

Credit Repair 101: Say No To Credit Repair Companies

Free Mortgage Blog



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Say NO to credit repair companies!

I'm not a fan of credit repair companies. If you're looking to repair your credit, you're doing a great thing for yourself to build your future. But, if you want to buy a home one day, it's paramount that you repair your credit the right way.

At least three times a week, I have to tell a client that they can't buy a house right now because we need to work a little bit on their credit first. The reason they have to wait to buy a home is not because of anything they did wrong themselves. The reason they have to wait is that they've used a credit repair company in the past, and one or several items on their credit report will cause an issue with the mortgage underwriter.

Your credit score is only one part of your credit profile. What's on your credit report and the status it's in is just as important, and sometimes more so than the score itself. When it comes to a home loan, this is critical to know. Credit repair companies don't have a clue what is and what isn't relevant to you qualifying for a home loan one day, and it shows. Only a licensed mortgage broker knows how to build or repair your credit correctly.

The good news is that by working together, my clients and I can get their credit reports looking like they should relatively quickly in the grand scheme of things. But the whole point of this article is my clients would not have had to delay their home purchase at all had they stayed away from the credit repair companies from the start. So, let's talk about why you should say no to credit repair companies.

Money for nothing

The first order of business a credit repair company has is to get you to commit to a contract and a monthly fee. This fee, they say, is to compensate them for repairing your credit. The amount of the monthly fee varies, but in general, it's typically anywhere from \$100-\$300 per month.

If you read the fine print to these repair contracts, you'll see that the majority of the money you've just committed yourself to does NOT go towards your bills, it goes towards administrative fees. Each month only a tiny portion of your contract payment will go towards any of your creditors.

Let's think about this logically, shall we? If you have this kind of money to give someone each month, wouldn't it make more sense to use that same amount to repair your credit yourself?

Tricks and false data

As soon as you've committed to your monthly contract, the very first thing the credit repair company is going to do is make a move that's specifically intended to trick you and provide you false hope. They do this by disputing your accounts.

The algorithm the credit bureaus use to generate your credit score excludes accounts that are in disputed status. Because of this, your credit score will go up. When you recheck your credit, you'll be thrilled to see that your credit scores have risen. In reality, you shouldn't be happy at all because here are the facts:

- The account remains on your report, listed in disputed status.
- A dispute does not negate the fact that you owe the debt.
- Accounts that a mortgage underwriter wouldn't care about are now issues that'll get your loan denied.

Accounts in disputed status are a massive problem as it relates to qualifying for a home loan.

Dragging out your contract

To make sure they're getting paid for as long as possible, credit repair companies will drag out your agreement by setting up payment plans with your creditors. After they've taken their fees, they will use the remaining funds and split it up equally across your debts. So, a \$500 bill will get paid off \$10 per month.

Most people who choose to use credit repair companies do so because they think it'll get done quicker doing so. Using the example above, you can see that you're going to be under contract forever. Paying a debt \$10/month at a time will get you nowhere fast. The only thing getting accomplished is the credit repair company is getting paid very well for a very long time.

Now that you know how this all works, why in the world would you want to pay someone to make your credit worse and stay in debt longer?

Paying a credit repair company to ruin your chances of buying a home doesn't make much sense. We help our clients build and repair their credit profile for FREE.

If you want to buy a house one day and need credit repair, you **MUST** contact a mortgage broker. Only someone who is licensed to know what is and isn't relevant to a mortgage underwriter can help you build or repair your credit the right way.

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