

How to Settle Your Debts and Repair Your Credit

Thomas L Stephani

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How Credit Affects You

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Introduction

You just applied for a credit card but were turned down. You just went into the showroom to buy that new car you've been eyeing for a long time but was told your credit was bad and you couldn't get the financing to cover the cost of the car. Does either scenario sound familiar to you? Well if you have bad credit you probably hear this more often than you would like to, right? It can also be embarrassing to you when you try to buy something on credit and you have your significant other with you when you are given the news.

The fact you have credit problems puts you in a large category of people who are in the same boat you are in. The only problem, most don't have any idea how to get out of the bad credit rut.

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There is a way to clear your credit and settle all your debts so you can restore your credit history. You basically have many stages of which you will have many parts to play to get it done, but once you have taken these steps, your hopes of having perfect credit is one more step to reality.

Some people think that when it comes to credit repair, it can't be done. So they wallow in their misery, not realizing that their credit can be repaired. They can settle their debts that will be mutual agreeable to everyone concerned.

There are those who think that even if their credit can be repaired, or they can settle their debts, and get out of debt, they are skeptical and feel too overwhelmed by it all. So instead of taking the right action, they file for bankruptcy instead.

When it comes to credit repair and debt settlement, there are ways to pay your debts and restore your credit history without bankruptcy or any

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type of fear or intimidation. All it takes a little education and knowing what to do. There are forms to fill out, but once the process is complete, you have no more fears to worry over, because by that time, you should be close to perfect credit if you aren't there yet.

By using this ebook, you will have the knowledge and resources available to help you restore your credit and settle your debts once and for all. Hopefully, by the time you finish this ebook, you will have gotten through certain steps and be on your way to a good credit report.

1. What is Bankruptcy

Before going into credit repair or debt settlement, you need to know and understand some accounts that are listed on your credit report and how they can be removed.

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Bankruptcy is a legal proceeding that allows dismissal of your debts. Depending on what type of bankruptcy you file will determine what debts are dismissed. What filing bankruptcy does is it works by legally releasing you from the obligation to pay your debts. When people get over \$10,000 in debt, they usually end up filing bankruptcy.

There are many types of bankruptcies including Chapter 7, Chapter 11, and Chapter 13. Each one is for a specific purpose. The bad part of bankruptcy is it gets put on your credit reports (all 3 of them), and stays there for a certain amount of years. If you file Chapter 7 for instance, the filing remains on your credit report for 10 years from the date of entry, not the date it was discharged or dismissed. If you filed Chapter 13, it will remain on your credit report for 7 years from the date of entry.

The one thing you have to be careful with regarding bankruptcy, is that whatever debt you

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included in that, you better check with the credit bureaus to make sure those debts are listed as “included in bankruptcy.” They may be listed as a charge-off or collection account instead. So you need to keep on top of this.

As soon as bankruptcy is declared, no creditor can contact you or attempt to collect money from you, or they will be breaking the law.

If you ever think of declaring bankruptcy, don't. The reason is because you will have a stain on your credit for years to come. Plus, trying to remove a bankruptcy is hard to do; not impossible, just hard.

The one thing you need to know about credit bureaus and bankruptcies is that they only report what other creditors list. You can legally remove any bankruptcy listings by simply request the credit bureaus to verify it through the actual federal archives. When you do this, the likelihood of you getting a reply is slim to none. Why? Because the

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federal archives really don't care about your problem nor do they have time to investigate it anyway. They figure once it is listed, it will stay listed on your credit report the entire time it is supposed to. This is why you must pay close attention to how it is listed on your credit report. Any discrepancies found and off it must go. You must look at filing date, asset liability, type of bankruptcy, social security number, discharge date, and docket number. If any or all of these items are wrong, you can have it removed from your credit report.

After you take all steps necessary and the credit bureaus claimed the account is accurate, have them prove it. You can under section 609 and 611 of the FCRA code. These codes clearly lay out the law stating that all accounts and information has to be clearly and accurately reported and disclosed to the consumer. If the agency or creditor does not do this,

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that agency is breaking the law. If the credit bureaus cannot give it to you, they must remove it.

2. Tax Liens

If you find you owe back taxes, the IRS may just file a lien against you to collect those back taxes. But the IRS is not the only one you may owe taxes. You could also owe state taxes as well. If these taxes are not paid, you will get socked with a tax lien. When you get this, it hurts. They are more negative than bankruptcy. Once a tax lien is applied, it gets put on your credit report. Even if you pay your taxes, the lien stays on your report but is shown as "paid tax lien."

Tax liens stay on your report for 7 years, but this can depend on the state you live in. So if you think you owe taxes, check with your state or the IRS, and get this cleared right away or use an OIC (offer

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in Compromise) to reduce what you owe. Even if this is a tax lien, you should still dispute it because some information could be inaccurate. This will be the advantage you will have. Since the file changes hands a few times, there is a great likelihood that errors could appear, so double check for accuracy. You may be surprised and have it lifted.

3. Judgments, Felonies, and Repossessions

Other items that will appear on your credit report will include judgments, felonies, and repossessions. A judgment simply means you have been sued by someone. You go to court and the party suing wins. Then a judgment is issued against you. A judgment usually stays on your credit report for 7 years. But there is a chance that listing can be renewed or re-inserted, if the creditor believes you should be penalized further for your actions. Depending on the

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severity of the case, judgments have been known to stay on credit reports for well over 20 years. You can avoid a judgment by paying your debt before you go to court. Because once you are in court and the judge enters in the judgment, it is too late. On the other hand, you can show up for the court date and request a procedure called “vacating a judgment” to be instituted. This way nothing is entered into public records.

The next one on the list is a felony. This is when you commit a serious crime. If you are convicted of a crime, the conviction goes on your credit report.

The last one talked about is the repossession. With repossession, this means that whatever you bought on credit was taken back. This is one of the worst items to have on your credit report. If a creditor did manage to arrange for the car you bought on credit to be picked up and returned to the dealer, you can work out an arrangement with the

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creditor. Find out what the car is worth according to the blue book value, and agree to pay 70% of the car's value in exchange they mark the rating as settled. If you want the car back, make refinancing arrangements with the dealer. He may require you to pay a higher amount of interest, but at least he will return the car to you.

4. Identity Theft

One of the biggest problems facing Americans today and which causes severe debt problems and errors on credit reports is identity theft. Over 500,000 people are victims of identity theft. In case you don't know, identity theft is when someone wrongly assumes another person's identity for financial or other purposes. The person committing this crime obtains vital data about his or her victim including social security numbers, credit card account numbers, date and place of birth, etc.

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As soon as the person doing the act of stealing commits it, he/she can take the information and obtain a credit card, bank account, driver's license, or anything else that person wants. The bad part of this is that if the person committing the crime is arrested, the person whose identity was stolen is now in the books with a criminal record.

Identity theft is a growing problem but one you can lesson the risk of you becoming a victim. You have to learn to manage your personal information wisely. Check your credit card statements for unusual charges you did not make. Also pay attention to the mail. If your credit card statement does not show up at the usual time each month, suspect something happened. Also, check your credit report and make sure it is accurate. And do not give out your personal information over the phone to know one unless you verify who it is. Many banks now offer credit card identity theft protection.

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It costs very little per month but it will give you a piece of mind knowing that extra security and protection are being used to ensure your credit card is protected.

When you go shopping, do not allow the clerk to write down your credit card on any paper. Also do not show your credit card openly for someone else to see. And when you throw anything away that contains your personal information, like your credit card number or other types of information, shred it before you throw it away. You never know who may go through the trash and find your old papers.

If you should become a victim of identity theft, call the police. Also call the postal inspector and Secret Service. Contact all banks you deal with about the fraud. Also contact all credit bureaus alerting them to the fraud and have a fraud alert placed on your credit reports. This way if someone tries to go after

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your credit report they have to get your permission first.

The bottom line with all or any items you have on your credit report, you should verify those listings. You may be able to get them off your report just by disputing them.

5. Validating Your Debt

Now that you know about certain items that are special circumstances, but could appear on your credit report, this section you will find out how to dispute anything on your credit report. This way you can take the steps necessary not only to repair your credit, but you can settle any or all debts you have and have a good credit report to boot.

If you look at your credit report and find something you are not sure about, or question the validity of the item, you should dispute it. You should use debt settlement methods to resolve this

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item. Debt settlement will be covered shortly. First, let's see how you can make corrections on your credit report.

If you owe or think you owe money to a certain creditor, and he hires someone to try collect this money for him, you wouldn't just hand him the money outright would you? Of course not. You will want that debt to be validated first.

First of all, how does the person collecting the money on behalf of the creditor really know that is your account? Does the collector actually have proof of this transaction? If this is an actual debt, what payments have been made to the account? Who is keeping track of all payments to the account? Who is legally responsible for that debt?

If you are getting threaten letters or harassing phone calls, or you even see an item listed as a collection account, you can dispute it and have the debt removed. How, by telling the collector he must

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provide proof that he owns the debt, or that he was assigned the debt. The collector must be able to provide some account statements from the original creditor that proves the existence of the account and that it is indeed your account. You could even request further validation by asking for the complete payment history, starting with the original creditor.

The steps you would take to validate the items on your report would go as follows:

- Send a letter to the collection agency requesting that the account under question be validated.
- Also dispute the item with the credit bureaus.
- Wait for 30 days for a reply.
- If you haven't received any proof, you must send a copy of your receipt for registered mail showing the exact day of mailing, a

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copy of the actual letter you sent, and a statement saying they are in violation of the FDCPA Act. At that point they must remove the collection listing from your credit report or face a lawsuit for violating the FDCPA section 8089(b).

- You should wait 15-20 days to hear back from them. More than likely they will not respond.
- If at this point the listing was removed, you are done, but if the listing was not removed, your next step is to file a lawsuit in small claims court against the collection agency for violating the FDCPA.
- Contact the credit bureaus and tell them the creditors did not verify the debts. Make sure to send a copy of your proof. You must request the method of verification, which you have the right to use under FCRA.

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- If the credit bureaus tell you any request must come from the creditors, tell them they are in violation of the FCRA for willful non-compliance. And tell them you will file a lawsuit in a small claims, state, or federal court for the violation.

Now you understand the way to validate the items in your credit report. Now we are going to discuss how you can gain good credit.

6. Getting Good Credit

After you have made attempts to clear all the bad items from your credit report, the next step you must try to take is to re-establish good credit on your credit report, or build new credit.

If you have been denied credit because of a bad item on your credit report, you can request that a

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positive item or comment be added so as to improve your credit report.

Another way to get good credit is to open a checking or savings account. This way you get established with Chexsystems and show your credibility to be creditworthy. What does Chexsystems has to do with it? Who is Chexsystems? Chexsystems is like the credit bureaus. They keep track of your bank accounts and history you make with that account including NSF and any negative balances you held.

Because of the Fair Credit Reporting Act and because Chexsystems works the same way the credit bureaus do, you can dispute anything on that report.

Another way to gain good credit is by joining a credit union. A credit union is a little more lenient when it comes to giving out loans, so they may help you faster than anyone else would. Once you open

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your account, make regular deposits to your account. This shows the bank you are responsible and stable.

If you have so much money to set aside to use as a source of credit, you can sign up for a secured credit card. This type of card works by using the money you deposited in an account. But you can only work off this deposited amount. If you stick with this type of card, after about a year you can qualify for an unsecured credit card.

If you should apply for a credit card, only go for those that report to the major credit bureaus, otherwise you are just wasting your time.

If you cannot get a credit card right now, ask your friend or family member if you can be added to his/her credit card account as an additional credit card holder. This way whatever credit standing that person has, you will inherit it automatically. If you do

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this, be careful not to abuse the credit, or you could get in trouble with your friend or family member.

If you have any old collection accounts or charge-offs, do not pay them, especially if they are five years old or older. If you paid this debt, it will show on your credit report as a “paid charge off” and your rating will go down. It is better to dispute the item and have it removed than to pay for it and end up with a worse credit rating.

7. How to Settle Your Debt Legally

Before you do anything to settle your debts, and perhaps make things worse on yourself, you should think about checking with the statute of limitations to see if the debt can be removed completely from your records. Every state has their own laws and timeline. After this timeline is over, no collector can come after you for this debt. Nor can they sue you in court.

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If, however, you do have debt that is not past the statute of limitations, and you do not want to go through the debt validation, you will have to take care of the debt with the collection agency yourself.

If you do have debt and you wish to settle it, remember not to cave in to any pressure the creditor places on you. The best way to deal with them is by way of letters. This way you will have a paper trail.

When looking to pay your debt, start at 25% or less. For example, if your debt is \$100, and the collection agency will get about 5 cents on the dollar, which is \$5, between what you are offering them and what they already will make, it comes to \$30. They are still making a profit of \$25. This money goes straight to the collection agency.

Now here are some dos and don'ts regarding debt settlement with collection agencies:

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- Don't: Never, never, never call them. You won't get a record of the conversation.
- Do: Always get everything in writing. This way you have a paper trail. If something goes wrong, you will have evidence to support your cause.
- Do: You must keep good records. This is imperative. It can save you frustration later when looking for something.
- Do: Send everything through registered mail, receipt requested. This way you have proof they received it. They can't use the excuse they never got it.
- Do: Keep a copy of every single bit of correspondence you write. This way in case something happens to the printed version, you will have a backup.
- Don't: Do not look to eager to pay the debt. If you do, they will sock it to you. Wait for

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them to call you and don't take the first settlement offer they give you. Do your best to keep the upper hand in the negotiations and you will find you will be better off.

If you have been contacted by another collection agency for the same debt, this means the original creditor and first collection agency has given up on you and assigned the account to another party. This also means the second collector will be in the position to collect less. So be aware of that.

If you really want to get away with paying a lower amount or even get out of the debt altogether, you may want to mention you will declare bankruptcy if they don't take your offer. Creditors realize that if you go bankrupt they will not get anything. So they will be willing to take what they can get. If and when you do pay off the creditor, make sure you negotiation with the creditor to update your credit

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rating. You do not want to have the words “paid” collection on your report. This is just as bad as an “unpaid” collection.

If you are dealing with the original creditor, you will have to take some different steps than you would have taken with a collection agency.

If you don’t like to deal with creditors, you can always contact a Consumer Credit Counseling Services office and sign up with them to take care of this for you. Trying to settle your debts is time consuming, and some people are better off going through a CCCS. The only problem with a CCCS, is they don’t negotiate with how the account will be reported, as such, even if your account was settled, your report may not reflect that.

You will be surprised to know that creditors, especially credit card companies, will be willing to settle with you. But they won’t come after you until you are past 90 days behind.

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When you deal with your creditors, offer them the lowest payment you are willing to give. Then increase that in small increments if at all possible. For example, let's say you owe a credit card debt of \$1250. You can guarantee payment of \$500. And this is your lowest price you may start out. They may take this or may request more. If they do request more, add another \$50. But don't keep adding till you get past \$1000. Tell them you still stick to your guns and offer them what you are willing to pay. They will have to accept it.

When they do accept your offer you can pay by cashier's check, money order, or credit card, then request they give you a good rating. They may do so, but don't count on any more than "Settled". At least this is better than getting a charge off to appear on your credit report.

The principle concern with you and creditors is to get your debt paid off and get your credit report

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back in order. If you can accomplish these to factors, you are well on your way to having a good credit report, and you will have less debt to worry about.

The primary important in settling debt and getting a good credit rating is by managing your finances properly, don't go overboard on credit. Know your limitations on spending, and don't take on more than you can chew.

It only takes a couple of debts to hurt your credit if you get too far in debt and can't make your payments. It would be better for you if you would have only two credit cards and keep them maintained. This way you won't go into too much debt and find yourself struggling with trying to recover.

If you do find you have way too much debt to live by, you can either go to a CCCS (Consumer Credit Counseling Service), or declare bankruptcy. But try

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your best to avoid bankruptcy as much as possible. Having one of these on your record will do more harm than good. And you will find trying to remove it to be time consuming and tedious at the least.

Whatever you do, don't take credit for granted. Use it wisely. It can be your friend and it could be your enemy. Make it your friend and make it work for you. You'd be surprised what you can accomplish if you have good credit.