP 4. Are the tradelines accurate?

- The next step is to evaluate each original creditor tradeline for accuracy or missing information. These could include:
  - Duplicate tradelines
  - Missing positive tradelines
  - Balances owing
  - Incorrect monthly payments
  - Late payment or derogatory reporting
  - Missing or incorrect credit limits
  - Wrong account opening date
  - Unlawful re-aging

- As in the previous step, for each error, a specific letter should be drafted to each bureau identifying the inaccuracy and asking the bureau to correct the item. It is good to provide as much proof as possible with the letter to substantiate your request.
- The letter should be sent certified mail (fees will apply) with return receipt requested. Keep copies of call documentation including the receipt indicating when the bureau received the letter (when the 30 day investigation process began).
- You will receive another report from the bureau reflecting the accurate tradelines.
- Steps 3 & 4 can be combined to save time and postage

Consumer Rights pertaining to inaccurate information

- Each inaccuracy can be brought to the attention of the proper credit bureau. The consumer must request that the discrepancy be corrected and the file updated.
- Under the Fair Credit Reporting Act (FCRA), the credit bureau is obligated to investigate each request for a correction
- The bureau must investigate each request dealing with inaccuracies within a reasonable time frame (30 days). The 30-day resolution/investigation period can be extended for an additional 15 days, if the bureau requests clarifying information from the consumer on a specific item.
- Creditors or furnishers of data must forward all relevant information regarding the disputed item to the bureau. If the creditor determines that their reporting is inaccurate or cannot be validated:
  - The bureau and creditor must correct it in each of their data files
  - The disputed information must be deleted from the consumer's credit profile
  - If an item is incomplete, the bureau and creditor must provide complete information
  - If the file shows an account that belongs to another person, the bureau must delete it
- If either the bureau or the creditor deems the consumer's request frivolous, such as when the consumer uses the validation process repeatedly for the same account, a notice must be sent to the consumer. This however, does not preclude the consumer from continuing to pursue all legal avenues to continue the dispute.
- Upon completion of the investigation, the bureaus must provide the consumer with an updates copy of the credit file.
- If an item is changed or removed, the bureau cannot put the disputed information back in the consumer's file unless the information provider verifies its accuracy and completeness and the bureau gives written notice of its intent to reinsert these items.
- If a reinvestigation does not resolve a dispute, the FCRA gives the consumer the right to include a consumer statement detailing their version of the events pertaining to the matter in their profile and this statement must be included in any future credit reports. The statement must be 100 words or less.

STEP 5. Focus on Derogatory Accounts

- These derogatory accounts can include:
  - Bankruptcy
  - Judgments and liens (person, child support, etc)
  - Tax liens
  - Collections, Charge offs and other adverse information
  - Inquiries

- If you owe someone money there are 3 concerns:
  - How long do you owe the money
  - How long can the derogatory information be reported on the credit report
  - How long can the creditor pursue the consumer in the court system to force payment

These three issues are separate and distinct concerns with different time frames and should not be confused with each other

Just because a state may have a statute of limitations for a particular debt that is for example 4 years, does not mean that the debt will drop off the credit report prior to the 7 year +180 day reporting period. Likewise, an item may have dropped off ones credit report per the 7 year + 180 day reporting period, but still might be collectable based on the statute of limitations (if it were for example 10 years).

How long does info remain on my credit profile?

- Inquiries
  - 2 years from the date of the entry
  - If the consumer questions an inquiry on their report, they have the right to dispute it. See sample letters in resource section.
- Tax Liens & Federal or federally guaranteed student loans
  - Unpaid Tax liens & Federal Student Loans remain on the credit report indefinitely. Once paid, they remain for 7 years from the date of payment. Payment can be in full or at a lower negotiated amount depending on the situation. Upon satisfaction, a copy of the release of lien from the tax authority should be forwarded to the bureaus.
- Bankruptcy
  - Dismissed (never completed) bankruptcies (both 7 and 13) remain for 10 years from the date of filing.
  - Discharged Chapter 7 bankruptcies remain on a credit report for 10 years from the filing date
  - Discharged Chapter 13 bankruptcies remain for 7 years from their filing date
  - There is no way to negotiate the removal of a bankruptcy from a consumer’s credit profile. This is a public record item. Accounts that were included in the bankruptcy should be coded as such on the tradeline and show a zero balance owing. To correct the status or balance owing the consumer must obtain a letter from the original creditor stating the account was included in the bankruptcy and now has a zero balance. This letter should be sent to all 3 bureaus for correction.

- Collections, Charge offs and other adverse information
  - 7 years plus 180 days from the date of the original delinquency
  - The re-aging of collections accounts once sold by the original creditor is an invalid practice according to the Fair Credit Reporting Act
- Judgements and Liens
  - From the date of the judgement, 7 years or until the state statute of limitations has expired, whichever is longer.
  - Judgements and liens need to be satisfied to obtain a mortgage loan. Satisfaction does not necessarily require payment of the entire amount. Parties will negotiate a settlement for less than the amount owed on a case by case basis. The consumer should forward the satisfaction or release to the bureaus to correct the status.
- Other reporting issues:
  - **Divorce**: A divorce decree does not supersede the original contract with the creditor. The consumer is not released from legal responsibility regardless of what a judge may order. To release a consumer from a contracted liability, the consumer must contact each creditor and request a formal written release of that obligation. Creditors rarely release parties from debt obligations as this action would limit their ability to collect from all parties. Immediately after a divorce, a consumer should forward a copy of the divorce decree to each creditor to give notice that the consumer is not responsible for any new debts beyond the divorce date. The best way to ensure that formerly joint accounts do not effect your credit profile is to have each person agree to refinance joint accounts into the responsible party's name.
  - **Balance Reported**: Creditors report information on a periodic basis, so the balance reported may not be the actual balance the consumer believes they owe.
  - **Paid in full**: Creditors report history on both open and closed accounts. Paying an account in full (to a zero balance) does not remove that account from the consumer's credit profile.
  - **Cosigned Obligations**: When the consumer cosigns with another consumer, the account appears on both party's credit report. If the primary borrower does not pay, the cosigner will be obligated to pay the debt. The derogatory information will also appear on both credit profiles.

State Statute of Limitation

- The statute of limitations on debt is the legal time limit after which enforcement of a debt through the court system is no longer permitted. However, even if the statute of limitations has expired, anyone can sue for satisfaction (but once the statute of limitations has expired, the likelihood of success is minimal). The statute of limitations does not apply to all types of debts.
- The statute of limitation depends on the type of debt and each state's debt collection laws. Some debts are not subject to the statute of limitations such as:
    - Federal Student Loans
    - Most Types of Fines
    - Past Due Child Support (state dependant)
    - Taxes
- A debt collector will negotiate differently on the amount owed depending upon how long the debt has been outstanding and how long until the expiration of the state's statute of limitation.
- Paying a debt after the statute of limitations has expired will not cause the debt to disappear from the credit report prior to the reporting period.
- A debt may not appear on a consumer's credit report but still could be collectable depending on the state statute of limitations.
- If a consumer enters into an agreement to repay a debt, and misses a payment, it can reset the statute of limitations date for that debt.

Washington Statute of Limitations

- Oral Contracts- 3 years
- Written Contracts- 6 years
- Promissory Notes (Mortgages & car loans) – 6 years
- Open-ended accounts (credit cards) – 3 years
- Judgements – 20 years

STEP 6. The Validation Process

Debt validation may be the most powerful but least used strategy in resolving credit issues. Validation is simply asking the third party (debt collector/law firm/collection agency etc) to show proof that the consumer has a valid debt and that the debt collector has a legal right to collect on that debt. Consumers are often threatened with lawsuits, judgments or wage garnishments and agree to pay a third party who has no legal right to collect.

When a collection agency is hired or has purchased a debt, they are NOT referred to as the original creditor. They are the debt collector and are subject to the laws governed by the Fair Debt Collection Practices Act (FDCPA).

The debt validation process is not intended to help consumers avoid paying their debts. It is intended to make sure that the debt is the obligation of the consumer, and is being reported with the correct dates and balance owing. Do not validate a debt for a collection agency by giving them too much information. Force them to validate the debt for the consumer as they are legally required to do.

The Validation Process

- 1. Send a letter to the debt collector requesting validation (see sample letters). The letter should request the following:
    - Who was the original creditor on this account and what was the account number?
    - What was the original amount owed? Please include a complete payment history, starting with the original creditor.
    - Please provide me documentation that indicates that I agreed to pay someone this sum of money.
    - What was the original date of delinquency for this account?
    - Agreements that grants you the authority to collect on this alleged debt or proof of acquisition by assignment.
    - Provide proof your organization has a license to collect debt in the consumer's state
    - What did you pay for this account, and how did you calculate the current amount owed?
- 2. Copy the letter to the credit bureaus indicating the consumer is disputing the debt. This gives the bureau notice of an error on the consumer's report and starts the 30-day clock to remove the entry if not valid. The consumer should keep their certified mail receipt to notate the date each party receives the validation letter.
- 3. Wait 30 Days to hear from the debt collector.
    - A. If no response is received send a letter (See sample letters) to the credit bureaus, attach a copy of the consumer's original letter requesting validation, and demand the disputed item be removed from the credit profile, and request that the debt collector cease collection of the debt per FDCPA Section 809(b).
    - B. If they respond with a simple affirmation that the consumer owes them money, but fail to provide the consumer with the requested validation information, send another letter notifying them that they have failed to provide the required documentation, and that they have 15-days to provide the previously requested documentation.
- 4. After the additional 15-days if the documentation requested is still not provided, and the debt remains un-validated the consumer should request in writing that they remove the item from the credit profile per the FCRA. Copies of this demand should be sent to all 3 bureaus at the same time.
- 5. If the debt is not validated and the bureaus fail to remove the item, a complaint should be filed with the FTC and the consumer should be prepared to file a lawsuit for willful noncompliance.

Other Debt Collection Information

- The consumer is not being difficult but rather cautious in making payments to anyone just because they make a claim. Get proof. All 3 of the bureaus use what is called "E-Oscar" to initially validate a debt. E-Oscar is an automated process and does not satisfactorily validate the debt per the Fair Credit Reporting Act (FCRA).

- If a debt is not validated:
  - The debt cannot be collected
  - The consumer can no longer be contacted about the debt
  - The debt can not be reported

STEP #7. Debt negotiation & Settlement process

Now that you have a complete and accurate picture of your credit profile, how much you owe and to whom, you can direct your attention to the obligations that require payoff, or negotiation and settlement.

- Debt negotiation outcome is dependent upon the type of debt, amount owed, level of delinquency, age of delinquency, creditor and the persuasive ability of the consumer.
- Be careful entering into payment plans. The majority of these plans fail. Your best outcome is a lump sum settlement. Any repayment plan needs to be realistic and reasonable in order to be sustainable.
- Sometimes creditors are willing to accept less than the balance owed, which is referred to as a settlement. It is important to get all settlements in writing from the creditor, along with the agreement that once the amount is paid the creditor will report that account "paid in full with a zero balance."
    - Some creditors will report the account "settled for less than the full amount" this is considered derogatory on your credit report.
    - Additionally, some collection agencies will agree to settle and then hire another collection company to collect the unpaid balance.
- Debt collectors will negotiate differently on the amount owed depending on how long the debt has been outstanding and how long until the expiration of the state's statue of limitations.
- Prior to starting the negotiating any settlement it is important to determine how much money you have set aside to meet any negotiated settlement amounts. Negotiate in good faith.
- Make sure to retain all settlement offers, proof of payment and settlement letters until the statute of limitations has expired to prevent another debt collector from attempting to collect additional monies.

How they negotiate and their strategies

- Depending on whether the party trying to collect the debt is the original creditor, a first contingency collector organization or law firm, or some subsequent third party type of debt collector, they will have different negotiating motivations.
- Original creditors are usually well within any state's statue of limitations and therefore are not as likely to negotiate the balance owed. They commonly will reduce the interest rate on the debt, waive or reduce penalties, freeze the account from new purchases and structure a payment plan on the adjusted balance owed.
- Contingency collectors have a working partnership type agreement with the original creditor to share in the proceeds of any settlement they are able to collect. These types of collectors are involved early in the collection process and understand that the value of the obligation will diminish as the state statue of limitations deadline approaches. They will sell their right to collect, with the original creditor's permission, prior to the statute of limitations date. This type of debt collector may agree for a reduced payoff.
- Third party collectors include first tier national collection agencies, as well as any subsequent debt buyer or debt collectors, who purchase the right to collect on a debt from contingency collectors and original creditors.
- If the right to collect the debt is still within the statute of limitations date, the amount they will pay for the debt is greater than if the statute of limitations date has already expired, because they have lost their right to pursue payment of the debt in court. These types of collectors are much more likely to accept substantial reductions in the balance owed, as they bought the debt for pennies on the dollar.

How to Negotiate

- Prior to a negotiation draft the TERMS AGREEMENT letter (see samples) that can be immediately forwarded directly to the debt collector when you are on the phone.
- Keep a conversation log of the date and who you speak with
- Save all documents relating to the account
- Always get agreements in writing
- Send all communication via certified mail
- Do not talk too much
- Do not let the debt collector know your motivation to pay (example buying a house)
- Be firm, but do not threaten or use offensive language
- Do not disclose where you work or bank
- Do not threaten bankruptcy

Negotiation Script

- Ask.. "Do you have the authority to negotiate on behalf of your company to settle this debt, and if not I will wait until I can speak with someone who has such authority."
- Explain… "I am able to offer you ____ to settle this debt today, and only today. I have limited funds with which to settle my obligations. If you choose to say no to my offer, we will end our conversation and I will call the next creditor in line on my credit report. I am just starting at the top and working my way down one by one."
- If you succeed in your negotiation fill in the sections of your TERMS AGREEMENT letter and say… "I am going to send you a letter restating the terms of our agreement. I can send this via fax or e-mail, which would you prefer? E-mail is probably easiest because you can just print it out on your letterhead."
    - Stay on the phone until they have signed and returned the letter to you
    - Once you have received the letter proceed to send the money as agreed
- If you do not succeed in your negotiation… document the conversation, move on to the next collection account for negotiation. Calendar forward for the next targeted contact date for this creditor.

Tips on how to send money

- Do not send payments by UPS, FED Ex, USPS overnight delivery, Western Union or MoneyGram as this only increases your costs.
- It is recommended to utilize the US Post Office Money Order to make payment on any settlement because any violation would then put the dispute in the Federal Court System.
- Do not put a debt settlement on a credit card.
- Do not use TeleCheck or use any electronic funds transfers or pay by phone. This gives the collector access to your bank account and routing numbers
- Do not sent a post dated check. Do not pay by personal check.

Desired Negotiation Outcome

- If possible, a complete removal of the tradeline from the credit report
- Reduction of the amount owed
- Removal of derogatory information
- Negotiate for “PAID AS AGREED” with ZERO balance
- Do not allow a re-aging (updating) of the delinquency date
- No new account numbers
- Address the tax consequences to determine if the creditor will be sending you a 1099 for the difference between the settled amount and the actual amount owed. Negotiations could include the creditor agreeing not to send the consumer a 1099.