



Credit as an Asset: Native-Centered Education and Products

September 17, 2019

NAIHC Asset Building Conference

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Thank You



CBA's Partnership with NAIHC

Pathways Home:

A Native Homeownership Guide

Developing a supplemental credit building module



Offer CBA membership to 14 Native Organizations



Initiate rent reporting for 5 Tribally Designated Housing Entities or Tribal Housing Developments



CBA Credit Building Community



Good Credit is an Asset

CBA helps organizations move people from poverty to prosperity by supporting credit building:

- **Programs**
- **Practitioners**
- **Products**
- **Policies**





Credit Building



Why Credit Building?

Pop Quiz: Credit impacts which of the following?

How much I pay for financial products?

Yes

No

My security deposit for rental housing?

Yes

No

If I'll need a security deposit for utilities?

Yes

No

If I'll need a security deposit or cosigner for my cell phone plan?

Yes

No

If I'll be able to be hired at certain jobs?

Yes

No

How much I pay for insurance?

Yes

No

Why Credit Building?

Increases *Access, Affordability, and Options* for...

- Financial products
- Insurance products
- Rental housing
- Asset and wealth building
- Utilities
- Employment
- Cell phone plans

Building Credit

Saving Money

Financial Stability

Homeownership

What is a Good Score?

POOR CREDIT <i>(sub-prime)</i>	FAIR CREDIT <i>(near-prime)</i>	GOOD to EXCELLENT CREDIT <i>(prime/super-prime)</i>
<ul style="list-style-type: none">! Viewed by lenders as high risk! May be denied for credit altogether! Loans and credit that are approved will carry high interest rates	<ul style="list-style-type: none">■ May be eligible for reasonable or good rates and terms■ Co-signor or deposit may be required	<ul style="list-style-type: none">✓ Eligible for very good or the best rates and terms✓ Viewed by lenders as dependable and low-risk borrowers
300 350 400 450 500 550 600 650 700 750 800 850		

Note: Based on FICO® Score ranges and distributions. As there is no one score and ranges are not static, what is a “good score” depends on the lender/ business as well as overall consumer performance at any given time.

Why Credit Building?

- ▶ **Households at all income levels rely on credit to manage cash flow, cover expenses, and meet goals**
- ▶ **Access to credit can provide immediate access to money in cases of emergencies**
- ▶ **Good credit can help to reduce household expenses and enable saving**
- ▶ **Good credit can help you achieve your goal of homeownership.**

**Credit Building can expand your options and save you money if used wisely.
Have access to credit before you need it!**

Scenario: Jade's Story

Jade works part-time as a housekeeper in a hotel. Her income varies based on the season, weather, scheduling, and other factors.

Scenario: Jade

What are Jade's options when she has a slow week and does not have enough money to meet her expenses?

High Cost

Low/No Cost

Pawn Shop

Payday Loan

High cost loan or credit

Borrow from family or friends

Use savings

Work extra

Use credit card and pay back in full by due date

Scenario: Jade's Story Continued

Jade has been saving her per capita payment from her tribe and now has enough money for a down payment on a car.

She is shopping for a used vehicle which she'll use to work as a rideshare and delivery driver to supplement her income.

Auto Loan Rates Based on Credit Score

How will Jade's credit score impact her loan cost?

\$10,000 AUTO LOAN			
5 year term			
Score	Interest Rate	Monthly Payment	Total Interest Paid
500	17.214%	\$250.00	\$4,981.00
620	11.34%	\$219.00	\$3,147.00
720	4.781%	\$188.00	\$1,263.00
760+	Even lower rates may be available for excellent credit scores!		

Example provided for educational purposes only. Rates will vary.

Why Credit Building?

Increases Cash Flow and Reduces Expenses

\$10,000 AUTO LOAN 5 year term			
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760+	Even lower rates may be available for excellent credit scores!		

Jade's Potential Savings:

Each Month = \$62
Over 5 years = \$3,718

Example provided for educational purposes only. Rates will vary.



Connecting Credit Building with Homeownership

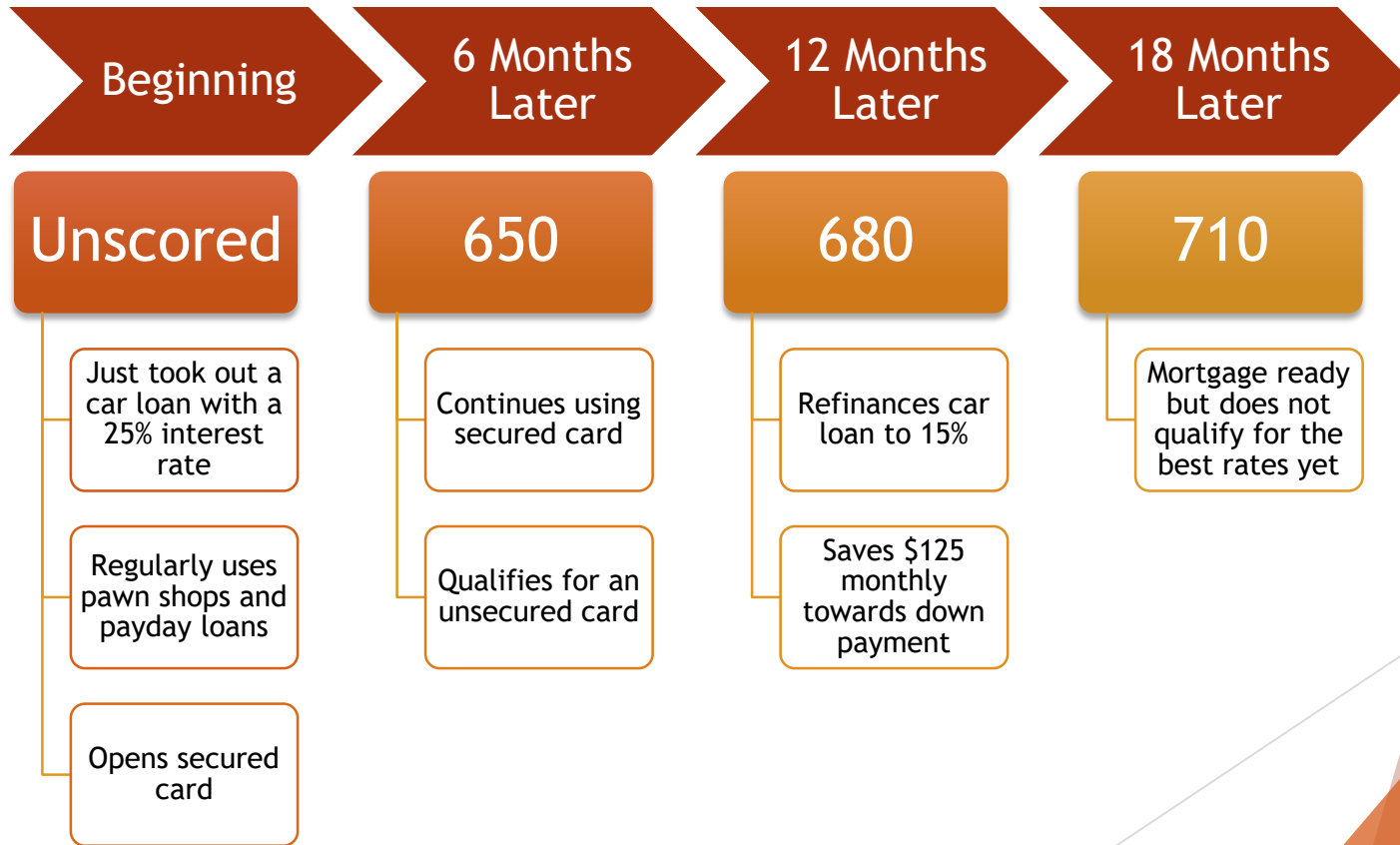
Credit Building and Your Goals

What is the *link* between good credit and your financial goals?



Connecting Credit and Homeownership:

Tom



Discussion: Tom

- ▶ Should Tom apply for a mortgage with his 710 credit score or wait until his score is higher?
- ▶ What other factors might influence his choice?

How would Credit Building help Tom?

Increases Cash Flow and Reduces Expenses

\$250,000 MORTGAGE			
30 year fixed			
Score	Interest Rate	Monthly P&I Payment	Total Interest Paid
<620	Not Approved		
620	5.464%	\$1,414.00	\$258,979
760	3.875%	\$1,176 .00	\$173,213

Example provided for educational purposes only. Rates will vary.

Why Credit Building?

Increases Cash Flow and Reduces Expenses

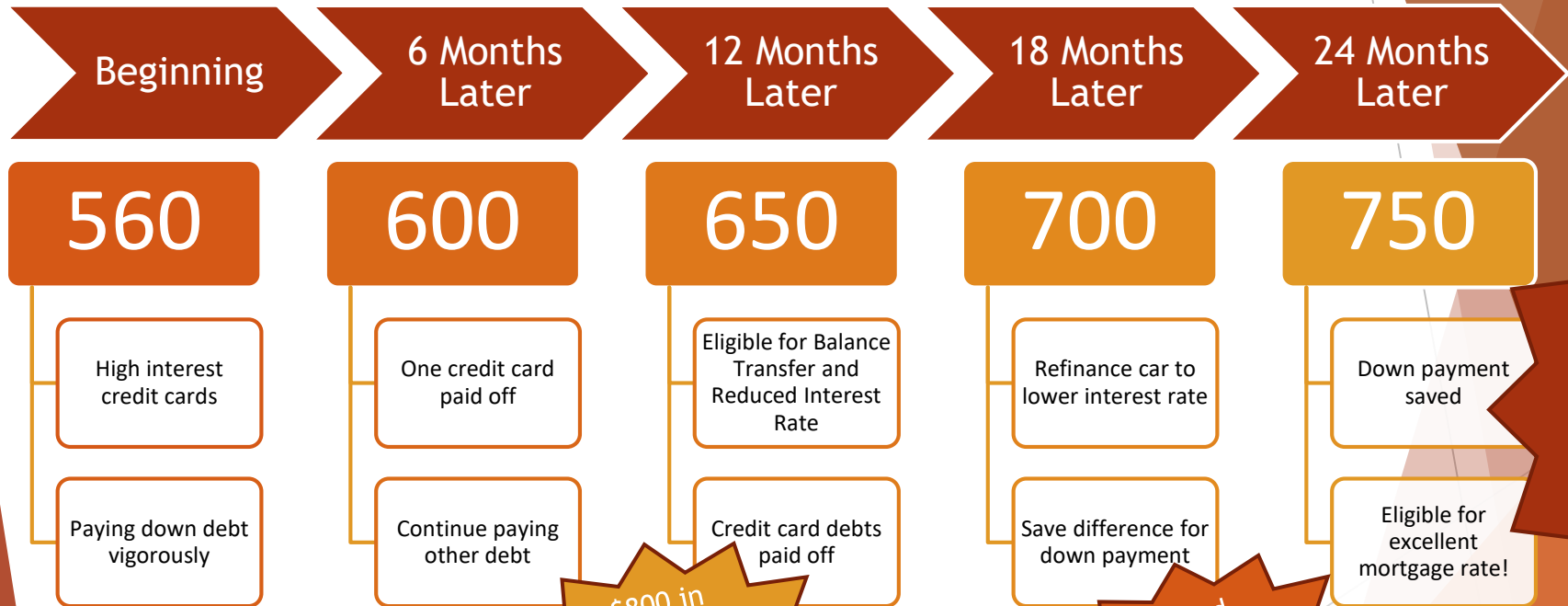
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<620	Not Approved		
620	5.464%	\$1,414.00	\$258,979
760	3.875%	\$1,176 .00	\$173,213

Potential Savings:

Each Month = \$238
Over 30 years =
\$85,766

Example provided for educational purposes only. Rates will vary.

Connecting Credit and Homeownership: Lulu



\$800 in interest saved! Paid off debt faster!

Saved \$1,000 on car payments!

Down payment saved faster thanks to better credit!

Credit Building -> Post-purchase

- ▶ Three years after buying her home, Lulu has continued to build her credit and is able to qualify for a low-interest home equity line of credit and build a carport.
- ▶ Tom stopped using credit after purchasing his home. Unfortunately, he had a major plumbing problem and does not have savings or access to low-cost credit. He is forced to use a high cost loan to pay for the plumbing repair.
 - ▶ Next month, the added high cost of the loan payment strains his budget and threatens his ability to pay his mortgage and other bills.
 - ▶ If Tom had continued to build his credit, he may have had more affordable options available to him.

Credit Building = Asset Protection!



**How does credit
building work?**

How Does Credit Building Work?

CREDIT BUILDING:

Establishing and maintaining **ACTIVE** paid **on-time** accounts (installment or revolving) that are **reported** to the major credit bureaus

Focus on the things you can do now to create opportunities for the future!

What is an Active Installment Account?

An **active** Installment (loan):



- **Has a balance**
- **Paid monthly**
- **Is not closed**

What is an Active Revolving Account?

An active Revolving account:

- Does not need to carry a balance
- At least one payment has been made in the past six months (date of last activity)



Pop Quiz: Is it active?

YES

NO

An open credit card that you haven't used in a year?

YES

NO

A deferred student loan?

YES

NO

A car loan in good standing with a \$2,000 balance?

YES

NO

A car loan that you paid off last month?

YES

NO

A collection account that you are making payments on?

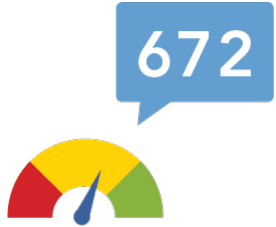


The Significance of your Credit Reports and Scores

Key Terms



Credit Report: summary of credit history



Credit Score: risk model used by lenders/other businesses to provide a snapshot assessment of credit information at a moment in time

Both are important!

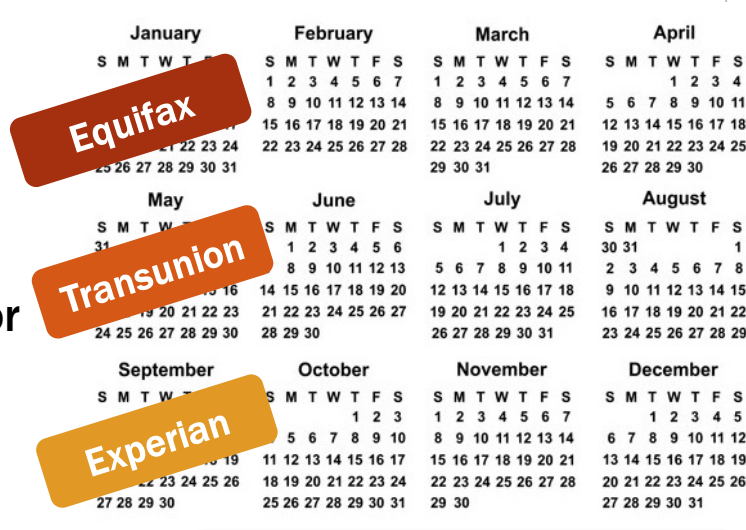
What a Credit Report May Tell You and Your Lender

- **Financial patterns that may reflect your stability/ability to make ends meet**
- **Debt obligations that may reflect your ability to manage emergencies and save**
- **Your access to asset building credit that may reflect your potential for financial security**



Accessing your Credit Report

- www.annualcreditreport.com: One free report each year from each of the three major credit bureaus.
- Adverse action: When denied for credit or favorable terms.
- Through nonprofit coaching or counseling



Free Credit Monitoring!

Note: Credit reports prepared for consumers look different and contain slightly different information from the reports that are used by lenders.

Review Your Credit Reports



Assess and Inventory:

What is on your credit report?

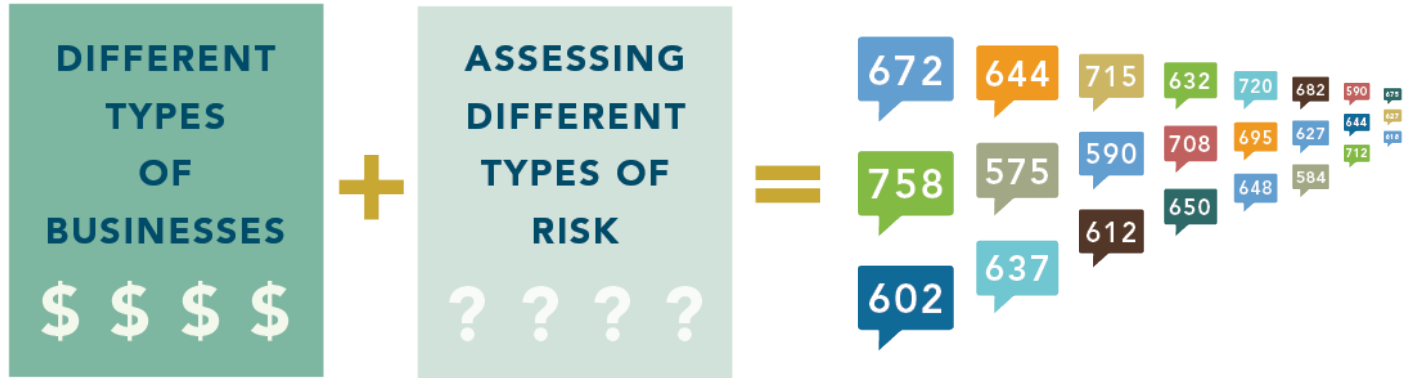
- ✓ Accounts in good standing with recent history
- 📁 Accounts that can be brought current/ old accounts that can be reactivated
- 📁 Delinquent debt and collection to be paid down and eliminated
- 📁 Incorrect information that can be disputed

A trusted financial coach can help you develop a plan!

Which Score?

Did you know...

There's not just one score!



Credit Scores Commonly used in Mortgage Lending



**Equifax
Beacon 5.0**



**Experian/Fair Isaac
Risk Model v2**



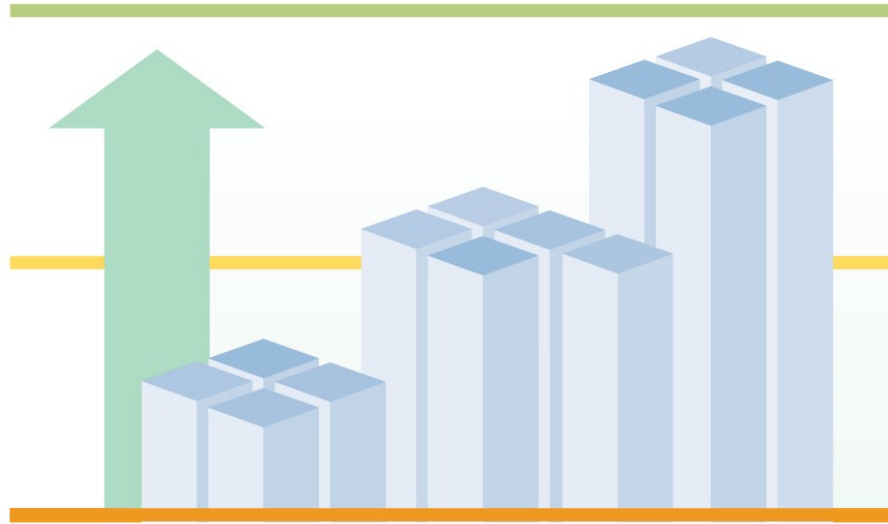
**TransUnion
FICO Risk Score 04**

Key Drivers of your Credit Score

- ▶ History of positive payment history on credit accounts (MOST IMPORTANT)
- ▶ Credit utilization and outstanding debt
- ▶ Length of credit history
- ▶ Other factors: mix of different types of credit, how often you apply for new credit

Remember, Scores are Important but...

...focus on the trend upwards, the range, and the underlying actions as reflected in the credit report





Starting your Credit Building Journey

Remember...

HOW DO YOU BUILD CREDIT?

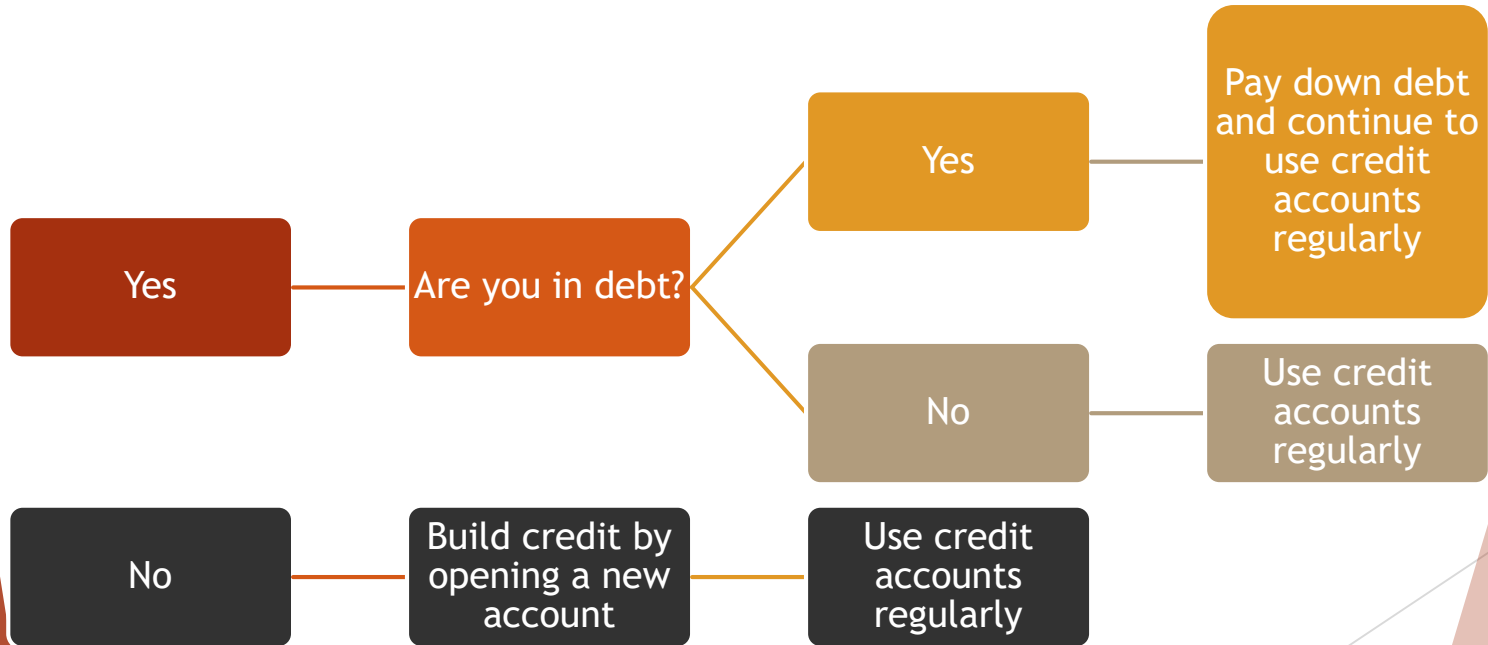
ON-TIME payments +

REPORTED to a credit bureau +

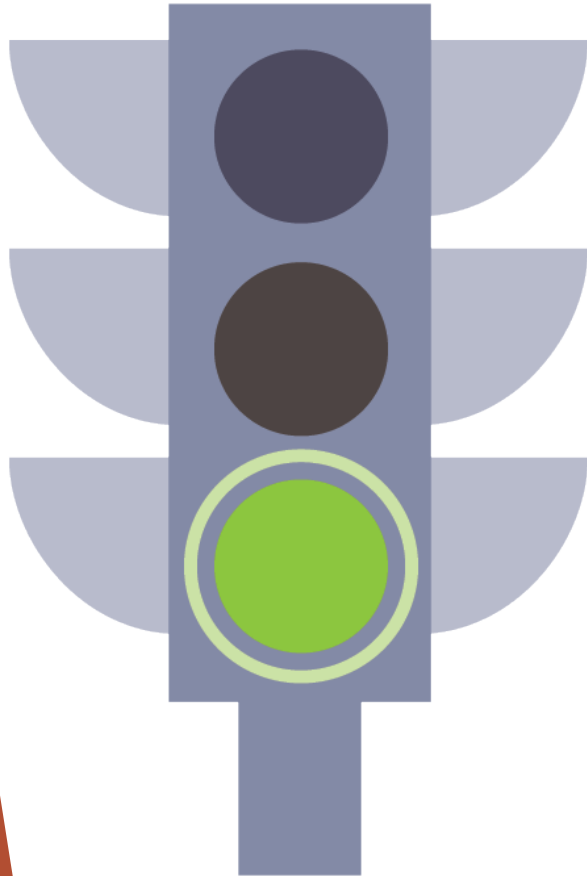
EVERY month +

BUILDS credit ✓

Do you have accounts in good standing on your credit report?



Start building your credit!



- **What credit building product(s) would be most helpful to you right now?**
- **What are you ready and eligible for?**
- **Is there potential for ongoing credit building with the product you selected?**

Are you ready for a new credit account?

- ▶ **Loan Purpose:** Why do you need credit?
- ▶ **Affordability:** What can you afford? Will the payment fit your budget?
- ▶ **Approval:** Are you likely to be approved based on your income, assets, and credit rating?
- ▶ **Responsibility:** Are you prepared to successfully repay your loan or credit card?
- ▶ **Competitive:** Is it a good product? Are the fees and interest rate fair and competitive?
- ▶ **Credit Building Readiness:** How will a new loan impact your credit profile?

What types of entry level **INSTALLMENT** loans will help me build my credit?

Example: Credit Builder Loans

Installment loans, often offered by credit unions and nonprofit financial institutions with the sole purpose of helping to build credit.

- ▶ Available from National Banks, some Credit Unions, and some Native CDFIs
- ▶ Collateral: Deposit held in a savings account
- ▶ Terms: 6 - 24 months generally
- ▶ Credit Reporting: One bureau minimum

Managing **INSTALLMENT** credit successfully

Best practices

- ▶ Pay on time every month!
- ▶ Ensure that extra payments are allocated correctly to principal/interest
- ▶ Pre-payment may reduce overall cost (but check the terms to make sure there isn't a pre-payment penalty!)
- ▶ Understand that closed loans will no longer build credit

What types of entry level REVOLVING credit will help me build my credit?

Secured Credit Card

Bank credit card backed by money that you deposit and keep in a bank account

- ▶ Available from National Banks, some Credit Unions, and some Native CDFIs
- ▶ Collateral: Security Deposit
- ▶ Terms: Annual fee typical
- ▶ Credit Reporting: Reports to all three bureaus

Managing REVOLVING Credit Successfully

Best practices:

- ▶ Pay on time every month!
- ▶ If possible, pay balance in full each month
- ▶ Avoid the minimum payment trap
- ▶ Keep balances as low as possible, below 30% is best
- ▶ Avoid maxing out any one account

Other Ways to Build Credit

- ▶ Becoming an authorized user on a trusted friend/family member's account
- ▶ Rent reporting, if available

New tools such as Experian Boost and UltraFICO™ may factor in utility payments, bank account balances, and account usage. These tools may help you build credit.

What is Rent Reporting?

- **Rent reporting** is the regular monthly reporting of tenant rent payments to at least one of the major consumer credit bureaus for inclusion on consumer credit reports
- **Rent reporting for credit building** is the pairing of rent reporting with credit/financial coaching and/or education and asset building programs to support residents in building credit to achieve financial goals

Rent Reporting is a Win-Win-Win!

Residents gain the opportunity to build credit without assuming additional debt through the establishment of a new, positive, active trade line on their traditional consumer credit report.

Property Managers gain the opportunity to a positive incentive for on-time rent payment and a competitive advantage in recruiting new residents.

Resident Service Providers gain access to a credit building product/tool which they can wrap coaching and education around and directly provide residents with means to measurably improve their credit profile.

What Generally does NOT Build Credit

- ▶ Payments on Utility and Cell Phone contracts*
- ▶ Pre-paid debit cards, checking, savings activities
- ▶ Payments on a collection account

*May change in the future

Where to Look for Credit Products

Consider the following options for credit products:



Banks/Credit Unions, particularly those that are CDFIs may offer small-dollar secured and unsecured products. If you already have a relationship with a financial institution, this may be a good place to start.

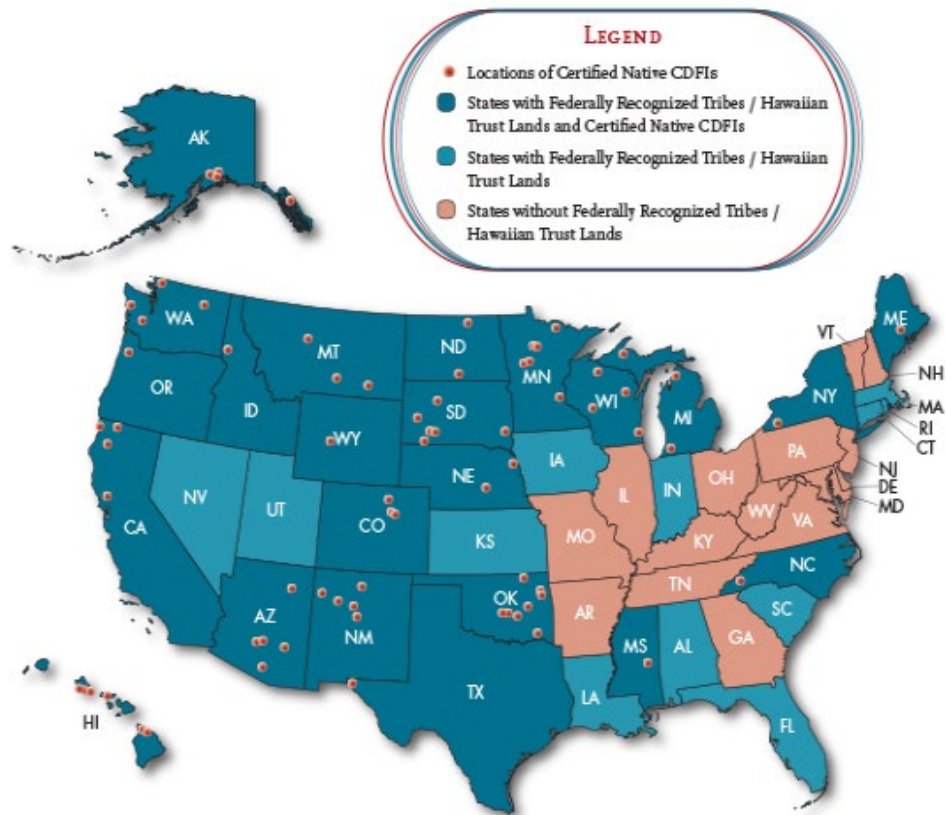


Non-profit/community lenders in your area may have programs specifically designed for those with challenged credit.



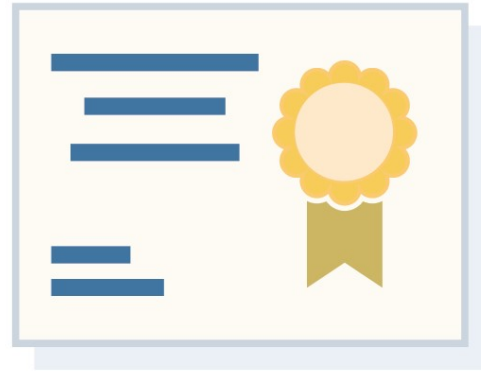
Licensed & reputable online lenders are becoming more common and may offer options at reasonable rates and with more responsible policies and procedures than online or payday lenders.

Where to Look: Native CDFIs



Continue your Credit Building Journey through:

- **Larger, longer-term Installment Loans**
- **Revolving Credit Cards - secured or unsecured**
- **Other Lines of Credit that report to the credit bureaus**





Dealing with Debt from a Credit Building Perspective

Best Practices for Dealing with Debt while Building Credit

Past Due Accounts

- Catch up as soon as possible.
- Prevent past due accounts from becoming collections and collections from becoming judgments.

Current Accounts

- Keep accounts current!
- Always pay on time!

Considerations in Dealing with Debt while Building Credit

Create a plan to pay off your debt!

But remember... Debt management alone is not a credit building strategy. Debt management may need to happen before, or in conjunction with credit building.



Review

Best Practices for Strong Credit Scores



Keep it Active! OPEN CREDIT ACCOUNTS TO BUILD YOUR CREDIT HISTORY.
MAKE SURE TO ALWAYS PAY ON TIME!



Keep it Low! FOCUS ON USING AS LITTLE AS POSSIBLE OF YOUR AVAILABLE CREDIT LIMIT



Keep it Up! IT TAKES TIME AND ONGOING DEDICATION TO BUILD AND SUSTAIN STRONG CREDIT SCORES. CREDIT BUILDING IS A MARATHON NOT A SPRINT!



Reflection

Reflection

- ▶ What is something new you learned today?
- ▶ How will you use this information in your work?



Resources

Keep Learning!

- <https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/>
- www.myfico.com
- cbatraininginstitute.org

Thank you!

Questions?

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