

Cleaning Up Credit and Consolidating Credit Cards

I received a call from a colleague asking me whether I knew of any resources - short of bankruptcy - to point someone who has made some mistakes in the past financially and run up some debts. Her credit is no good, and she has all this debt hanging over her head. Does anyone have any suggestions? I have always heard that engaging a company that claims to clean up credit is a waste of money.

Stay away from the debt settlement companies, they'll just make a bad situation worse.

Generally, the nonprofit credit counseling agencies are the place to go. <https://credit.org/cccs/>

Russ Goldman, New Jersey

Consumer Credit Counseling Services

Marilou Auer, not a lawyer, Virginia

If she still has a lot of bad outstanding debt, there's nothing to clean up. She needs to come to grips with her debt. Can she negotiate lower payoffs? Can she negotiate payment plans?

The procedure used by many credit "fixers" was to challenge every bad debt and require the creditor to produce evidence of the debt. Many of them (debt buyers) couldn't produce the evidence, so they remove the negative ratings from the credit report. They've gotten a lot smarter now.

Mike Phillips, North Carolina

Look into company called Lexington Law.

They work with people who've finished bankruptcy filings.

They go through the negative items on a credit report a few items every couple of months. They request the validity of the negative item. The credit bureaus have to request validation from the original debt / negative item holder. The holder only has a limited time to verify the negative information. If they cannot report back within that time limit that the debt/negative item is valid, they must - by law - remove the item from the credit report.

In all honesty, these companies are so overwhelmed at times they simply remove the item because they don't have the employees to verify the (obviously valid) debt/negative information.

I think now might be a good time to challenge negative items. A good number of them could be eliminated from a credit report over a 6–12-month period given the current economic circumstances. I'm not saying all would be eliminated, but I think a good percentage could be.

AnnMichelle G Hart, Washington

I would tread very carefully referring anyone to Lexington Law. They have over 600 BBB complaints, and at least out here, a terrible reputation.

<https://www.bbb.org/us/ut/north-salt-lake/profile/credit-repair-advanced-fee/lexington-law-firm-1166-2000829/complaints>

Jonathan G. Stein, California

Just throwing this out there - a bankruptcy isn't that bad. You can get an FHA mortgage a year after filing a Chapter 13 and two years after a Chapter 7 discharge. Of course, there are many reasons why a bankruptcy may not be a good fit for someone (might lose a nonexempt asset, have a high earning spouse who doesn't want to pay "your" debt, a recent bankruptcy, etc.) but most good bankruptcy attorneys will tell you if the bk is the right way to go.

Regarding debt settlement and debt negotiation - some people are able to work out great deals with their lenders this way. If you go with a major company, just be aware that the first 3-5K you pay is generally for their fees alone, so none of that is going to go to your lenders. Some bankruptcy and consumer attorneys do this as well.

It sounds like this individual still has a bunch of outstanding debt, so short of checking all of the timelines to see if the debt is still collectable, the individual is either going to have to settle it or bk it.

Corrine Bielejeski, California

Corrine is right, the actual financial situation should guide to whether credit counseling (paying the whole amount but with reduced payments maybe reduced interest), credit settlement (stop paying and pay a settlement amount either in lump or over time which may be the full amount owed down to a fraction of what is owed) or bankruptcy is the best option.

All have their pros and cons

Erin M. Schmidt, Ohio

There are shortcomings to all approaches. Credit counseling services, some of which are funded by credit card companies, can give bad advice. The "credit repair" industry in general is bad news (whether or not backed by a law firm). A bankruptcy lawyer is required to offer credit counseling and analyze whether applicability of bankruptcy to the current situation. In a debtor friendly state like Texas, someone with bad credit and live judgments may be better off riding it out than trying to clear items through bankruptcy.

Generally, I advise people to ride it out if they can. This involves gradually improving their situation over time and modifying any behavior issues that created the problem. If that doesn't work, or if the problem is atypical, I send them to attorneys who do consumer bankruptcy that are "doing it right" and said practitioner can do a more detailed analysis.

One of the conversations is that it took a long time for the individual to work themselves into the current situation. Any solution will also likely take a long time, basically meaning there are rarely quick fixes. The other point is that if the source is overspending the behavior has to change or situation will reoccur.

One obvious exception I encounter is that sometimes economic distress is triggered by a health crisis. The average consumer that is uninsured and has a health event may incur hundreds of thousands of dollars in medical debt in short order. Sometimes a payment plan works, but sometimes a fast bankruptcy is preferable.

Darrell G. Stewart, Texas

Thanks everyone. After about the third response I reached out to some bankruptcy attorneys and passed that and some of the other credit counseling service information on.

Thanks and have a good day!

Michael J. Polk, South Carolina

Nice catch Jonathan! I had heard of them and think I may have sent folks their way a few years ago. The guy I knew that was there is long gone - now maybe I know why!

Randy Birch, Utah
