

Money Pros: Do homework when trying to repair credit

BY [TRACY BECKER](#) / NEW YORK DAILY NEWS

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The Money Pros are standing by to take your questions.

Q. I have major credit card debt and have been receiving settlement offers from different collectors who pick up the debt. This is hurting my credit badly. If I make a one-time payment, is it mandatory that I accept the 1099 from them? Also, how would this transaction reflect on my credit record?

Darnell M.

If you have stopped paying a credit card and the account goes into default, the creditor will eventually pass it on to a collection agency if it fails to collect. These smaller firms either buy the debt for a discounted portion or, in your case, borrow the debt for a period of time with the incentive of gaining a commission when the payment is received. Since the debt is only borrowed, these firms are highly motivated to collect payment before it is transferred. This debt can be passed on to many different collection agencies who all update the credit report negatively. This will wreak havoc on consumers' credit reports.

If you pay a reduced amount as settlement on the account, a 1099 will be generated. The IRS considers forgiven credit card debt to be income. If you are going to settle accounts for less than full balance, talking to your CPA and figuring out if you have losses that will offset the extra income could be beneficial.

As far as the credit goes, normally the collection agency will update the credit as "paid settlement" or "paid for less than full balance". This is not a positive status, so your credit will be damaged. But the truth is, it already had a poor status anyway. There are vast amounts of laws that apply to credit, collections, and creditors, and there may be ways to improve your credit.

Speaking with a credit repair expert before taking further steps may provide you with insight into the best approach for your situation. The right credit expert will evaluate the full situation and respond with your best interest in mind.

However, there are many companies online that will agree to fix your credit without even seeing it. This is like a doctor prescribing medication without examining you.

Make sure you do your homework and find a company that does not pressure you to sign a contract, and offers experience, knowledge, as well as an excellent track record.

Tracy Becker

Becker is the president of North Shore Advisory, a credit restoration and education company.

Do you have a question for the Money Pros? Send an email to Phyllis Furman at pfurman@nydailynews.com



YOUR

It's tic-tac-owe

- Forgiven credit card debt is considered income by the IRS.
- When you settle for less than what you owe, your credit will take a hit.
- Consider working with a reputable credit expert to repair your credit profile.

Wink Martindale

Watch out there, Cool Shoppin' Barbie. Credit card companies will sic collection agencies on you if you stop paying your bills. Photo by Susan Stevens

DEBT FIXERS

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