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### Avoiding Credit Repair and Credit Counseling Scams

With over a million Americans filing for bankruptcy each year, and with household debt at record highs, consumers are reaching out to "credit counselors" and "credit repair" companies with increasing frequency. Although there has been a recent surge in the number of these organizations that are available to offer help to consumers, there has also been an increase in the number of unscrupulous operators who are ready to take advantage of unsuspecting debtors. Following are some tips on avoiding credit repair and credit counseling scams.

#### **Credit Repair Scams**

Every day, companies appeal to consumers with poor credit histories -- promising, for a fee, to clean up their credit reports so they can get a car loan, a home mortgage, insurance, or even a job. The truth is, after consumers pay hundreds (or even thousands) of dollars in up-front fees, these companies do nothing to improve the debtors' credit. Worse yet, many "credit repair" companies simply vanish with the unsuspecting consumers' money.

The red flags that should alert consumers to credit repair scams include:

- The company wants the consumer to pay for credit repair services before any services are provided.
- The company does not inform consumers about their legal rights, and actions they can take themselves -- for free.
- The company recommends that consumers not contact a credit bureau directly;
- The company suggests that consumers try to invent a "new" credit report by applying for an Employer Identification Number to use instead of their Social Security Number.
- The company advises consumers to dispute all information in their credit report, or take any action that seems illegal, such as creating a new credit identity. If consumers follow this illegal advice and commit fraud, they themselves may be subject to prosecution.

#### **Credit Counseling Scams**

As in credit repair scams, some so-called "credit counselors" prey on overwhelmed consumers, promising "a clean slate" (often for a flat, up-front fee). Some counselors promise to contact creditors and convince them to accept lower payments, or to charge lower fees and interest rates. In many cases, unfortunately, the only ones who end up in better financial shape as a result of these "efforts" (or the lack thereof) are the counseling organizations themselves, while the consumers are left with even fewer resources as a result of high fees and more delinquent debts.

There are, however, credit-counseling agencies that are reputable and actually provide valuable services to financially overwhelmed consumers. Tips that can help consumers avoid the scams include:

- Beware of promises that sound too good to be true. Claims of helping you "get out of debt easily" are a red flag.
- Deal with a reputable agency. Check with state consumer agencies and the local Better Business Bureau to make sure there have been no or few complaints against the organization, and that the complaints that have been raised were favorably resolved.
- As a general rule, non-profit credit counseling organizations are the best choices. There are also reputable for-profit companies, but screening the good from the bad will require greater consumer diligence.
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- Verify that the organization provides counseling and education, as well as debt consolidation and payment services, to help consumers achieve financial stability and remain debt-free.
- Carefully read through any written agreement that a credit counseling organization offers. It should describe in detail the services to be provided; the payment terms for these services, including their total cost; how long it will take to achieve the desired results; any guarantees offered; and the organization's business name and address.

- Avoid paying up-front fees. Reputable agencies do not charge big up-front fees, but may take a small monthly fee for a debt repayment service. The initial consultation, however, should always be free.
- Beware of *any* high fees or required contributions, like high monthly service charges, that may add to the overall debt load and defeat efforts to pay off bills.
- Confirm payments with creditors. Some debt repayment services require the consumer to periodically send it one lump-sum check that it divides up among the creditors. Debtors who enter into these types of arrangements should verify with their creditors that the payments are actually being made.

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