Using Credit Scores & Reports as Financial Coaching Tools

Part 1
December 17, 2018
Poll Question

Q: Are you currently using credit reports in your financial coaching program? (select the best response)

a) Yes, we pull reports on a regular basis
b) Sometimes, but only with a specific program
c) Not yet, but we’d like to
d) No, we do not see the value in pulling credit reports
Agenda

- About Credit Builders Alliance
- The Basics of Credit
- About Credit Reports and Scores
- Integration of Credit into Coaching
About Credit Builders Alliance

Our mission:

To help organizations move people from poverty to prosperity through Credit Building.

Our philosophy:

Good Credit is an Asset

Mission driven nonprofits and other entities are uniquely positioned to help the households they serve build credit as an asset – often the FOUNDATIONAL asset.
What is credit?
What is credit?

Credit is the ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.
DEFINITIONS

CREDO:
(kreed’ o) v. trust

CREDIT:
(kred’ it) n. value; worth

DETTIE:
(Det) n. A sum of money that is owed or due
Debitum: n. Something owed
A Paradigm Shift May be Required

Credit is a deficit

Credit is an ASSET!
DEFINITIONS

**CREDIT HISTORY/FILE:**
Record of transactions involving the use of credit – and other products/services

**CREDIT REPORT:**
Record of a consumer’s credit history at a particular point in time

**CREDIT SCORE:**
Three digit number summarizing credit risk at a particular point in time
About Credit Reports

What a credit report may tell you...

- **Financial patterns** that may reflect stability/ability to make ends meet
- **Debt obligations** that may reflect ability to manage emergencies and save
- **Access to asset building credit** that may reflect potential for financial security
What to Know About Credit Reports

- **There is not just one!**
  - Customized by data seller for different businesses and for consumers

- **National Consumer Assistance Plan (NCAP) yielded credit accuracy and accessibility improvements**
  - Medical collection – 180 days
  - Non-contractual debts no longer report
  - Better dispute resolution

- **Tax lien and civil judgments no longer report**
  - Update as of April 2018

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<th>About</th>
<th>Considerations from a Coaching Perspective</th>
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| Designed for consumer education purposes as required by the Fair Credit Reporting Act | ✓ Available to consumers for FREE at [www.annualcreditreport.com](http://www.annualcreditreport.com) or on credit monitoring sites (e.g. Credit Karma, Credit Sesame, Credit Wise)  
X Security questions may be challenging for some consumers |
| Designed to be consumer friendly, including instructions | ✓ Easy to read format with explanations  
✓ May complement business division report |
| Contains detailed information about creditors and accounts | ✓ Helpful for identifying creditor details and for disputes where necessary  
X Sometimes overly detailed! |
| Includes all soft and hard inquiries | ✓ Remember: Only hard inquiries impact the score!  
✓ Helpful to review to ensure that no accounts have been opened by an identity thief  
✓ Initiated by consumer and some businesses for educational and informational purposes |
## Which Report?
### Business Division Report

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| Designed for lenders/businesses in order to make lending and other business decisions | ✓ Available to credit coaching/counseling organizations and lenders via data resellers or CBA Access  
✓ Includes credit score  
X Pricing varies depending on provider |
| Information may be consolidated and include codes and abbreviations | ✓ More condensed than consumer disclosure report  
X Coding may require time to read and understand |
| Less information about creditors and accounts                       | ✓ Designed to protect the consumer  
X Less detailed than the consumer disclosure report |
| Includes only hard inquiries                                        | ✓ Can pull hard and soft inquiry reports as a lender and soft inquiry as a coaching agency  
X Less insight into attempted fraudulent account openings |
Purchasing Credit Reports for Your Coaching Program

Are you…?

- ✓ finding score inconsistencies between the report that your clients are viewing and what their lender is reviewing?
- ✓ working with populations experiencing difficulties accessing their report due to ID, address, etc.?
- ✓ assisting with home purchase or asset building opportunities?
- ✓ a lender?

A Business Division Report may be right or you!
Poll Question

Q: How do you access credit reports? (select all that apply)

a) With the client via [www.AnnualCreditReport.com](http://www.AnnualCreditReport.com), Credit Karma, myfico.com, etc.
b) Direct bureau relationship (TransUnion, Experian, Equifax)
c) Data reseller (CoreLogic Credco, Kroll, etc.)
d) CBA Access service
Which Score?

DIFFERENT TYPES OF BUSINESSES

+ ASSESSING DIFFERENT TYPES OF RISK

= Many different credit scores designed for different lending and business purposes!
Why do credit scores vary?

Due to differences between...

- **Credit reporting agencies** *(TransUnion, Experian, Equifax)*
- Credit score **modeler & generation** *(VantageScore v. FICO)*
- **Business sector** *(mortgage v. credit cards v. banking, etc.)* and risk assessment – each company also decides if and to whom they will report to
- **Date calculated**
- **Quantity of credit score originators** producing both proprietary and nonproprietary models
# Credit Scoring Models: Two Stand Out

<table>
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<tr>
<th>FICO® Score</th>
<th>VantageScore</th>
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<tbody>
<tr>
<td>Used by 90% of lenders</td>
<td>Used by a growing number of lenders</td>
</tr>
<tr>
<td>Multiple generations of the FICO® Score have been developed over the last 25+ years</td>
<td>Multiple generations of the VantageScore has been developed over the last 12 years</td>
</tr>
<tr>
<td>Develops a FICO® Score model separately on each bureau’s data</td>
<td>Developed one algorithm, used across each bureau’s data</td>
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How to Access Credit Scores

- For free via select financial institutions, credit card issuers, credit sites (Credit Karma), nonprofit credit and financial counseling programs
  - Resource: CFPB list at bit.ly/CFPB_FreeCreditScores
  - Always confirm score type by reviewing the fine print!

- Purchase credit scores with the business division reports
  - Disclose FICO® Scores via FICO® Open Access for Credit & Financial Counseling (for nonprofit programs)
## Considerations Around Free Credit Score Platforms

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<th>Pros</th>
<th>Cons</th>
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| ✓ Summarized credit information | X Not ideal if consumers need detailed credit report information  
X Difficult to access for people without a SSN or who might have difficulty answering detailed security questions |
| ✓ Free credit scores | X Not always clear which score version is offered/ must read fine print  
X If it doesn’t read FICO® Score, it’s not |
| ✓ Personalized recommendations | X Consumers must share personal information |
| ✓ Product recommendations (some) | X May receive marketing messages |
Scores are important but...

...focus on the trend upwards, the range, and the underlying actions as reflected in the credit report
Credit + Financial Coaching = The Ideal Match

- Relationship is one of trust
- Poised to offer support through a strengths-based, client-driven process
- Natural connection to financial goals
- Additional outcome tracking metric
The Value of Credit Reports

The majority of CBA Members surveyed respond that credit reports:

- Are a valuable tool for staff to better understand and address their clients’ individual credit profiles, challenges and opportunities
- Empower their clients to understand and own their financial situation
- Greatly improves their ability to measure client credit and financial progress and success over time
- Incentivizes clients’ participation in credit and financial education/coaching
Project Mapping

Intersect credit everywhere there’s a remote connection!

- Workforce development
- Housing/rental services
- Social services
- Monthly cash flow and budgeting
- Small business programming
- Savings program
## Inserting Credit into the Equation

**Access to credit reports is key...**

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<th>At intake</th>
<th>Prior to applying for credit, housing, employment</th>
<th>As ongoing coaching to support success and financial stability</th>
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Credit is just one step in the journey, but an **integral** piece.
Call to Action

- **Educate your clients** on how to pull their credit report and why lenders may see something different

- **Engage with local lenders** to learn which score/report version(s) they utilize

- **Identify all intersection points** with credit reports/scores in your current program
Join us for part 2!

Reading a Credit Report & Designing a Credit Action Plan

*Thursday, January 10, 2019, 2 pm EST*
Registration details forthcoming
Questions?

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