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CREDIT ENHANCEMENT ("PIGGYBACKING") SCHEMES

Many consumers are unable to qualify for loans or financing because of insufficient or unacceptable credit history. Normally, repairing one's credit history takes significant time and diligence. However, several companies have begun to emerge online that attach consumers with poor credit (renters) to the accounts and credit history of consumers with excellent credit (account holders).

Often called "piggybacking" or "credit enhancement", the process generally works as follows: Credit renters pay a company to set them up with a consumer with a strong credit history or credit score. This account holder adds the renter's name to one or more of their accounts (usually credit cards) as an authorized user, similar to the way in which parents add a child to their credit cards to help build the credit of the child. For this service, the account holder receives payment from the company monthly for each renter attached to their accounts.

Since the renters become authorized users, their names are essentially added to the credit history of the account holder, meaning that renters benefit from an extremely fast improvement in their credit rating. Renters generally do not have access to the credit limits or account numbers of the account holder, and with most companies, once the credit score is updated with a credit bureau, the renter is detached from the account.

Subscribing to this type of activity presents significant risk for both parties. For renters, their newly improved credit can be ruined if, for whatever reason, the account holder to which their name is attached fails to maintain their good credit.

There is also the potential for identity theft, as renters must often provide sensitive personal information to the account holder in order to be attached. Furthermore, using an artificially inflated credit score to mislead an institution to obtain a loan is considered fraud, and many institutions have clauses built into their lending policies that stipulate consequences for such activity. Even if not caught, renters may, with their improved credit score, be approved for loans that they cannot afford, and develop unmanageable debt.

For account holders, consider the risk of adding a family member as an authorized user on a credit card. While this can be risky if that family member defaults on payments, it is still less risky than having a stranger attached to the account. If a renter defaults on loans obtained with their improved credit, the credit of the account holder could be severely damaged.

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