



June 26, 2002

PERSONAL JOURNAL

Getting a Credit Mistake Fixed Can Be as Costly as the Error

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Special to THE WALL STREET JOURNAL

An inaccurate credit report has never been more dangerous for consumers, but fixing credit errors can be treacherous as well.

Insurers and mortgage bankers increasingly rely on credit scores to determine premiums on policies or interest rates on loans. So any mistake that lowers a consumer's credit score can be costly. An extra one-half of a percentage point on a \$250,000 30-year fixed-rate mortgage can mean more than \$20,000 over the life of the loan.

More than a quarter of credit reports contain mistakes that could result in denial of credit, according to U.S. Public Interest Research Group, a nonprofit consumer-advocacy group -- though the credit-reporting industry says the amount is much lower. Errors can range from a bill wrongly listed as delinquent to outright identity theft. And it is up to the consumer to identify inaccuracies and get the reports fixed.

Correcting errors yourself can mean a frustrating, time-consuming chain of letters and phone calls to credit-reporting agencies, consumer advocates say. "They put you in voice-mail jail," says Edmund Mierzwinski of U.S. PIRG in Washington.

Illegal Tactics

But the alternative, hiring a so-called credit-repair company to do the legwork, can be worse. Regulators warn that all too often such companies use illegal tactics and charge exorbitant fees. Many even promise to fix bad credit -- rather than just correct errors -- but regulators say no one can do that.

WHAT'S IN A SCORE?

Credit bureaus come up with a credit score using a formula devised by research firm Fair, Isaac & Co. The score, called a FICO, can be broken down into five general categories:

"We've never seen a legitimate" credit-repair company, says C. Steven Baker, director of the Midwest region of the Federal Trade Commission. He says his agency has shut down more than 50 credit-repair companies over the past decade. Victims of fraudulent credit-repair companies can see their credit histories suffer additional damage and in some cases face criminal charges as a result of actions taken by the company in their names, Mr. Baker says.

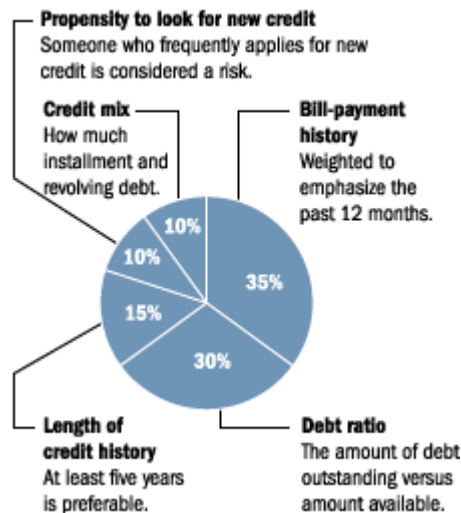
Credit reports track the borrowing and payment habits of anyone who has ever applied for credit. These

CREDIT REPORTS

Experian
<http://experian.com/>¹

Equifax
<http://equifax.com/>²

TransUnion
<http://www.transunion.com/>³



Here are some steps you can take to improve your credit score:

- **Pay your bills on time.** Your bill-payment history is the No. 1 factor affecting your credit score.
- **Keep accounts open.** Instinct says you should close open accounts to improve your credit, but this could actually hurt you. Reporting agencies say a debt-to-available-credit ratio of less than 50% is preferable, and closing accounts will increase that percentage.
- **Get a mix of credit.** Reporting agencies like to see a variety of revolving and installment debt, but most important is establishing some sort of credit history. A person without credit cards is considered a greater risk than someone who manages several responsibly.
- **Fix the mistakes.** Check your credit report at least once every two years and make sure all the accounts listed are actually yours and the report accurately reflects your payment history.
- **Avoid credit-repair companies.** According to the Federal Trade Commission, most use fraudulent techniques that can land you in hot water.

Sources: Fair, Isaac & Co., Federal Trade Commission

she says, "the more possible it is for something to slip through the cracks." The process of clearing up a credit report takes three to eight weeks and costs between \$300 and \$2,500, Ms. Nichols says.

She says Gold Key is a consulting firm and avoids the disreputable techniques used by credit-repair companies.

However, the company was recently the subject of several complaints to the Connecticut attorney general's office, and a spokesman there says the agency is looking into the complaints. Ms. Nichols says she believes the complaints are from former clients with legitimately bad credit who felt the company should have fixed their credit anyway.

The Federal Trade Commission and the credit-reporting agencies say it is best for consumers to handle credit-report errors themselves. Here is how:

reports are kept by three major credit-reporting companies -- Experian, Equifax and TransUnion -- based on information from lenders and merchants. Other lenders then use them to determine whether to issue more credit and under what terms.

Credit-repair companies often claim unique insight into the dispute process and even boast that they can get all derogatory items off a report, according to Mr. Baker. Among the tactics he has seen used: repeatedly contesting accurate items hoping the reporting agencies will eventually fail to meet the 30-day requirement for responding. At that point, the reporting agency must remove the item. Or, Mr. Baker says, companies will establish a new credit history for the consumer through an employee-identification number, a nine-digit number usually used by small businesses for tax purposes. This practice, called "file segregation," is a felony under federal law since it essentially creates a false identity.

Nevertheless, the concept of hiring an expert is attractive to many consumers.

Richard Wahba of Brooklyn, N.Y., says his credit report was tarnished several years ago when someone embezzled money from him. But he found it hard to deal with the reporting agencies himself.

'Relentless'

"I don't have the head for things like that," he says. So he enlisted Diana Nichols, president of Gold Key Consulting in Milford, Conn. Mr. Wahba says it cost him \$2,500 to clear up about a dozen incorrect items. "They were relentless. It was worth the money," he says.

Ms. Nichols says her clients are mostly busy professionals. "The more complicated a person's life is,"

First, get copies of your reports from the three major reporting agencies; reports are available through the agencies' toll-free numbers or Web sites. If you have been denied employment or credit during the past 60 days, the reports will be free. Otherwise, they will cost about \$9 each.

Next, check them for errors. It isn't uncommon for accounts of relatives or people with similar names to show up on the wrong report. Make sure each entry accurately reflects your payments.

Write a Letter

If you find a mistake, write a letter to each agency explaining the discrepancy and include copies (not originals) of documents that support your claim. You can also contact the agencies by phone or e-mail, but you should always create a paper trail. If the information is wrong, the report must be corrected and you can request that a new version be sent to anyone who received your report in the past six months. Rod Griffin, a spokesman for Experian, says the company tries to respond to calls to its toll-free number within 24 to 48 hours. The entire process is "very easy and usually very effective," he says.

Consumer advocates and some busy professionals disagree.

"They just don't have to care and they don't," says U.S. PIRG's Mr. Mierzwinski.

Eric Brown, a business-development officer for a medical company in Denver, says he experienced that firsthand. Someone with a similar name ran up more than \$40,000 of charges in Mr. Brown's name that resulted in his inability to get credit. He says he sent hundreds of documents to the reporting agencies seeking to rectify his report -- to no avail.

"It's like having a truck go back over you and then go forward again," he says of the dispute process. He sued the reporting agencies and ultimately received an out-of-court settlement.

The credit-reporting agencies declined to comment on Mr. Brown's case. But Norm Magnuson, executive director of the Consumer Data Industry Association, a trade group, says 80% of all disputes are resolved within 10 business days. He says fraud cases make up a small percentage of total disputes and frequently take longer to resolve because they may involve law enforcement.

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Updated June 26, 2002 10:45 a.m. EDT

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