



**CREDIT  
BUILDERS  
ALLIANCE**

# Build Credit. Build Assets.

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# What is credit?



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Credo: CRED o (kreed' o) v.  
trust

Credit : CRED it (kred' it) n.  
value; worth



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## Goals

By the end of this workshop, we hope you will:

- Better understand today's credit economy
- Value credit as a financial asset
- Have new strategies to build credit
  - Connect credit building to your diverse work
  - Asset-Based Approach to Read a Credit Report
  - Access credit reports and scores
  - Get Good Credit Going -- credit builder loans
  - Credit Reporting to major credit bureaus
  - Options to create alternative credit histories
- Options to measure outcomes with credit reports
- Find Credit Builder Toolkit a helpful clearinghouse for tools and information around credit building



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## CBA Mission

To create innovative solutions for asset building organizations to help low and moderate income families build stronger credit and financial access in order to grow their businesses and/or personal assets.



## CBA Board

### **CBA has a diverse active board representing:**

- ACCION International
- Center for Financial Services Innovation - ShoreBank
- Central Vermont Community Action Council/Community Capital of Vermont
- Church of the Brethren Credit Union
- Ethiopian Community Development Corporation EDG
- Justine Petersen Housing
- New Mexico Assets Consortium
- Opportunity Finance Network
- RUPRI Center for Rural Entrepreneurship
- Virgin Money USA (formerly CircleLending)



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# CBA's Work

**CBA is implementing its mission through three main activities:**

## **Innovative Products and Services**

[CBA Reporter](#) community lenders report borrower data through our unique partnerships with major credit bureaus.

[CBA Access](#) negotiating low cost credit reports for lending, credit education, and measuring outcome

## **Education and Training**

[CBA Toolkit](#) online resource sharing tools, strategies and best practices

[CB 5-Step Training and Workshops](#) as webinars and on-site trainings

## **Research and Awareness Raising**

[Longitudinal Research](#) with Justine Petersen & St. Louis University

[Credit Impact Handbook](#) how credit reports could provide a *cost-effective objective longitudinal* measure of economic self-sufficiency



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# Part 1

## Today's Credit Economy



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# Credit Industry Today

## Big Banks. Big Credit Bureaus.

- National credit bureaus consolidated data reporting processes and reduced intermediaries
- National scores facilitate Automated Underwriting Systems (AUS)



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# Credit Industry Today

## **Fair Credit Reporting Act**

- Credit bureaus more responsible for integrity and accuracy of data in databases
- Consumers have right to dispute information and receive verified response within 30 days
- Data providers need to report consistently and verify data upon dispute

But...all this in a **VOLUNTARY** system



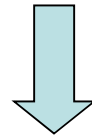
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# Credit Industry Today

All this in a **VOLUNTARY** for-profit system

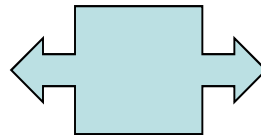
Relationships big & ?

Increased costs to reporting



Data in/Data out Issues

Underrepresented Low-Income  
And Minority Communities



Collection Agencies  
to the rescue!



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**Catch-22**

**Good Credit scores provide access**

**BUT**

Individuals, entrepreneurs and communities  
with low or poor traditional credit have  
few opportunities to build credit



## Why Credit?

Provides access to prime, safe financial services is increasingly determined by an individual's credit score.

Helps families build wealth – a home, a business, education.

Impacts opportunities and access to:

- rental housing
- car insurance
- auto purchases
- employment
- access to checking, savings, and investment accounts
- utilities and phones
- medical services



# Financial System: Cut Two Ways

40% of US population have no score or a low credit score

- 15% of the U.S. population - between 35-50 million people – have no credit files or thin files and are “unscorable.”
- 25% of the population have poor scores (lower than 650 FICO)

Low credit scores = “underbanked”

40% of US population are using alternative financial services  
(CFSI)



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my car broke down....

and I had the most  
peculiar safety net.



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## Two-Tiered Financial System

Credit Card(PIF) → 0% loan 30 days

Credit Card (balance) → 22% APR

PayDay Loan → 400% APR



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## Part 2

# Nonprofit Role in Today's Credit Economy



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# Credit Builder 5-Step<sup>©</sup>

## **Step 1 : Rethink: Credit as an Asset**

- Impart importance of good credit

## **Step 2 : Know the Score**

- Pull a credit report – Financial Resume – at every client intake

## **Step 3 : Get Good Stuff Going**

- Build good credit first before dwelling on bad debt.

## **Step 4: Create a Credit Action Plan**

- Integrate credit into income, saving, asset and budget goal planning

## **Step 5: Delve Deep out of Debt**

- Save first and then pay off debt



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# Credit Building Strategies

## **Step 1 : Rethink: Credit as an Asset**

“many people are creditworthy, but not credit educated”

- Impart importance of good credit
- Help your client “own” their credit report

-- it is their **FINANCIAL RESUME**



**Credit Builder Tool:** Credit Builder 5-Step



# Credit building is Asset Building

**“Credit building may be the most cost-effective and efficient asset building tool.”**

Robert Boyle, Justine Petersen Housing, St. Louis

## JP's Premise

- The single most important factor in developing and increasing long term assets is attaining and maintaining a high credit score.
- As advocates and practitioners we have a responsibility:
  - to recognize how important good credit is in our financial culture, and by contrast how debilitating bad credit is
  - to convey information to our client/customer about how to begin to get good credit and how to safeguard or improve her credit if hard times hit.



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**CBA Premise**

## **“Credit Score is a Financial Asset”**

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.



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# What is Credit Building?

**X Credit Repair** - help individuals remove information on the credit report they know to be true

**? Credit Counseling** - created to offer “debt management plans” as bankruptcy alternative

**! Credit Education** - general educational information around credit through websites, workshops, etc.

**! Credit Coaching** – goal-oriented relationship to offer strategies to change behavior so clients build and maintain credit and assets

**! Credit Building** - asset building products and services to help people create or improve their credit



# Client Approaches Overview

## **Case Management**

- Coordinate provision of resources and services for clients

## **Credit Counseling**

- Focus on a specific event or problem
- Deals with symptoms, not cause – i.e. too much debt, foreclosure
- Crisis orientation
- Shorter relationships provides help through issue - i.e. traditional credit counselor will offer debt management plan

## **Credit Coaching**

- Focus on skill building and changing behaviors
- Focus on long-term outcomes
- Teaching content based on client's unique self-defined needs and goals
- Ongoing, collaborative process



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# Credit Coaching

## Credit Coaching

### **What is ongoing, collaborative process?**

- Support to practice new behaviors
- Help identify resources without managing service delivery
- Empower clients to gain greater clarity on what is important to them in life
- Facilitate building a comprehensive plan that supports desired outcomes
- Effectively coach throughout the implementation of plan



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# Credit Building Strategies

## Step 2 : Know the Score

- Know the credit profile of your client base
- Pull a credit report at every client intake

What is driving the score? Is it what's on the report  
--- or what's NOT on the report.



### **Credit Builder Tools:**

Community Credit Profile Survey

Consumer Access to Credit Reports

Nonprofit Access to Credit Reports

Asset-Based Approach to Reading a Credit Report (in Outcome Handbook)



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# What's in your score

Traditional FICO

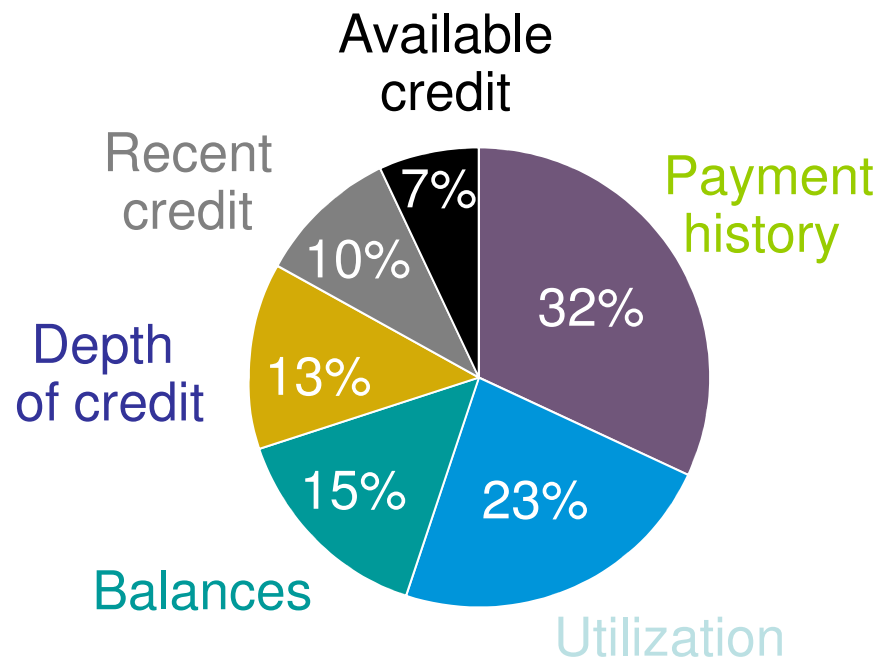
- **35%** - payment histories on your credit accounts, with recent history weighted a bit more heavily than the distant past.
- **30%** - amount of debt you have outstanding with all creditors.
- **15%** - how long you've been a credit user (a longer history is better if you made timely payments).
- **10%** - very recent history, based on your efforts to obtain loans or credit lines in the past few months.
- **10%** - mix of credit you hold, including installment loans (like car loans), leases, mortgages, credit cards.



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# VantageScore

## What is the new VantageScore?



- Created jointly by the three major credit bureaus
- Range is 500 to 1000 (FICO scores range from 350 to 850)
- Same model for all three bureaus -- only score difference will be different data across bureaus
- Scores for thin file and bankruptcy populations

Source: [www.vantagescore.com](http://www.vantagescore.com)



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# What is *alternative* credit?

Demonstrating good financial behavior based on information **not** in a traditional credit report

- Fannie and Freddie require mortgage underwriters to accept Rent plus 2 lines of “alternative credit” when no credit exists

**PRBC (now Microbilt)** is a new credit reporting agency that allows individuals to build an alternative credit report

- Taking alternative credit out of the shoebox and Making alternative credit verified and automated

Future: Utility and Telephone payment reporting.

**What does this mean for consumers?**



# Accessing Credit Reports and Scores

## Client Access

[www.annualcreditreport.com](http://www.annualcreditreport.com); [www.myfico.com](http://www.myfico.com)

## Non-profit Access

- Lenders can pull Hard Inquiry reports for underwriting
- HUD Housing and Credit Counseling certified can pull soft inquiry

**CBA *new* partnership with TransUnion!**  
ALL NONPROFITS can pull soft inquiry reports from TU



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# Credit Building Strategies

## Step 3 : Get the Good Stuff Going

- Build NEW good credit first before dwelling on old bad credit. New on-time payments improve your credit quicker.
- Partner with a financial institution to open a Secured Credit Card
- Create a Credit Builder Loan. Report it through CBA.



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# Just in Time Education: Offer small loans

## CBA Reporter

Whether you have 5 loans or 500,  
CBA is a one-stop shop for reporting!



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*“Enabling CBA’s clients to report data to us expands the credit system to many individuals who have not had the benefits of an established credit history in the past. We applaud CBA for their pioneering work, and we are looking forward to seeing the results of our joint efforts.”*

Zaydoon H. Munir, Sr Vice President, Experian



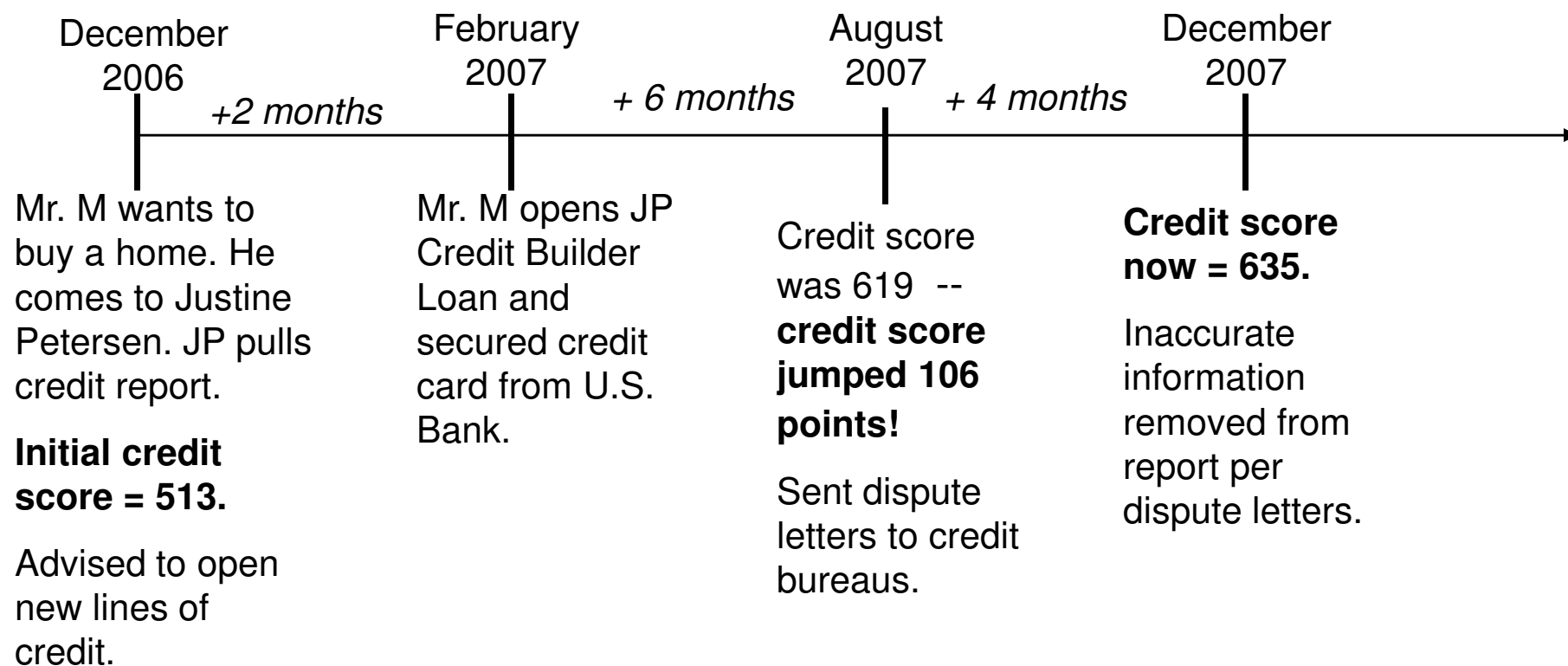
# JP Credit Builder Loan

Loan Amount: \$150.00  
Interest Rate: Flat \$30.00  
Term: 12 months  
Monthly Payment: \$15.00

## Success:

- Ms. Jones filed Chapter 7 Bankruptcy in January 2006. In September 2006, her credit report accurately reported zero balances on all accounts and no credit score. She opened a Credit Builder Loan and made six on-time payments. In February 2007, her credit score is 637.
- Ms. Clemons had \$4,500 in unpaid collections and a \$1,500 civil judgment. In July 2006, she had no good lines of credit. Her credit score was 457. In September 2006, she opened a Credit Builder Loan and a US Bank secured credit card. She made six on-time payments to each. In February 2007, she still had \$6,000 in unpaid collections and civil judgment and her credit score is 557 - a 100 point increase.

# Mr. M



# Mr. M cont'd

May  
2009

Mr. M is serious  
about buying a house

**Credit score = 652**

12 bounced checks  
reporting on credit  
report. These are not  
his, client has never  
bounced a check.

Sent a dispute letter.

October  
2009

Client comes in and  
we pull credit.

**Credit score = 663**

Bounced checks are  
taken off of credit  
report.

December  
2009

Mr. M's wife has  
twins. Family has  
decided to put off  
homeownership till  
things settle down.



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# Credit Building Strategies

## Step 4: Create a Credit Action Plan

- Create a plan to meet credit builder goal
- Review the credit report once a year
- Save!
- EITC refunds



Credit Builder Tools:  
Credit Builder Action Plan  
Practitioner Tip Sheets – EITC, Workforce Development  
Tips for managing a credit card



# CPCDC Employee Loan Program

**Loan Amount:** \$500-\$1,500

**Target Market:** Tribal employees

**Loan Type:** Unsecured

**Interest Rate:** 16%

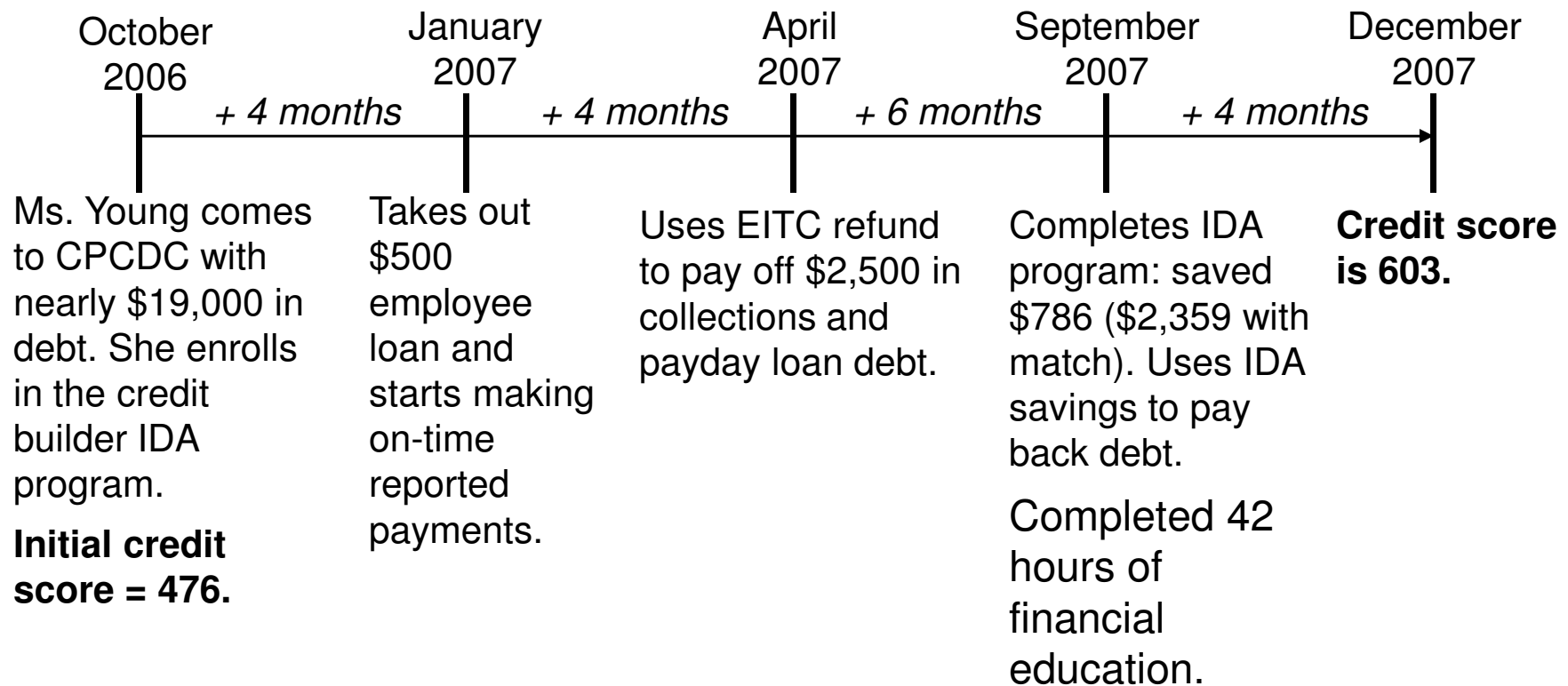
**Term:** 12-18 months

## **Success story**

Ms. Anderson took out an employee loan in April 2006. She did not have a credit score and her credit report had old collections & other history not reporting for several years. In August 2007, she had paid off the first employee loan and her credit score was 667. She took out a second loan and in March 2008, she was able to finance a car, something she feels she would not have been able to do before taking out the loans.



# Ms. Young





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## **Credit Builder Products From the Field**

### **People's Community Partnership Federal Credit Union**

#### **Fresh Start Loan**

**Loan Amount:** \$300-\$3,000

**Interest Rate:** 6%

**Term:** up to 24 months

**Target Market:** the unbanked/underbanked in Oakland, CA

**Loan Type:** Secured (by savings accumulated from loan payments. Loan funds are released after payment schedule is completed.)



# Chautauqua Opportunities

## Appliance Loan

**Loan Amount:** \$500 - \$1,400

**Loan Type:** Secured

**Interest Rate:** Prime +3 (around 8%)

**Term:** 1-3 years

**Target:** very low-income clients

### Success Story:

Annie, a single mother, works 3 jobs to provide for her children. She had no stove or fridge. She was cooking on a hot plate and storing food in a cooler. Her children were at risk of removal from the home by the state protective services agency. With an appliance loan from CODI, she has been able to get a refrigerator and a stove in her home and keep her children.



## Credit Builder Loan

### Client Profile:

More than 50% of 1,000 clients has no credit profile  
Other 50% have credit score average of 600.  
Most low score from default/bad tradelines only.  
Lots of Payday loan debt led to debt consolidation loan

**Product Loan Amount:** up to \$2,500

**Term:** 24 months

**Interest Rate:** 10.25% -12.25%

### Process:

- 1) Credit report review
- 2) Confirm outstanding debt
- 3) Complete Credit when Credit is Due course
- 4) Receive loan up t \$2,500 to pay off debt
- 5) Build credit history and access business loans



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# Credit Building Strategies

## Step 5: Delve Deeper out of Debt

- Dispute credit report inaccuracies
- Negotiate old debt – make lump sum payments
- Consolidate debt into lower cost loan



Credit Builder Tools:

Negotiating with Collections Agencies

Hot Topics: Medical Debt and Credit



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# Credit Outcome Measurement Tool

Credit reports could provide a *cost-effective objective longitudinal* measure of financial behavior and behavior change to look at client and community outcomes.

Credit reports and scores are recognized and understood by many types of businesses = don't need to explain as indicator.



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# Indicators from Credit Report

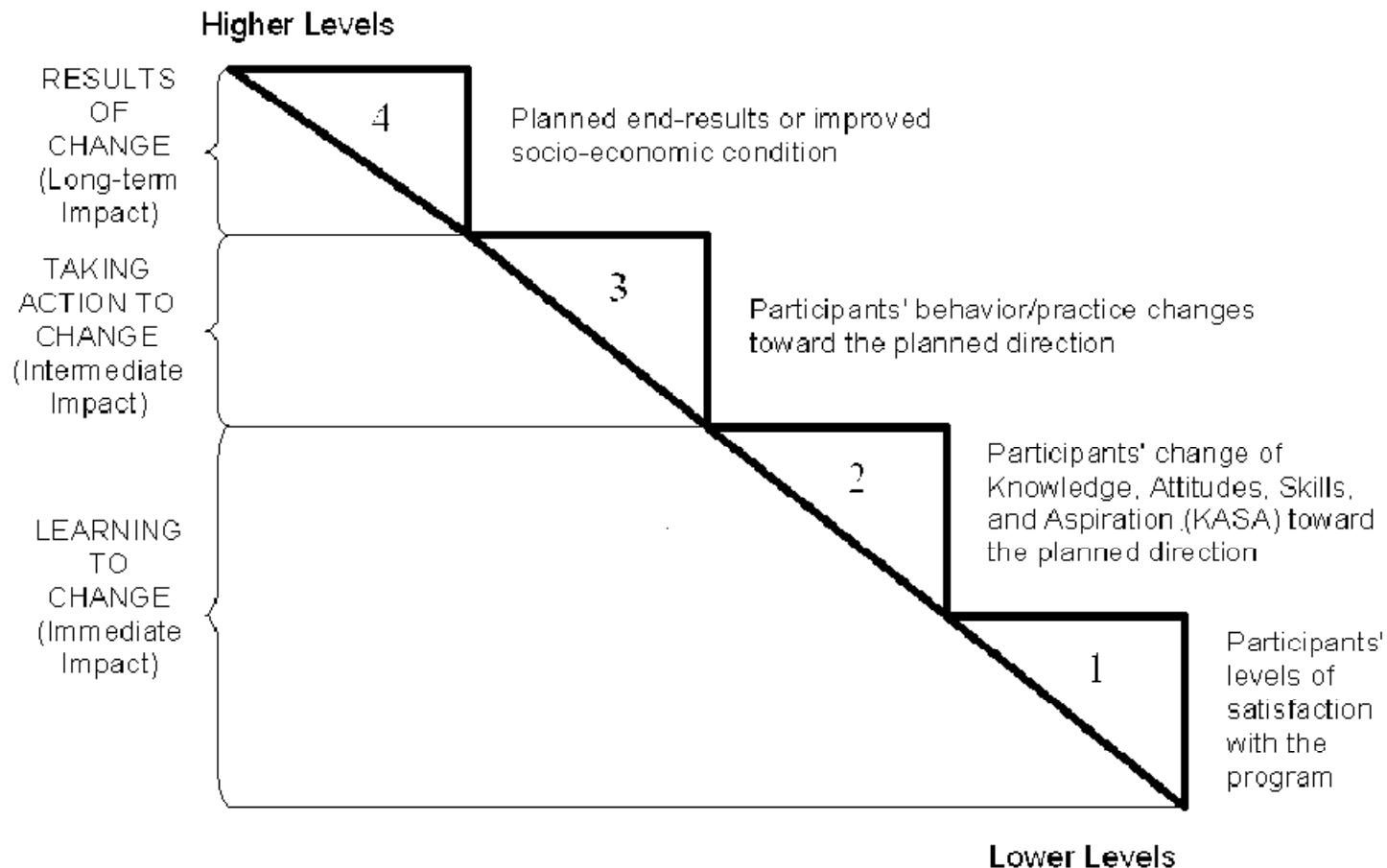
- Types of Financial Relationships
- Payment Behavior
- Debt
  - Total Debt
  - Debt to Credit Ratio
- Use of Credit Cards
- Access: Credit Score
- Possible Other: Asset Purchase and Maintenance (home, vehicle), Interest Rates



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# NEFE Impact Hierarchy

**Diagram 2. Impact Hierarchy**





# CREDIT BUILDERS ALLIANCE

- CBA REPORTER
- CREDIT BUILDERS TOOLKIT
- CBA IN THE NEWS
- ABOUT CBA
- CONTACT US

**Welcome to Credit Builders Alliance.** We are a non-profit organization creating new solutions for community lenders and asset building organizations to report client financial behavior to the major credit bureaus and help families build stronger credit profiles and scores.

Helping Nonprofits  
Build Stronger Credit  
in their Communities



### Be a CBA Reporter



**“Enabling CBA’s clients to report data to us expands the credit system to many individuals who have not had the benefits of an established credit history in the past. We applaud CBA for their pioneering work, and we are looking forward to seeing the results of our joint efforts.”**

Zaydoon H. Munir, Senior Vice President, Experian

CBA and Experian have created a unique model – from application to reporting to dispute processing – so community lenders of all sizes can report.

**DownHome Solutions** and **CommonGoals** software companies are important partners -- both offer

### Innovative Solutions



**Entrepreneurs Dream**  
Four Bands Community Fund introduces Credit Builder Loan up to \$2,500 to enhance seamless customer-service for entrepreneurs.

[Learn More >>](#)

### Did You Know?

#### It's not cool to be THIN

Credit bureaus define less than 3 lines of credit a THIN FILE.

[Read More >>](#)

### News

Community Lenders can now apply to CBA to report to Experian.

Look for CBA Exhibit at AEO Conference Kansas City May 15-18

### Community Lenders

"The single most important means for our CDFI to graduate micro-entrepreneurs and homebuyers into the formal banking system is to

### Asset Builders

"Credit building may be the most cost-effective and efficient asset building tool."

Robert Bovle.

### Credit Bureaus

CBA's unique business model can help you access reliable, high-quality data from community lenders on unbanked and underbanked



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Helping Clients Build Credit  
Federal Reserve Bank of Boston:

[www.bos.frb.org/commdev/c&b/2007/fall/](http://www.bos.frb.org/commdev/c&b/2007/fall/)