



Myths & Facts About Improving State Credit Repair Laws

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Credit repair organizations (CROs) claim they can help improve consumers' credit records, but they rarely deliver. And they can charge consumers hundreds of dollars per month, sometimes for years. The federal Credit Repair Organizations Act (CROA) and Telemarketing Sales Rule (TSR) give some protection, but because of major gaps they are widely ignored or evaded.

States are considering legislation to close those gaps and clamp down on CROs that cheat consumers. The credit repair industry has predictably responded with several myths about why stronger protections are not needed.

MYTH: Federal law already prevents fraudulent and abusive practices by CROs.

FACT: Both the TSR and CROA prohibit CROs from charging consumers in advance, but they do so in different ways, and CROs have adopted new practices to evade laws that pre-date the internet.

CROA prohibits CROs from charging customers "for the performance of any service . . . before such service is fully performed."¹ This applies to all CROs, but some now charge monthly fees, claiming that their "service" is sending letters each month, rather than improving or correcting a credit report, as their advertisements claim.

The TSR prohibits CROs from charging customers until they provide, six months after the promised results have been achieved, a copy of the customer's credit report that proves the results have been achieved.² This prevents CROs from charging for temporary results and ensures that they live up to their promises, but it only applies to CROs that use telemarketing, and it is almost impossible for private citizens to enforce it. CROs have started ignoring the law or switching to internet-only transactions to evade the requirement.

MYTH: Giving the consumer a new credit report six months after services are completed (as required by the TSR) is not possible because a credit repair organization does not have the right, under the Fair Credit Reporting Act (FCRA), to get a consumer's credit report.

FACT: The FCRA authorizes a consumer to allow a third party to get a copy of their credit report even if that party would not otherwise have a permissible purpose to do so.³ CROs can comply with the law by simply asking customers to sign a consent form when they sign up for the CRO's services. The TSR has long imposed a similar six-month rule, and neither the Federal Trade Commission (FTC) nor any court has ever said a CRO would violate the FCRA by complying with it.

MYTH: No other industry has a six-month timeframe requirement, and it is not possible for any company to manage the cash flow of its business in this manner.

FACT:

- a) Federal law has applied this very same rule to large credit repair companies that use telemarketing since 1995. When the FTC originally proposed the six-month rule as part of the TSR, not a single CRO complained. Five years later, when the rule came up for review, the FTC asked for comments again and CROs raised no complaints.⁴
- b) Thousands of lawyers, health care providers, and hospitals routinely provide services first and receive payment later:
 - Doctors and hospitals normally provide their services and then bill the patient and insurance company. Getting paid usually takes several months.
 - Lawyers often wait years to get paid. Some only get paid if they win their case.

MYTH: There are too few complaints about credit repair to justify state reforms.

FACT: Complaints about credit repair and related services are just the tip of the iceberg.⁵ The CFPB has received over 5000 complaints specifically tagged as involving credit repair, with the number received per month growing four-fold between 2017 and 2023.⁶ The FTC's Consumer Sentinel Network database contains 19,387 complaints regarding advance fees for credit repair between 2019 and 2023.⁷ Additional complaints may be miscategorized under related credit products or credit reports.

MYTH: Credit repair isn't the problem—the credit reporting agencies are the problem.

FACT: Yes, the credit reporting agencies are a problem and need significant reform—their policies result in too many errors, their dispute resolution system is a travesty, and they harm too many consumers. But CROs take advantage of that as a marketing tool to sell a product that is mostly snake oil. Look carefully at the typical credit repair advertisement and you will see that they are not advertising their ability to correct bona fide mistakes. Instead, they make vague claims calculated to lead people to believe they can improve their credit score regardless of whether their credit report is accurate. Here are a few results from a Google search for “credit repair”:

- “Remove hard inquiries”⁸
- “Our credit repair services help to fix your credit report.”⁹
- “Better credit, easier. 50-100+ points can make a difference. Join the 3,409 people that signed up last month to have us fix their credit and raise their score.”¹⁰
- “Increase Your Credit Score Fast”¹¹

This type of advertising falsely implies that CROs can improve your credit score even if your credit report is 100% accurate. But the truth is that consumers cannot get accurate information removed.¹²

MYTH: Regulating credit repair will put people out of work.

FACT: Honest businesses have nothing to fear. CROs advertise a service that claims to help consumers improve their credit score and remove negative items from their credit report, and federal law already prohibits charging until that service is fully performed. Better state laws will only harm those that are already violating federal law but escaping justice.

The best way to protect consumers and clean up the credit repair industry is to update state laws regulating CROs. For specific suggestions, see NCLC's [What States Can Do About Credit Repair Abuses](#).

For more information or questions, contact NCLC attorney Andrew Pizor (apizor@nclc.org).

¹ 15 U.S.C. § 1679b(b).

² 16 C.F.R. § 310.4(a)(2)(ii).

³ 15 U.S.C. § 1681b(a)(2).

⁴ 65 Fed. Reg. 10428, 10432 (Feb. 28, 2000); 67 Fed. Reg. 4492, 4512 (Jan. 30, 2002).

⁵ 75 Fed. Reg. 48,458 (Aug. 10, 2010) (regarding debt relief services amendment to telemarketing sales rule).

⁶ Consumer Financial Protection Bureau Consumer Complaint Database [search result](#) for "Credit repair services."

⁷ <https://public.tableau.com/shared/4CMJSZYZ5>

⁸ Google search result for "credit repair" (2/9/24) (lexingtonlaw.com)

⁹ Google search result for "credit repair" (2/9/24) (creditrepair.com)

¹⁰ The Credit People, <https://www.thecreditpeople.com/> (2/9/24)

¹¹ <https://try.thecreditpros.com/partner-home/?PPCPN=844-441-5729>

¹² Unless it is obsolete.