

Credit Restoration Companies:

Another Option for Borrowers

A low credit score can be a loan officer's biggest frustration when the LO is creating the best loan to suit his or her client. However, when the score just does not fit the puzzle, there are options. Credit restoration companies provide one option that may allow originators to save themselves frustration and to better spend their time preparing loans for other clients with sufficient scores.

By Sherene Costanzo

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How Does Credit Restoration Work?

Credit restoration companies — which should be distinguished from debt management/negotiation companies — rely on the Fair Credit Reporting Act (FCRA) to assist consumers in increasing their credit scores. The FCRA provides that the consumer has the right to question any unverifiable, inaccurate, or erroneous information reported in their credit file with any of the three major credit bureaus. This information may include reporting about collections, late payments, charge-offs, judgments, tax liens, foreclosures, garnishments, and bankruptcies.

Once the credit bureaus are notified of a disputed item on a consumer's report, they have 30 days from the date they are notified of a dispute to verify the item(s) in question with the original creditor. If the original creditor does not verify the account within that time, the delinquent account or late payment must be corrected or deleted from the credit file. At this point, the score will adjust immediately with the three major credit bureaus.

Although consumers can and frequently do choose to dispute and work toward correcting inaccurate information on their own, the process can be very confusing and time consuming. Credit restoration companies present another convenient option — just as people can file their own taxes, but may choose to pay an accountant to provide the service.

In addition to communicating with the bureaus regarding the disputed items, some credit restoration companies also consult with clients on how to obtain and maintain good credit. Also, some companies may help consumers settle accounts that are not removed during the process.

Who Is a Typical Candidate for Credit Restoration?

Typically, a candidate for credit restoration has a credit score below 640 and has negative information recorded in their credit reports. Many clients are in the process of making a major purchase, such as a home or a car. Some may be looking to refinance or take out a loan for home improvements. Regardless of their purchasing goals, good candidates are willing to work toward the goal of improving their credit.

Deciding to use a credit restoration company is a great idea, as the efficiency and experience that the company brings to the process can be of considerable help. However, as with any business it is important to choose a reputable company that provides excellent service and is honest and reliable. Many credit restoration companies advertise directly to consumers via the Internet, newspaper or mailings, while others market to industries that utilize the credit score, such as loan originators, real estate agents and car salesmen. When selecting a credit restoration company, choosing a reputable company with an established track record that is referred by a reliable source is typically a better option than selecting a company based upon its direct advertising.

What's the Cost and How Long Does It Take?

The average fee for credit restoration is around \$400, though some companies charge as little as \$250 or as much as \$800. Be cautious of the companies that charge higher fees because you can basically receive the same service for a lower fee. Also, beware of those companies that may charge monthly fees and drag the process out over a year. Because the credit restoration process can be completed within 90 days, there is no reason to pay a company for a year or more when the same process should be completed for a single fee in three months or less. Do-it-yourself credit restoration kits are also an option for consumers, though many clients do not have the time or patience to do see the process through on their own.

How Effective is the Process?

Credit restoration is extremely effective, although it is practically impossible to determine how much one specific action may affect a consumer's credit score. A change of one factor can impact the score, though the degree of that impact depends upon how it relates to other factors and the history included in the report. For example, a person with a long credit history and several positive accounts will be affected less by five late payments than will a person who has just recently established credit and has only five accounts total, with all five accounts reporting late.

The key to credit restoration is to correct those factors that will most likely boost the client's credit score. However, it is the client's responsibility to remember that building a good credit history over time — by paying bills promptly, having a variety of accounts established, and keeping balances below 40 percent of the credit limits — is the best strategy for having and maintaining excellent credit. For this reason, it is impossible and inadvisable for any credit restoration company to guarantee clients that their credit score will improve, though in most cases it will.

Benefits to Loan Officers

How can the credit restoration process benefit you as a loan officer? It is very simple: the process can help make prospects with low credit scores into clients with a complete, reliable credit report that accurately reflects their credit worthiness.

Instead of tossing the files of prospects with dismal credit scores aside, consider referring them to a reputable credit restoration company. Make sure to follow up with the prospects, which will help assure that they will come to you when they are ready for financing.

The success rate of credit restoration is exceptional; however, when using a credit restoration company, cooperation from the consumer is important. Consumers should know that increases in their credit score cannot be guaranteed, and credit improvement takes time. An educated consumer is the single greatest key to the credit restoration process — and of course, to successful borrowing. •