



**CREDIT
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This training is sponsored by:



Build Credit. Build Entrepreneurs.

All About Credit Reports and Scores For SBA Microloan Intermediaries

August 17, 2010

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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 webinar, we hope you will:

- Better understand the credit reports and scores available and relevant to low-income and underserved entrepreneurs
 - FICO Scores
 - Alternative Scores – Vantage, FICO Expansion, PRBC
 - Small Business Scores
- Value credit (score) as a financial asset
- Have new strategies to help entrepreneurs build credit as an asset
 - Credit Report as Financial Resume
 - Asset-Based Approach to Read a Credit Report
 - Access to credit reports and scores
- Options to measure outcomes with credit reports and scores
- Find Credit Builder Toolkit a helpful clearinghouse for 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.



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CBA Board

CBA has a diverse active board representing:

- ACCION International
- Capital One Bank
- Center for Financial Services Innovation/ShoreBank
- Central Vermont Community Action Council
- Church of the Brethren Credit Union
- Ethiopian Community Development Corporation EDG
- Justine Petersen Housing
- Mission Asset Fund
- Prosperity Works – New Mexico Assets Coalition
- Opportunity Finance Network
- RUPRI Center for Rural Entrepreneurship



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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 low cost credit reports for lending, credit education, and credit outcome tracking

Knowledge Sharing

CB Toolkit online resource sharing tools, strategies and best practices

"Credit is an Asset" Training including Financial Capability, Credit Outcome and Credit Builder Loan Development

Raising Awareness

Longitudinal Research with Justine Petersen and LISC

Credit Outcome Tracking *cost-effective longitudinal* measure of financial behavior and self-sufficiency



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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, Sr Vice President, Experian



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The History of Credit Bureaus and Today's Credit Economy



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Credit Reporting – the beginning

Small Business. Small Bureaus.

- Small retail merchants traded financial info about their customers
- Merchant associations turned into small credit bureaus
- Only negative credit information was reported



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Credit Reporting Today

Small to Big Business.
Small to Big Credit Bureaus.

- Addition of positive information
- Addition of big banks sharing risk data
- Expanded use of credit scoring & Automated Underwriting Systems (AUS) nationwide



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Credit Industry

Fair Credit Reporting Act (1971-2003)

- 1971: Consumers have right to view, dispute, correct information
- 1996: Credit bureaus 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
- 2003: Consumers have right to “fairly” priced score

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



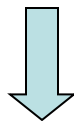
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Credit Industry Today

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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Financial System: Cut Two Ways

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

- 35 to 54 million Americans have insufficient credit information to qualify for affordable mainstream credit
- The number of thin-file and no-file Americans may exceed 70 million, if immigrants are included
- 25 percent of the population have poor scores (lower than 650 FICO)

Low credit scores = “underbanked”

40% of US population are using alternative financial services



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Catch-22

**Good Credit scores provide access for most
business transactions**

BUT

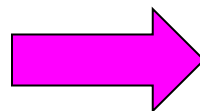
**Individuals, entrepreneurs and communities
with low or poor traditional credit have
few opportunities to build credit**



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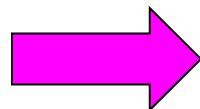
Two-Tiered Financial System

Credit Card(PIF)



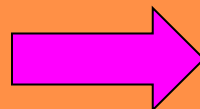
0% loan 30 days

Credit Card (balance)



22% APR

PayDay Loan



400% APR



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Good Credit = Asset

Yes! helps families build wealth – a home, a business, education.

Yes! offers access to safe, affordable financial services

Yes! impacts opportunities with growing number of businesses:

- landlords/rental housing
- insurers
- auto lenders
- employers
- banks -- checking, savings, and investment accounts
- utilities and phones
- medical providers



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Credit Builder 5-Step[®]

Step 1 : Rethink: Credit as an Asset

- Credit report as Financial Resume
- Access to Credit Reports

Step 2 : Know the Score

- Thousands of Scores

Step 3 : Get Good Stuff Going

- Build good credit (financial relationships and behavior!)

Step 4: Create a Credit Action Plan

Step 5: Delve out of Debt



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Credit Building Strategies

Step 1 : Credit as an Asset

Help your client to “own” their credit report

— It is their **FINANCIAL RESUME!**



Credit Builder Tool: Credit Builder 5-Step



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Accessing Credit Reports and Scores

Consumer Access to Reports

- Credit Education Reports (B2C)
- Always a soft inquiry report (no impact on score)
- 100% match (no other “John Smith” gets his data)
- No SSN, no online report - EIN not accepted
- Original Creditor Info to connect collections
- List of Soft Inquiries
- Lists Date of First Delinquency
- Steps on how to dispute/correct errors



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Accessing Credit Reports and Scores

Reports

Free consumer report from each of three bureaus:

- VantageScore from TU & Experian
- FICO from Equifax
(www.annualcreditreport.com)
- May purchase credit reports with FICO scores for TU & Equifax (www.myfico.com)



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Accessing Credit Reports and Scores

Scores

Quizzle (www.quizzle.com)

- Experian soft credit report and score
- Additional tools available

Credit Karma (www.creditkarma.com)

- TransUnion soft credit report
- Additional tools and activities available “Credit Simulator”



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Accessing Credit Reports and Scores

Business Access (B2B)

- Can be pulled without SSN
- Not 100% Match
 - Report data can be different than consumer education
 - Business is credentialed as “trusted entity”
- Creditor score based on report and product may be different
 - Different report data
 - Different scores – mortgage score, credit card score, auto score
- Some Original Creditor masked for privacy
- No list of Soft Inquiries



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Accessing Credit Reports and Scores

Non-profit Access (B2B)

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
For Financial Education, Training and Outcome Tracking

Partner: TransUnion

Costs:

Set-up Fees from \$100-\$375

No monthly fees or minimums

Credit Reports from \$4.00 - \$5.65 with FICO scores



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Credit Building Strategies

Step 2 : Know the Score

- What is driving the score?

 - What's on the report *or what's NOT on the report.*

- There are THOUSANDS of scores and multiple FICO scores



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

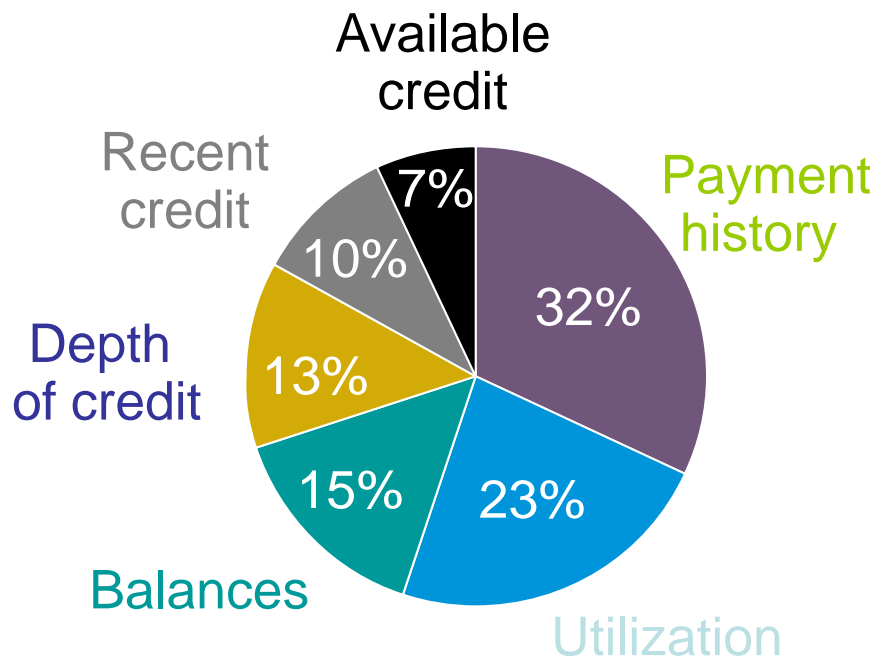
- **35%** – Payment histories on your credit accounts, with recent history weighted a bit more heavily than the distant past.
- **30%** – Amount of debt you have outstanding with all creditors.
- **15%** – How long you've been a credit user (a longer history is better if you made timely payments).
- **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



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All the Scores

Creditor score based on report and product may be different:

- Different scores – mortgage score, credit card score, auto score
- Changes in score algorithms over time
- Changes in underwriting over time
- Changes in consumer behavior – mortgage v. credit card payment, which is priority
- Icons of each type of product



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**alternative
credit**

Financial information **NOT** in traditional credit report

Utility Data - AFS - Rent Bureaus - Telecomm

Payday Loans - Facebook - Online Shopping

FICO Expansion Score: Microbilt (formerly PRBC) collects alternative data, creates report and sells alternative scores

Bank's Custom Scores: Most FIs create own scores using bureau data plus many other internal and external data sources



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Credit Building Strategies

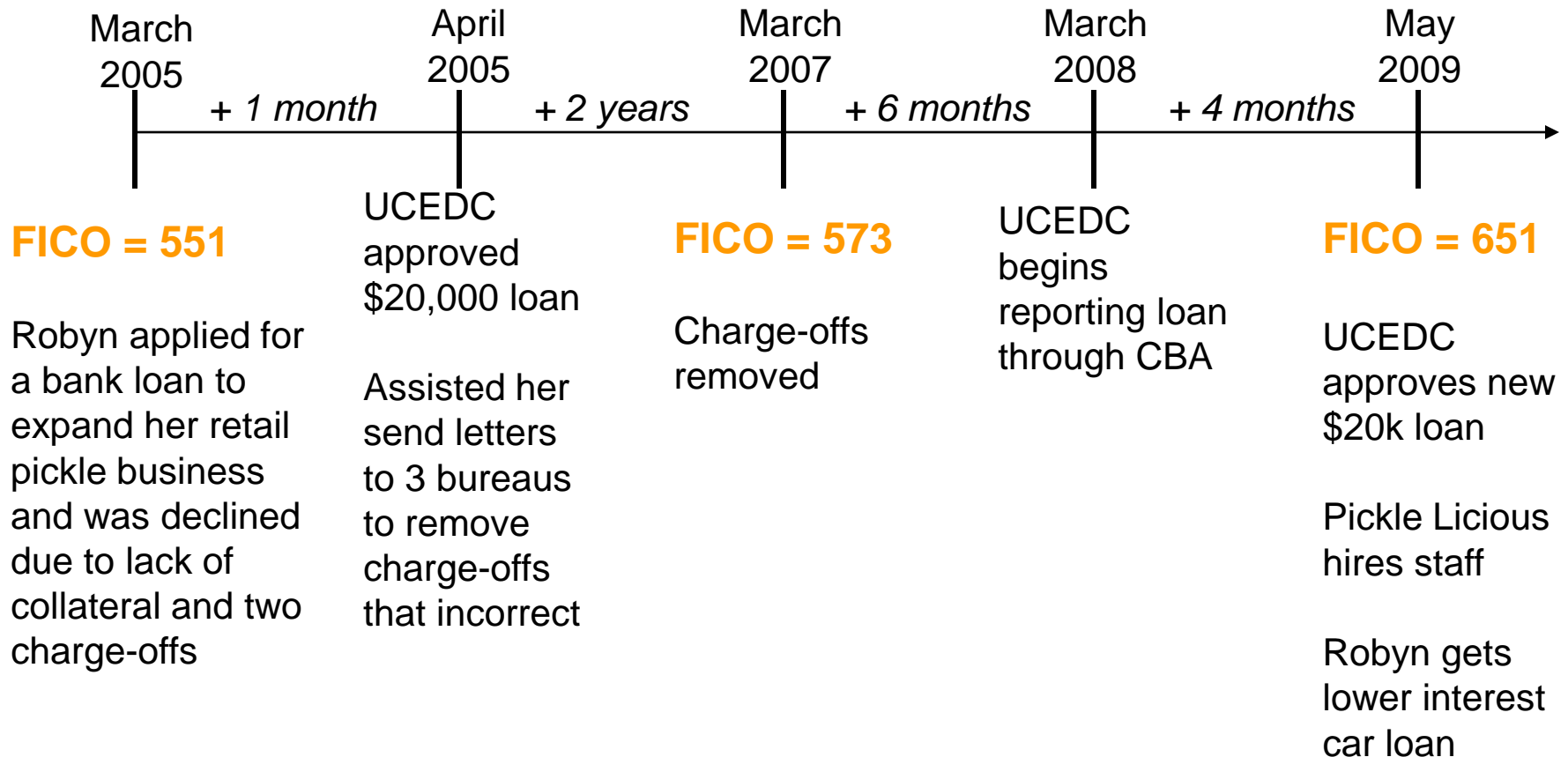
Step 3 : Get the Good Stuff Going

- Build NEW good credit first before dwelling on old bad credit. New on-time payments improve your credit quicker.
- Credit Building Tools: Secured Credit Card, Small Dollar Credit Builder Loan



Robyn

Single mom, two kids





justine PETERSEN
BUILDING ASSETS. CHANGING LIVES.

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.



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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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Be part of CBA!

Three ways to be part of CBA:

CBA Reporter. Community lenders can provide borrower data through our unique partnerships with major credit bureaus.

CBA Access. Nonprofits organizations can pull credit reports for lending, credit education, and measuring outcome.

CBA Member.

CBA Toolkit is an online resource to collect and share tools and best practices for asset-based credit building strategies.

Webinars and Workshops as webinars and on-site trainings.

Consulting product development, outcome tracking

Credit Impact Measure Research credit reports as *cost-effective, objective, longitudinal* measure of economic self-sufficiency.



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- > 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 >>](#)

Community Lenders

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

Did You Know?

It's not cool to be THIN

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

[Read More >>](#)

Asset Builders

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

Robert Boyle.

News

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

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

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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For further information, see the Aspen FIELD Funder Guide:
[Microenterprise Development Organizations as Credit Builders](#)