

## The Deception of Predatory Credit Repair Companies

Credit repair companies run a sophisticated and complex scam. Advertising widely in low-income areas and communities of color, these companies promise to “fix” your credit by getting negative items removed from your credit report. Their strategy exploits a provision of the 1970 Fair Credit Reporting Act – language that obligates the credit bureaus to either respond to a consumer’s dispute within 30 days (the 30-day rule)<sup>1</sup> or remove the disputed item from the consumer’s credit report. And herein lies the problem: If the disputed item is, in fact, legitimate and accurate, the removal will only be **temporary**. Any creditor can, by law, re-verify an accurate removed item and have it returned to the consumer’s credit report. For this service, credit repair companies typically charge \$100-\$200 per month, or an upfront fee ranging from \$500-\$1500.

### The Consumer’s Experience of Credit Repair

For consumers, the intricacies of the scam are confounding. Any time an item is removed, accurate or inaccurate, the credit repair company does the same thing: They contact the consumer to report (and celebrate) the removal, never mentioning that it may be temporary. If and when a consumer notices that a previously-removed item has reappeared – and calls to ask why – the credit repair company doesn’t explain the 30-day rule. Instead, they encourage the consumer to KEEP PAYING to get the item off “for good.” Unfortunately, many consumers see credit repair as the only way to “fix” their credit.

### Are Credit Repair Companies Breaking the Law?

Yes, every day credit repair companies violate the federal Telemarketing Sales Rule (16 CFR § 310.4).<sup>2</sup> Called the TSR, it prohibits credit repair companies from requesting or receiving payment for their services until...**“The seller has provided the person with documentation in the form of a consumer report from a consumer reporting agency demonstrating that the promised results have been achieved, such report having been issued more than six months after the results were achieved.”** In other words, consumers should ONLY pay for credit repair upon receiving proof that a disputed item was removed from the report – and STAYED off the report – for six months. Unfortunately, enforcement of this Telemarketing Rule remains a problem.

### What’s happening today?

- Credit repair companies in Illinois are violating the TSR by requesting and accepting either a monthly fee or an upfront fee for their services.

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<sup>1</sup> § 611(1)(a)(A) of the Fair Credit Reporting Act outlines the following procedure: “In general...if the completeness or accuracy of any item of information contained in a consumer’s file at a consumer reporting agency is disputed by the consumer and the consumer notifies the agency directly, or indirectly through a reseller, of such dispute, the agency [credit bureau] shall, free of charge, conduct a reasonable reinvestigation to determine whether the disputed information is inaccurate and record the current status of the disputed information, or delete the item from the file in accordance with paragraph (5), before the end of the 30-day period beginning on the date on which the agency receives the notice of the dispute from the consumer or reseller.” In some cases, the credit bureaus may extend the reinvestigation by 15 days.

<sup>2</sup> The TSR applies to companies that meet the definition of telemarketer. So, if a credit repair company *only* does business over the internet, without any telephone calls as part of the original recruitment/sign-up process, then they are not subject to the TSR and the 6-month rule.

- Credit repair companies are encouraging consumers to pay them indefinitely, not only to remove negative items, but to monitor consumers' credit reports for the return of negative items.
- Credit repair companies are securing clients through "marketing agents" many of which pretend to offer home loans, car loans, or student loans, when in fact they don't sell such products, and exist only to direct business to credit repair companies (for which they receive fees).
- Consumers don't see alternatives to credit repair, largely because credit repair companies market their services aggressively. A Google search for "fix my credit," for example, yields a list dominated by ads placed by credit repair companies.
- Consumers are paying high fees for credit repair when they could be using their money to pay back debt. Good credit doesn't come from *just* disputing negative items; it requires careful management of healthy credit accounts.

### **What can you do?**

Educate consumers about the TSR, and encourage consumers to file complaints against credit repair companies with the [Illinois Attorney General's office](https://ccforms submission.ilag.gov/) (<https://ccforms submission.ilag.gov/>). Consumers can also file complaints with the federal [Consumer Financial Protection Bureau](https://www.consumerfinance.gov/complaint/getting-started/) (<https://www.consumerfinance.gov/complaint/getting-started/>).

Work with the Credit Repair Subcommittee of Financial Inclusion for All Illinois (FIAI) to educate consumers, dispel myths about credit repair companies, and promote state policy solutions to this problem.

Direct consumers to organizations like [Working Credit NFP](#) that offer a free alternative to credit repair.

**For information on how to get involved, please contact  
Tom Walsh at [towalsh@heartlandalliance.org](mailto:towalsh@heartlandalliance.org)**