



# CREDIT FIX AND DEBT ELIMINATION SCAMS

by Texas Attorney General Greg Abbott

A NEW YEAR OFTEN BRINGS NEW resolutions, and Texans with mounting consumer debt or bad credit ratings may be tempted by services that promise quick fixes to a bad credit problem. Unfortunately, there are no easy ways to remedy low credit scores. If a credit repair or debt relief offer sounds too good to be true – it usually is.

Rebuilding a good credit rating takes time and good financial management. Legitimate credit counseling services and debt repayment plans can offer long-term, practical solutions to debt management. It is critical, though, that debtors distinguish between lawful assistance programs and fraudulent schemes that attempt to take advantage of struggling debtors.

Unfortunately, many fraudulent “debt elimination” and “credit repair” scams charge customers hefty fees for “quick fixes” that never materialize. The Office of the Attorney General (OAG) has aggressively cracked down on these unlawful scams.

Our Consumer Protection and Public Health Division recently stopped two Austin-based operations from falsely claiming they could remove “negative” items from clients’ credit reports. Only inaccurate or obsolete items can be legally removed from a debtor’s credit report, while items that reflect negatively

on a person’s credit must remain on the report until they expire with the passage of a set amount of time. The defendants in those cases, Austin Credit Doctor and America’s Credit Doctor, charged customers several hundred dollars in advance fees for their unlawful “credit repair” services.

Texans with inaccurate or obsolete information on their credit reports can work directly with credit reporting companies to remove information that should not be included. No one should pay a “credit repair” service to remove those easily remedied items for them.

A related scheme, “debt elimination” scams, falsely promise to eliminate consumer debt within just a few short months.

Too often, these scams charge large, up-front fees and then fail to deliver any valuable services to customers. For example, the OAG stopped a fraudulent “debt elimination” operation that falsely promised to quickly and completely eliminate customers’ debt.

To become enrolled in the program, customers were required to wire a one-time \$5,000 deposit to an unidentified “bank.” The scam’s operators claimed the bank would initiate a debt elimination process and use the deposit to defray the costs of that process. Once all the customers’ cumulative

debt reached \$100 million, the bank promised to make loans that would pay off individual customers’ debts.

However, the \$5,000 fee was actually deposited to an account that our investigators traced to Panama. The operation’s owner never offered any evidence that a “bank” even existed. In truth, the scam was simply trying to cash in on the vulnerability of overwhelmed debtors. As a result, the already struggling customers lost their \$5,000 deposits.

Legitimate financial assistance is available to customers facing seemingly impossible debt. Texans with problems paying their debts should immediately contact their creditors and seek alternate payment arrangements. Creditors are generally willing to negotiate terms directly with customers, so a debt management company is frequently unnecessary. Debtors should ask whether alternate arrangements would affect their credit history. Even if creditors reduce the payments and give debtors more time to pay a debt, doing so may show up for several years on debtors’ credit reports.

Texans seeking debt management services should do their research before hiring one of these firms. It’s important to check with the Better Business Bureau – and even the OAG – to see

whether other customers have filed complaints. It may also prove helpful to consult with an attorney about debt relief options. Ultimately, creditors must decide whether to accept a debtor’s restructuring offer. Even if the creditor accepts the offer, the debtor may face credit and tax-related implications.

Texans should also keep in mind that under new provisions of the Federal Trade Commission’s (FTC) Telemarketing Sales Rule, debt relief service companies are prohibited from charging advance fees. Debt relief service companies can only charge customers after they have successfully reduced, settled or otherwise negotiated the terms of at least one of the customer’s debts.

Additionally, any debt settlement fees must be clearly detailed in a formal written contract between the company and the customer – and must be proportionate to the amount of debt at issue. Both the FTC and the Texas Attorney General’s Office have authority to enforce the new rule.

There are seldom quick fixes to a negative credit history if it reflects legitimate debts the consumer failed to repay. The key to rebuilding credit is to manage debt and to consistently pay bills on time.

– January 2011