Reading a Credit Report & Designing a Credit Action Plan

Part 2

January 10, 2019
Agenda

- About Credit Builders Alliance
- Summary of Key Points: Webinar 1
- Reading a Credit Report
- Assessing Credit Readiness
- Designing a Credit Action Plan
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.
Summary of Key Points: Webinar 1

- Consider business division credit reports as a programmatic tool
- Identify intersection points with credit reports and your current programs and services
- Familiarize yourself and clients around credit report updates that heavily impact their credit profiles
Main Sections of the Credit Report

- Personal Identifying Information
- Credit History
- Public Records
- Inquiries
Personal Identifying Information

May include:
- Name and variations
- Addresses, past and present
- Employment information
- Spouse, Co-applicants
- SSN, DOB
- Contact information

NOT included:
- Beliefs and affiliations (i.e. Gender, Ethnicity, Religion, Political Affiliation)
PERSONAL CREDIT REPORT

DATE OF REPORT: 1/1/2019
Report # 99999

PERSONAL INFORMATION

NAME: Geneva Smith
SSN: xxx-xx-5555
Your SSN has been masked for your protection
You have been in our files since: March 1999

Other Names Reported
Eva Smith, Geneva Doe

Year of Birth: 1974

Addresses Reported
123 Main Street Anytown, HomeState 00001
321 Main Street, Othertown, HomeState 00002
789 County Rd A, AnotherTown, HomeState 00005

Telephone Numbers Reported
222-555-5555
222-888-8888

Spouse or Co-applicants
Juan L. Doe

Employers
Anytown Paper Co.
Generic Industries
Credit History

Accounts in good standing *(open and closed)*

- Open accounts remain on the report indefinitely
- Closed accounts in good standing remain on the report for 10 years following date of closure
CREDITOR: Othertown Community Credit Union
2323 Oscar Blvd. Othertown, HomeState 00002
(363) 636-3636

Account # 10000121212***

Date Opened: 7/6/2011  Balance: $0  Pay Status: Current; Paid or Paying as Agreed
Responsibility: Joint  Date Updated: 3/14/2013
Account Type: Mortgage  Payment Received: $126,356
Loan Type: CONVENTNL REAL ESTATE MTG  Last Payment Made: 3/14/2013
High Balance: $134,600

Terms: $2,253 per month, paid Monthly for 240 months

Date Closed: 03/14/2013

Mortgage Info: Annie Fae Account # 2000007878
Remarks: CLOSED

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ACCOUNTS IN GOOD STANDING

Fictional Credit Report – for illustrative purposes only
Credit History

<table>
<thead>
<tr>
<th>Accounts in good standing (open and closed)</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Open accounts remain on the report indefinitely</td>
</tr>
<tr>
<td>• Closed accounts in good standing remain on the report for 10 years following date of closure</td>
</tr>
</tbody>
</table>

Is it active?
ACCOUNTS IN GOOD STANDING

CREDITOR: Othertown Community Credit Union
2323 Oscar Blvd. Othertown, HomeState 00002
(363) 636-3636

Account # 10000121212***

Date Opened: 7/6/2011  Balance: $0  Pay Status: Current; Paid or Paying as Agreed
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MORTG

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</table>
Active credit account:

Open account in a positive status and activity (i.e. a payment made) at least once in the last six months.

*Active credit essential to establishing and building strong credit scores!*
Poll Question

Q: Which of the following types of accounts have the most potential for long-term credit building?

a) A closed mortgage account that was paid in full 5 years ago with no missed/late payments

b) An open credit card account that is used monthly and is paid as agreed

c) A collection account that is being paid through a monthly payment plan
## Credit History

<table>
<thead>
<tr>
<th>Delinquent accounts and those with past negative history (<em>open and closed</em>)</th>
<th>Negative information remains on the report for up to 7 years from the date of first delinquency</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts in collections</td>
<td>Many non-delinquent accounts (i.e. utilities, etc.)</td>
</tr>
<tr>
<td>Not reported</td>
<td>Old accounts that may no longer report per the Fair Credit Reporting Act</td>
</tr>
</tbody>
</table>
What to look for:

- Creditor Information
- Responsibility/Liability (ECOA Code)
- Date account was opened
- Date last reported
- Date Closed (if applicable)
- Outstanding Balance
- Payment History
- Type of Account
Charge-off: A debt, for example on a credit card, that is deemed unlikely to be collected by the creditor because the borrower has become substantially delinquent after a period of time.

Collection: Delinquent or past due account moved out of routine account processing to an internal collection department or third-party debt-collection agency.
CREDITOR: World of Auto
7878 Motorcity Dr. Anytown, HomeState 00001
(777)-777-7777

Account #: 321***
Date Opened: 3/1/2018
Balance: $10,695
Responsibility: Individual
Date Updated: 12/28/2018
Account Type: Installment
Last Payment Made: 12/5/2018
Pay Status: Current; Paid or Paying as Agreed
Loan Type: AUTOMOBILE
Terms: $295 per month for 48 months

<table>
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2018
POTENTIALLY NEGATIVE ACCOUNTS

CREDITOR: World of Auto
7878 Motorcity Dr. Anytown, HomeState 00001
(777)-777-7777

Account # 321***

Date Opened: 3/1/2018  Balance: $10,695  Pay Status: Current; Paid or Paying as Agreed
Responsibility: Individual  Date Updated: 12/28/2018  Terms: $295 per month for 48 months
Account Type: Installment  Last Payment Made: 12/5/2018
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APR
OK
Poll Question

Q: Which of the following are true?
   a) A single late payment on a credit account can drop a credit score significantly
   b) The negative impact of a single late payment will decrease over time as long as the consumer resumes regular on-time payments
   c) Both a and b are true
   d) Neither a nor b are true
### POTENTIALLY NEGATIVE ACCOUNTS

**CREDITOR:** World of Auto  
7878 Motorcity Dr. Anytown, HomeState 00001  
(777)-777-7777

<table>
<thead>
<tr>
<th>Date Opened:</th>
<th>Balance:</th>
<th>Pay Status:</th>
<th>Terms:</th>
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<td>3/1/2018</td>
<td>$10,695</td>
<td>Current; Paid or Paying as Agreed</td>
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**Responsibility:** Individual  
**Account Type:** Installment  
**Last Payment Made:** 12/5/2018

**Account #: 321***

**Loan Type:** AUTOMOBILE

**2018**

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<td>30</td>
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**APR**  
OK
ACCOUNTS IN COLLECTION

CREDITOR:  
Collection Co
1212 Alpha Rd., Anothertown, HomeState 00005
(222) 221-8989

Account #  ABC654***

Place for collection:  4/1/2014  
Balance:  $1,059  
Status:  In Collection

Date Updated:  11/01/2018  
Original Amount:  $1,059

Responsibility:  Individual Account  
Original Creditor:  Big Telecom
Account Type:  Open Account  
Cable/Cellular
Loan Type:  Debt Buyer  

Past due:  $1,059

Remarks:  Placed for Collection

Estimated month and year that this item will be removed:  04/2020
Public Records

- As of 2018, bankruptcies are the only public records that appear on the credit report*.
  - Chapter 13: up to seven years from the filing date
  - Chapter 7: up to 10 years from the filing date

* It is possible for some limited instances of foreclosure records to appear in the public records section of the credit report
<table>
<thead>
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<th>Field</th>
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<td>100 Court Ave. Othertown, HomeState 00002</td>
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<td>(555) 555-5555</td>
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<tr>
<td>Date Filed:</td>
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<td>Date Paid:</td>
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<tr>
<td>Responsibility:</td>
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<td>Court type:</td>
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<tr>
<td>Plaintiff Attorney:</td>
<td>SMITH SMITHERSON</td>
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<tr>
<td>Estimated month and year that this item will be removed:</td>
<td>01/2022</td>
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</tbody>
</table>
Poll Question

Q: True or False: Pulling your own credit report can have a negative impact on your credit score

a) True
b) False
### Inquiries

#### Soft inquiries

| Initiated by consumers and some businesses for educational and informational purposes |
| Soft inquiries do not impact the credit score |
| Appear on consumer disclosure reports only for 24 months |

---

**Request to Service**

BIG CREDIT BUREAU/ MY CREDIT APP
123 Main St., Big City, STATE 00006
1-(800)-999-9999

**Requested On:**
7/25/2018, 05/21/2018, 05/18/2018, 05/03/2018, 05/02/2018, 04/23/2018

**BIG BANK**
3232 Beta Rd., Anothertown, HomeState 00005
(222)-222-2222

**Requested On:**
# Inquiries

<table>
<thead>
<tr>
<th>Soft inquiries</th>
<th>Hard Inquiries</th>
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<tbody>
<tr>
<td>Initiated by consumer and some businesses for educational and informational purposes</td>
<td>Initiated when consumer applies for credit</td>
</tr>
<tr>
<td>Soft inquiries not impact the credit score</td>
<td>Hard inquiries initiated in the previous 12 months can impact the credit score</td>
</tr>
<tr>
<td>Appear on consumer disclosure reports only for 24 months</td>
<td>Appear on consumer disclosure reports and business division reports for 24 months</td>
</tr>
</tbody>
</table>
ANYTOWN FEDERAL CREDIT UNION
875 BIG BOULEVARD, Anytown, HomeState 00001
(877)787-8787

Requested On: 2/26/2018
Inquiry Type: Individual
Permissible Purpose: CREDIT TRANSACTION

WORLD OF AUTO
7878 Motorcity Dr., Anytown, HomeState 00001
(777)-777-7778

Requested On: 5/26/2018
Inquiry Type: Individual
Permissible Purpose: CREDIT TRANSACTION
Best Practices for Strong Credit Scores

Keep it Active! Establish and maintain a mix of active installment and revolving credit trade lines – ALWAYS PAY ON TIME!

Keep it Low! Lower debt balances on revolving lines of credit.

Keep it Up! Maintain at least 6 months of credit history – and activity! – on your credit report at any time.
Creating a Credit Action Plan

**What is on the credit report?**
The good, the bad, and the inaccurate

**What is NOT on the credit report?**
Is there potential to open new positive trade lines?

**What are the client’s short and long(er) term goals?**
What actions will support the client’s journey towards achieving their goals and how so?

**How much is affordable?**
Ensuring a comfortable ability to repay and aligning the credit action plan with a realistic budget is critical
What is credit building?

CREDIT BUILDING:
Establishing and maintaining ACTIVE paid on-time trade lines (installment or revolving) that are reported to the major credit bureaus

- **Installment trade lines**: car, home, student loan, consumer loan
- **Revolving**: credit card, charge account
Assessing Client Readiness for Credit Building

**IS YOUR CLIENT AN IDEAL CANDIDATE?**

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<thead>
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<th>THICK(ER) FILE</th>
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<td>Fewer than 3 ACTIVE trade lines</td>
<td>Generally 3-5 ACTIVE trade lines</td>
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<td>May also include:</td>
<td>Other features:</td>
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<td>- Small, paid or older collections only</td>
<td>- No current delinquencies</td>
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<tr>
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<td>- No MIX of trade lines</td>
<td>- Small, paid or older collections only</td>
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Red Flags: Be Aware!

- In “crisis mode”
  - Strong tendency to miss payments
  - Struggling with paying basic bills
  - Revolving credit with utilization rate of 30% or more
- Large accounts in collections
- At risk of garnishment
- Contemplating foreclosure or bankruptcy
A Model for Designing the Credit Action Plan

Credit Strength Roadmap

Consider the Goal

Get the Good Stuff Going

Know the Score

Make Credit Building Count

Deal with Debt
Call to Action

- Get comfortable with reading and understanding different types of credit reports that you review with clients
- Create credit action plans with clients to help them take meaningful and incremental steps to achieve goals
- Track and leverage progress to help clients bolster long-term financial security

www.cbatraininginstitute.org