This is a compilation based on very insightful April 22nd United Way Financial Empowerment Boot camp as well as a follow up meeting with one of the presenters, Seth Mason of Cornerstone Financial Education.

FAQ for Credit Counselors

Are all debts in collections the same in terms of the damage they do to a person's credit? -- No, they aren't. A medical collection does less damage to a person's credit than another bills that has gone to collections. The philosophy is that it is worse when action you've taken by choice (such as getting cable service, a cell phone, etc.) has resulted in an unpaid bill going to collections, as opposed to something that a person has little control over like a medical condition.

Another important aspect of an unpaid bill in collections is that there are two negative factors at play: one is the unpaid bill, and the other is that the bill went to collections. The larger the unpaid amount, the worse it is. But even if you pay the bill, there will still be a negative effect from the fact that it ever went to collections. This is not meant to encourage you to not pay bills due, but rather to understand that there still will be a negative effect from the collections, although with time (and assuming no more bills go into collections) this negative effect will decrease.

Is it better to settle and try to pay less? -- A 'settlement' note on a credit report is not positive. What is best to do, if you truly cannot pay, is to negotiate to pay less BUT have this reported as "paid in full." This promise should be obtained by the collections agency in writing before you pay. You should also be wary of a 'recourse clause' in a contract, as if that exists the collections agency can try to collect on the remaining debt.

Do not call the collections agency unless you are prepared to pay the debt. If you are making an general inquiry, it is best to call "from a place of skepticism." In other words, be careful not to acknowledge that the debt is yours, but rather call to say you need to verify the debt, you aren't sure it is yours.

Also be aware that if you pay off one collections agency, other collectors may see that (by pulling information from credit reports) and start calling.

What about dealing with collections agencies. What are they allowed to do, and what not? --According to the Fair Debt Collections Act, a collections agent:

- Can only contact you between 8:00 am and 9:00 pm in your time zone (you can request that they call at different hours, though this may not work)
- Must identify themselves in every call - - though many will identify themselves by their names, not their company. You can always ask, "Is this a collections call?"
- Can contact you at your place of employment but only if permitted. If you do not want this then tell them they are calling at your place of work and that such calls are not permitted.

- Cannot contact you directly if you have hired a lawyer to handle the case
- Cannot threaten false legal actions (though you may hear the words “we reserve the right to sue)
- Cannot discuss the debt with third parties in any form unless expressly approved by you. They can, however, contact others to try to locate you, and some will do this to ‘shame’ a person into paying.
- They can call as much as they want but cannot call you in a ‘harassing manner’ (in order to dispute this you would have to show a pattern of harassing behavior)

It’s also important to remember that some collectors feel that they are doing a good deed in finding delinquent payers, and this is what is behind their motivation.

My client is paying too much in auto insurance and wants to call a few places to gets some quotes but is worried that this will be a mark against her credit. What’s the best strategy? --If you are legitimately shopping for credit, such as trying to lower your car insurance rates, you can safely shop around for 14** days knowing that **only the first inquiry** into your credit will count against your score. This works for inquiries for the SAME type of credit, (all inquiries related to car insurance) not for different ones (inquiries related to car insurance and home mortgages). **In some cases a credit agency gives you a 45 day window, though it’s unclear how you’d know if you have a 14 day or 45 day window, so the 2-week period is a surer bet.

Make sure your client is aware that ALL inquiries will be listed on the credit report, even if they did not affect the credit score. This is a good list to check if you are worried about identity theft. If there are a lot of inquiries that you can’t remember or explain, check into it!

They say that ‘new debt’ accounts for 10% of your score. How does one define “new?” -- A credit card is ‘new’ for the first 12 months. For a home loan, the first 4-5 years. For smaller loans such as car loans, something in between the two – 2-3 years.

“Kinds of Debt” also accounts for 10% of a credit score. Sometimes clients ask if they should get a loan to improve their credit score, or get a credit card. I’m not sure what to advise. -- Generally the lenders don’t want to see more than one type (revolving debt, auto loan, mortgage) of each loan. A “healthy mix” of debt is two (2) revolving accounts, 1 mortgage and one auto loan. However if you have 5 credit cards **and are using them all responsibly**, you are building up a lot of positive payment history, which can supersede any negative effects of having so many lines of revolving credit.

The other day my client mentioned “old people credit,” by which he meant good scores that come with age and time. Can you elaborate? -- Sure. What your client referred to is that high credit scores can only be achieved with both time and good debt management habits. A person cannot usually achieve a score of 800 early than in his/her early 40s. You’d have to really know what you were doing in terms of building a credit score to achieve such a high score at a younger age. Once you reach a score of 750, there is no action you can take to increase your score (i.ee. there is no reason to take on a new loan, get another credit card, etc.) except to keep on doing what you are doing. With time it will keep on increasing.

My client has defaulted on a non-government (private) loan and is worried about going to jail. What can I advise? --Actually, you cannot go to jail for defaulting on a private debt. It is true that practically **any** debt can be sued for, given proper documentation. The purpose of a debt lawsuit is to prove excessive income or fraud, but does not always result in garnishments. You may simply end up with a judgment against you. In your client's case, please advise that if he/she is sued, that it is necessary to go to court to prevent a default judgment being made. Also, if a person is court-ordered to appear and does not, the person can go to jail for failure to appear. It's critical to pay attention to all mail received to know a situation – even if there's a desire to hope a problem will go away if you don't read or open your mail, this is not a good strategy.

My client wants to keep on checking his/her score in the future after our counseling session. Is there a way to access this information for free? -- The best way to access a **<u>free</u>** score is CreditKarma.com. TransUnion established this site so it shows their scores (TransUnion historically used a broader range so their score may be on the high end compared to the other bureaus). You do have to provide your SS# and set up an account. It has a neat educational feature that explains what is affecting your score and how your score would change if you took various actions such as getting a loan, a new credit card, etc.

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