Step 1: Re-Think Credit = Asset

In today's economy, credit is a valuable financial asset. Credit opens up doors to safe, affordable capital so we can obtain assets, manage emergencies and move ahead into financial self-sufficiency. Building, re-building, and maintaining a good credit score may be the single most important factor in obtaining long term assets - cars to get to work, homes, education, capital for business.

Families 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.

However low and moderate income communities often face the negative side of our credit system - lack of access to mainstream lenders keeps them locked out of the mainstream credit system and drags them into predatory debt traps.

As an asset building practitioner, it is important to understand that building credit is an integral part of the asset building pathway, and not an obstacle or intrusion to building assets in low-income communities. We help our clients make monthly deposits into a savings account, and we can also help them make monthly payments to maintain active reportable lines of credit. We need to explain how the mainstream U.S. credit industry works -why credit has become so important, what gets reported and what doesn't , the many ways credit impacts our lives, and how not investing in good credit leaves us out of the mainstream financial system and vulnerable to predatory lenders.

As practitioners, we have a responsibility to:

- Understand how and why the US credit industry works
- Integrate credit building into asset building pathways
- Recognize credit as an asset and not an obstacle or intrusion to our asset work
- 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 important cost-savings and asset building opportunities that good credit brings
- Understand the role of good credit in helping families move from unbanked and underbanked to bankable
- 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
- Help clients make monthly deposits into savings and monthly payments to reportable lines of credit
- Implement an asset-based approach to credit building that recognizes that while bad credit will not disappear overnight, good credit - just like savings -- can begin today!

There are numerous good resources to learn more about credit. Most importantly, you do not need to know everything about credit scores to help your clients build credit.

Step 2: Know the Score

A credit report is a financial resume. It is our financial reputation with the world. However, unlike professional resumes, credit bureaus and not credit seekers define, collect and format the information. And these companies score the information using complicated mathematical algorithms.

For the underbanked, no score or a low score often has more to do with what information is not on the report, than what is on the report. Do you have a client with a perfect history paying rent, utility bills, and even car loans on-time? Clients with a low credit score may not lack creditworthiness. But they still need to build their credit history.

A lack of recent active positive payment information is the number one feature that keeps a score low. This is true not just for New Americans with no credit file but for millions of American-born residents in low-income and underbanked communities. Unfortunately, most businesses who lend to low-income or low-credit families will report bad information when an account is overdue, but they do not report on-time payments.

Learn more about today's credit economy and why many low-income families do not have active accounts.

In today's credit economy, good credit requires good financial behavior AND the public demonstration of our good behavior - we need to make on-time monthly payments and have them reported to a major credit bureau.

CBA's asset-based approach to credit building often starts at recognizing what is not on the report first. When reviewing credit reports, it seems appropriate to focus on the information on the credit report. However, for most underserved and underbanked populations what is on the report is all negative information - late payments, collections, outstanding debt, and judgments. This is because most creditors and businesses report when they have **not** been paid on time however many businesses do not take the time and expense to report the good ongoing monthly payments. This is a catch-22 for families outside of the mainstream credit system. It can be difficult to find a creditor to extend credit, report it and help new-to-credit into the mainstream.

By integrating credit reviews into the intake process of your projects, you can ensure both you and your client know their financial resume. It is a good diagnostic of the point in time. Whether you are an IDA practitioner, workforce development center, homebuyer program, microenterprise lender, financial education counselor or part of an EITC campaign, pulling a credit report first is a good way to begin working with your clients towards financial economic success. Credit reviews give you that financial snapshot of their financial history, knowledge and behavior. It can help you recognize what patterns the client needs to change - and recognize when they need to build relationships with creditors and financial institutions that help them build credit and wealth instead of strip it.

It is also helpful to understand the credit issues and needs of your community -- not just the score, but the credit profile. Where do your clients borrow money and purchase large 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.

- Do they suffer from no credit or poor credit?
- Have they been locked out of financial products that report to the major credit bureaus?
- Do they have medical debt and old collections that are starting to age?
- Do they have a history of paying their bills on-time?
- Do they have credit relationships with banks or credit unions or are they just using a checking account?
- Do they use payday lenders to get through their monthly budget?
- Do they purchase cars from car dealers working on an "Opportunity Price" Buy-Here Pay Here model?

CBA's Credit Profile Survey can help you assess your community's credit issues and needs!

Help clients put Credit into Action with a Credit Action plan including:

- Reviewing a credit report at every client intake
- Encouraging clients to "own" their credit history but think to the future
- Help them get good credit going by paying their bills on time and having them reported to credit bureaus
- Build a Credit Building Plan with short and long-term goals and tasks
- Connect clients to credit unions and banks

Step 3: Get Good Stuff Going

A credit profile (and score) can improve quickly and substantially with the start of good financial behaviors, including on-time payments on well-managed accounts actively reported to the credit bureaus. Practitioners have seen clients' scores jump 50-100 points in just six months with one new, small line of credit, 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 defined as accounts with ongoing payment activity in the last 6 or 12 months. Remember that improving your credit score does not require building high debt. An active account on a $50 loan and an account on a $5,000 loan will provide the same credit boost.

Clients with no Active Accounts? Consider offering them a small credit builder loan or refer them to a community bank or credit union partner? Typical credit builder products include:

- **Secured Credit Card** - a client receives a credit card up to the amount in a custodial bank
- **Secured Consumer Loan** - a client receives a loan up to the amount in a custodial bank account
- **Credit Builder CD Loan** - offered by many credit unions, this product does not require a client to deposit savings upfront, but allows them to purchase a Certificate of Deposit through installment payments. At the end of the term, they own the CD with their savings goal.
- **Unsecured Credit Builder Loan** - a small unsecured loan offered by CDFI's to help clients build a credit history. These are generally also installment loans. Learn more Innovations.

Learn how Mr. R was able to improve his credit score with a credit builder loan!

What about building Alternative Credit

Alternative credit refers to information that is usually not on a traditional credit report. Alternative credit can be helpful to those that are new to the credit or those that may have poor credit and need to have "good" information added to their report. Common alternative credit sources can include:

- Rent payments
- Utility payments
- Telecommunication payments: cell phone, land phone, internet service, cable
- Child support payments

Learn more about Alternative Credit and how to get it on your credit report.

Step 4: Know the Goal

As families begin seeing the results of new asset-building credit lines, they may start feeling better about planning for their future. This is the time to help clients connect credit to their specific 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.

Different types of financial goals require different credit scores and different short, mid and long-term decisions about how to deal with new and past creditors. A homebuyer client, for example, would have to make a different set of credit decisions than a micro-entrepreneurship client.

As a practitioner, you may consider working with your client to:

- **Create a Credit Action Plan**
- **Build credit into the budget**
    - Include Active Accounts into the monthly budget
    - Track upcoming payments on an Active Account Payment Schedule to help ensure you make on-time payments.
    - Re-evaluate budgets every six months to see if a higher credit score or new bank relationship can help you re-finance debt and lower your expenses
    - Budget to save each month to pay back old debt. Once an account has gone into default or collections, it is better to save money and then negotiate a lump sum settlement with the creditor.

Step 5: Delve Deeper out of Debt

Myth Dealing with debt should be your first priority when helping clients build credit.

Fact Focusing on getting good stuff going can be a more effective strategy for building credit.

If you have gone through Steps 1 through 4, then you are now ready to help your client delve deeper out of debt.

Solutions to dealing with debt:

- Dispute inaccurate info on your report. Write letters to the credit bureaus to dispute this information. Click here for information on how to do this.
- Negotiate with collection agencies. Paying off collections incrementally is not recommended as it could re-activate an old account and lower an individuals score. Instead, try to negotiate a lump sum payment with creditors to pay off an old debt once and for all.
- Use your EITC or tax money to pay off collections in one lump sum.
    - To find free tax prep solutions, check out the IRS website for programs OR
    - United Way also has free tax prep programs for low income families.

Disputing Inaccurate Information on a Credit Report

The FCRA gives consumers the right to dispute information on their credit report that they believe to be incorrect.

It is recommended that before taking a dispute directly to the credit bureaus, a consumer takes it to the relevant lender to try to resolve the issue. If the disputed information is incorrect, the lender can then communicate with the credit bureaus to get it taken off of the consumer's credit report.

You can dispute inaccurate information on a credit report with the credit bureaus by telephone, mail, or online:

Experian's National Consumer Assistance Center
P.O. Box 2002
Allen, TX75013
1-888-EXPERIAN

Equifax Information Services LLC
P.O. Box 740256
Atlanta, GA30374
1-800-685-1111

TransUnion Consumer Solutions
P.O. Box 2000
Chester, PA19022-2000
1-800-916-8800

The US Federal Trade Commission recommends including the following information in a dispute letter:

- Your complete name and address
- Clear identification of each item in your report that you wish to dispute
- State the facts, provide an explanation of why you dispute the information
- Request that the information be removed or corrected
- Indicate what documents you are enclosing
- A copy of your report with the disputed items circled (optional)
- Send your letter by certified mail, and request a "return receipt"
- Also, keep copies of your dispute letter and enclosures