PAYING COLLECTIONS BARELY IMPROVES SCORES

PAYING A COLLECTION WON'T REMOVE IT FROM YOUR CREDIT REPORT

- Paid collections will continue to hurt your credit scores for up to 7 years. \(^1\)

THERE'S ONLY 2 WAYS THAT COLLECTIONS IMPACT SCORES

1) The **BIGGEST impact** (by far) is determined by how old the collection is.

2) The **SMALLEST impact** is based on whether the collection is paid or unpaid. \(^2\)

- Here’s an example of the impacts from an old collection that’s **3 years old**:
  - An *unpaid collection* that’s 3 years old drops scores by roughly 6 points.
  - If you *pay it off*, it still continues to drop scores by roughly 4 points.

- Here’s an example of the impacts from a new collection that’s **1 year old**:
  - An *unpaid collection* that’s 1 year old drops scores by roughly 50 points.
  - If you *pay it off*, it still continues to drop scores by roughly 35 points.

- As you can see, paying collections gains back about 1/3 of the points that are lost.

WHAT YOU CAN DO NOW

- If you decide to pay a collection, try to negotiate with the collection agency to delete the account from your credit report. \(^3\)
1 Collections Report for 7 Years

Paying a collection or charge-off will not remove it from your report. In fact, it will continue to report for 7 years from the “Date of First Delinquency,” which is the date the debt first went delinquent with the original creditor. The “Date of First Delinquency” also determines the age of the collection and how much it impacts your score. Often times, collection agencies sell the debt to a different collection agency. This does NOT reset the “Date of First Delinquency.” Pay attention to how old the actual debt is...not how old the collection is.

2 A $0 Collection is Better Than a $1 Collection...But a $10,000 Collection is Just as Bad For Scores as a $1 Collection (i.e. The Amount Doesn’t Matter)

Basically, unpaid collections affect your scores the same, whether the balance is $1 or $10,000. Loans, on the other hand, affect your scores differently, based on the amount. A bigger loan means a bigger risk...which means a bigger effect on scores. But loans and collections are not the same. Loans require monthly payments. Collections don’t. That’s why the balance of an unpaid collection has no bearing on the score.

3 Negotiating With a Collection Agency to Pay For Deletion

Some collection agencies will agree to remove a collection from your credit report if you pay it in full. Not all collectors will negotiate (it depends on their company policy). Start by asking if they’ll accept a settlement amount in exchange for deleting the account. If they won’t bite, ask nicely if they’ll delete it upon full payment. Try to get the agreement in writing...before you pay....they may or may not do this.