Credit as an Asset: Native-Centered Education and Products

September 17, 2019
NAIHC Asset Building Conference
Thank You
CBA’s Partnership with NAIHC

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

over 500 members nationwide
Credit Building
Why Credit Building?
**Pop Quiz: Credit impacts which of the following?**

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>How much I pay for financial products?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>My security deposit for rental housing?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>If I’ll need a security deposit for utilities?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>If I’ll need a security deposit or cosigner for my cell phone plan?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>If I’ll be able to be hired at certain jobs?</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>How much I pay for insurance?</td>
<td>Yes</td>
<td>No</td>
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</table>
Why Credit Building?

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

- Financial products
- Rental housing
- Utilities
- Cell phone plans
- Insurance products
- Asset and wealth building
- Employment
What is a Good Score?

<table>
<thead>
<tr>
<th>POOR CREDIT</th>
<th>FAIR CREDIT</th>
<th>GOOD to EXCELLENT CREDIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>(sub-prime)</td>
<td>(near-prime)</td>
<td>(prime/super-prime)</td>
</tr>
</tbody>
</table>

- Viewed by lenders as high risk
- May be denied for credit altogether
- Loans and credit that are approved will carry high interest rates

- May be eligible for reasonable or good rates and terms
- Co-signor or deposit may be required

- Eligible for very good or the best rates and terms
- Viewed by lenders as dependable and low-risk borrowers

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: Pawn Shop, Payday Loan, High cost loan or credit

Low/No Cost: 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?

<table>
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<tr>
<th>Score</th>
<th>Interest Rate</th>
<th>Monthly Payment</th>
<th>Total Interest Paid</th>
</tr>
</thead>
<tbody>
<tr>
<td>500</td>
<td>17.214%</td>
<td>$250.00</td>
<td>$4,981.00</td>
</tr>
<tr>
<td>620</td>
<td>11.34%</td>
<td>$219.00</td>
<td>$3,147.00</td>
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<tr>
<td>720</td>
<td>4.781%</td>
<td>$188.00</td>
<td>$1,263.00</td>
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<tr>
<td>760+</td>
<td>Even lower rates may be available for excellent credit scores!</td>
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Example provided for educational purposes only. Rates will vary.
Why Credit Building?
Increases Cash Flow and Reduces Expenses

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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

**Beginning**
- **Unscored**
  - Just took out a car loan with a 25% interest rate
  - Regularly uses pawn shops and payday loans
  - Opens secured card

**6 Months Later**
- **650**
  - Continues using secured card
  - Qualifies for an unsecured card

**12 Months Later**
- **680**
  - Refinances car loan to 15%
  - Saves $125 monthly towards down payment

**18 Months Later**
- **710**
  - Mortgage ready but does not qualify for the best rates yet
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

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<tr>
<td>&lt;620</td>
<td>Not Approved</td>
<td></td>
<td></td>
</tr>
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<td>5.464%</td>
<td>$1,414.00</td>
<td>$258,979</td>
</tr>
<tr>
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<td>$1,176.00</td>
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# Why Credit Building?

**Increases Cash Flow and Reduces Expenses**

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**Potential Savings:**

- Each Month = $238
- Over 30 years = $85,766
Connecting Credit and Homeownership: Lulu

- **Beginning**: 560
  - High interest credit cards
  - Paying down debt vigorously

- **6 Months Later**: 600
  - One credit card paid off
  - Continue paying other debt

- **12 Months Later**: 650
  - Eligible for Balance Transfer and Reduced Interest Rate
  - Credit card debts paid off

- **18 Months Later**: 700
  - Refinance car to lower interest rate
  - Save difference for down payment

- **24 Months Later**: 750
  - Down payment saved
  - Eligible for excellent mortgage rate!

Down payment saved faster thanks to better credit!

- $800 in interest saved! Paid off debt faster!
- Saved $1,000 on car payments!
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?
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?

<table>
<thead>
<tr>
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<th>NO</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>An open credit card that you haven’t used in a year?</td>
</tr>
<tr>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>A deferred student loan?</td>
</tr>
<tr>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>A car loan in good standing with a $2,000 balance?</td>
</tr>
<tr>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>A car loan that you paid off last month?</td>
</tr>
<tr>
<td>YES</td>
<td>NO</td>
</tr>
<tr>
<td></td>
<td>A collection account that you are making payments on?</td>
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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**

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!

DIFERENT TYPES OF BUSINESSES

ASSESSING DIFFERENT TYPES OF RISK

672 644 715 632 720 682 650 708 695 627 584

Many different credit scores designed for different lending and business purposes!
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?

Yes

Are you in debt?

Yes

Pay down debt and continue to use credit accounts regularly

No

Use credit accounts regularly

No

Build credit by opening a new account

Use credit accounts regularly
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
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

Legend
- Locations of Certified Native CDFIs
- States with Federally Recognized Tribes / Hawaiian Trust Lands and Certified Native CDFIs
- States with Federally Recognized Tribes / Hawaiian Trust Lands
- States without Federally Recognized Tribes / Hawaiian Trust Lands

https://www.minneapolisiert.org/indiancountry/resources/mapping-native-banks
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.
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!

- www.myfico.com
- cbatrainingsinstitute.org
Thank you!

Questions?

training@creditbuildersalliance.org