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Instant Credit Fixes – Smart and Safe or Rash and Risky?

Trying to get a mortgage home loan with poor credit can be a very frustrating venture. You may be turned down several times, and the lenders that will agree to loan you money will charge you an arm and a leg in interest fees. Traditionally, the poor credit borrower's options have been to take the higher-cost loan or to hold off several months or years in order to build up a better credit score.

Not surprisingly however, some people have come up with a way to get around the current system. You may have seen advertisements from companies promising to dramatically increase your credit score overnight. The shocking thing is that some companies can actually do this. Whether or not such a tactic is a good idea is another issue altogether though.

Here's how it works. You pay a large sum of money, typically around \$2,000 to an instant credit repair company. The company then adds you as an authorized user on a couple credit cards owned by individuals with excellent credit. The good credit holders agree to this because the credit repair company pays them for the privilege and because they are assured that the new users will never have any real interaction with their cards or their personal information. The credit repair company is responsible for keeping that all safe.

This strategy works because the poor credit borrowers essentially take on the credit history of the excellent credit hosts. The credit repair company removes the poor credit borrowers as authorized card users as soon as the credit score goes up, but the good credit history remains permanently on the borrowers' report.

It is estimated that a score can increase by 30-45 points with the use of just one borrowed credit card, while slots on two different cards can increase a score by 60-90 points, and having as many as five slots can net you between 150-205 extra points on your score. And all of this generally occurs within a month.

This sounds too good to be true, right? For now, it is a reality. Buying your way into a better credit score can mean the difference between acceptance and rejection for a mortgage loan as well as the difference between a prime and a subprime interest rate. It also means an immediate second chance at maintaining your finances and your credit.

Don't expect to be able to take advantage of this tactic forever though. The Fair Isaac Company is on to the 'instant credit repair' scheme and intends to update its credit scoring methods within the year to take such 'cheating' into account.

And don't assume because the current practices are not specifically illegal, that they are perfectly legal and legitimate. "What I've gathered from attorneys here is that it appears to be legal" technically, Federal Trade Commission (FTC) spokesman Frank Dorman has said. "However, the agency is not saying that it is legal."

The use of borrowed credit makes lenders very nervous as it makes it harder to tell who has actually maintained a good credit record and who has simply bought their way into excellent credit. This dilemma makes their risk-evaluation methods less effective. Plus, using borrowed credit without disclosure to your lender may be considered mortgage fraud. As Ginny Ferguson, credit expert for the National Association of Mortgage Brokers recently said, "These [instant credit repair] companies are encouraging consumers to commit fraud. On a standard home loan, there's a clause that says the consumer is not omitting pertinent facts that could



impact his or her ability to repay the loan,” Ferguson said.

So before you dive into one of these ‘instant credit repair’ schemes, consider carefully the dangers of buying into a quick credit fix with ‘borrowed’ credit.