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Beware Fast Credit Fixes

By Kenneth R. Harney
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With Americans' credit scores plunging amid record numbers of mortgage and credit card delinquencies, companies that promise to eliminate negative information in credit bureaus' files are proliferating, federal regulators say.

The pitches from these firms are especially attractive to home buyers and mortgage applicants because they offer a way to raise credit scores enough to get loan applications accepted, and even qualify for lower interest rates.

But two legal settlements by the Federal Trade Commission suggest that seductive "credit repair" come-ons can lead consumers into costly rip-offs. Both cases involve companies that allegedly claimed that they could remove any negative information from consumers' files; one even said it could do so because it had special inside contacts with lenders and credit bureaus. Successful Credit Service, based in Woodland Hills, Calif., allegedly promised clients that it could permanently erase bankruptcies, missed payments, tax liens and other damaging credit-file data.

"We fix the credit 100 percent guaranteed whether it is a bankruptcy or a 30-day late," said one of the company's Internet ads cited by the FTC. "It does not matter how low or how big it is, anything that's on there, we can remove."

The company could achieve these results, ads said, partly because of the "priceless relationships we have with every creditor, collection company, public records provider and credit bureaus. We deal directly with these institutions in order to eradicate the problem at the source."

To sign up for services, consumers had to pay \$3,000 to \$4,000 up front. Tracy Ballard, president of Successful Credit Service, often participated in real estate investment seminars across the country, according to the FTC, and obtained large numbers of clients from those sessions. Seminar registrants were offered discounted rates for signing up for credit repairs.

The problem, the FTC said, is that it is a violation of federal law for a credit-repair organization to collect fees from consumers before fully performing the services promised. It is also a violation for anyone to claim to be able to remove derogatory information from credit bureau files if the information is accurate and current.

Worse yet, according to the FTC, after taking consumers' money, Successful Credit Service typically did "little, if anything, to fulfill the promises" it made. In fact, clients often found it difficult to even contact their account executive at the firm. When they did, they were frequently "given a variety of excuses as to why the promised results have not been achieved." When consumers asked for refunds, they were "almost always denied."

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The FTC's settlement with Successful Credit and Ballard included an \$8.3 million judgment and prohibited them from engaging in unlawful credit-repair practices. However, collection of the money was suspended because the firm and Ballard do not have financial assets to pay the judgment. In the settlement agreement, Successful Credit and Ballard admitted that they "charged or received money" for services before the services were fully performed.

Neither Ballard nor the firm could be reached for comment. Successful Credit Service's Web site is no longer functional.

The FTC's second settlement was with two people in Texas who operated several credit-repair companies that advertised heavily on the Internet and in national print publications. The FTC charged that Rudolph Joseph Strobel and Leanna Ruth Harrison ran Lee Harrison Credit Restoration and other firms that allegedly promised, following payment of upfront fees, to scrub away anything negative in consumers' credit-bureau files.

One of the firm's Web sites allegedly targeted clients who had filed for bankruptcy protection -- an event that typically remains on file for seven to 10 years, and sends credit scores plummeting by hundreds of points. "Have you had a bankruptcy?" the FTC's complaint quotes the Credit Restoration Web site. "We will repair your credit so that this past event does not haunt your future. . . . We clean up your report's history and increase your score (high scores are our specialty.)"

But clients who signed up for services costing as much as \$1,150 usually got no improvements in their credit files, the FTC said. When they complained, their "e-mails and voicemails frequently (went) unanswered."

In the settlement, neither Strobel nor Harrison admitted wrongdoing but agreed to a suspended monetary judgment of \$2.5 million. Neither could be reached for comment.

Bottom line: In the words of Anne D. LeJeune, the lead FTC lawyer in the Texas case, "people need to be wary when someone offers them a quick fix" on their credit problems. Why? Because fixes -- quick or otherwise -- are not possible or legal if the negative information is correct.

Finally, never pay money upfront. It's a tip-off you shouldn't ignore.

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