



### Step 1: Get Credit-Educated

In today's economy, credit is a valuable financial asset. It may be the single most important factor in developing and increasing long term assets is attaining and maintaining a high credit score. People with a good credit rating will save approximately \$250,000 in interest throughout their working lives:

- A homeowner will save more than \$250,000 on a 30-year fixed \$300,000 mortgage.
- A car buyer will save up to \$50 a month on a 36-month car loan.

As practitioners, we have a responsibility to:

- Recognize how important good credit is in our financial culture, and by contrast how debilitating bad credit is
- Recognize how poor credit profiles keep families in a cycle of poverty.
- Impart the cost-savings and asset building opportunities that good credit brings.
- Convey information about how to get good credit and how to safeguard or improve her credit if hard times hit.
- Encourage clients to invest in their credit future.
- Implement an asset-based approach to credit building that recognizes that while bad credit will not disappear overnight, good credit can happen in an instant!

There are many good resources for practitioners to learn more about credit. The most important thing is you don't have to know everything about credit to help your clients build credit.

### Step 2: Know the Score

Often the credit woes of low and moderate income families are due less to the negative information on a credit report, but the lack of positive information. This is true not just for new Americans but for millions of American-born residents. Few businesses who transact and lend to families with no or low credit scores report on-time payment behavior. Even more unfair – almost all businesses report when accounts are delinquent or in default. It is a catch-22. Practitioners can improve their credit building services and tools by understanding the credit patterns of their community, and then the credit history of each client. It is not the score, but the credit profile at issue. Where do your clients borrow money and purchase goods? Do your clients have high credit card debt or no credit cards? Knowing the right questions to ask will help you get to know your client's credit profiles – and then help them make the right decisions to invest in their future credit.

- Take the time to know the credit issues of your target market.
- Integrate credit reports into the application or intake process.

### Step 3: Get Good Stuff Going

Good credit can happen in an instant. While past bad debt will not disappear overnight, it is a myth that a credit will not change for years. A credit profile (and score) can improve quickly and substantially with the start of good financial behavior including on-time payments on well-managed accounts actively reported to credit bureaus. Practitioners have seen client's scores jump 50 or 100 points in just six months with one new small credit line – even when clients do not pay back old debt. A good credit history can start today!

**Got Active Accounts?** Making on-time payments on active accounts reported to credit bureaus each month is the most important factor to building credit. Active Accounts are accounts with ongoing payment activity in the last 6 or 12 months.

## 11 Tips for Actively Managing Credit Cards

1. Have at least two active accounts.
2. Make at least minimum payments on-time each month for each account.
3. Work with creditors to pick a monthly due date that works with income schedule.
4. Keep debt low. Building high credit does not require building high debt. A \$50 loan and a \$5,000 loan will provide the same credit boost.
5. Manage at least one revolving loan such as a credit card. It is the best measure of credit behavior. Revolving loans do not just require on-time payments, but also requires the borrower to decide how much to borrow each month and how much to pay each month.
6. An available credit limit is not an opportunity to consume. Use a credit card once and lock the card away. Always carry a small balance.
7. Keep outstanding revolving debt below 50% of the credit limit at all times. Keeping debt at less than 30% of the credit limit is even better!
8. Ensure that the creditor reports the credit limit for the account. When a credit limit is not reported it may look like the card is maxed out when it is not.
9. Keep revolving accounts open – unlike installment loans, a credit card or line of credit can be open forever. This will help lengthen a credit history and keep total credit limit higher than outstanding debt.
10. Do not apply for new credit cards to replace old cards. Closing old cards and opening new cards will both have a negative impact on your score.
11. When possible, pay back more than the minimum, especially on high interest accounts.

### Step 4: Know the goal: Make a Credit Action Plan

As families start seeing the results of new asset building credit lines, they can start feeling better about planning for their future. This is the time to help clients connect credit to their specific financial goals – whether it is getting a new job, buying a home, starting a business, going back to school, buying a car, or just planning for the unexpected. Each type of goal requires different short, mid and long-term decisions about how to deal with new and past creditors.

Work with clients to connect credit goals to their asset goals:

- Create a Credit Builder Action Plan
- Build Credit into the Budget
- Build Alternative Credit
- Update and Correct Credit Report Information

### Step 5: Delve Deeper out of Debt

Getting out of debt is not easy, but armed with a rising credit score and Credit Action Plan, you can help your client implement achievable actions over a reasonable timeframe to make the sacrifice and hard work seem both realistic and manageable. Does \$5,000 in debt seem insurmountable to a client? Introductions to financial institution partners that can reduce interest rates, free tax preparation sites and the Earned Income Tax Credit, and tools for negotiating with creditors can help wipe this debt away in as few as 12-18 months.