



Tips to Help Your Clients Get Smart About Credit

CFPB Webinar
October 21, 2021

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The Key to Credit Building



Establish and maintain **ACTIVE** paid **on-time** tradelines (installment or revolving) that are **reported** to the major credit bureaus



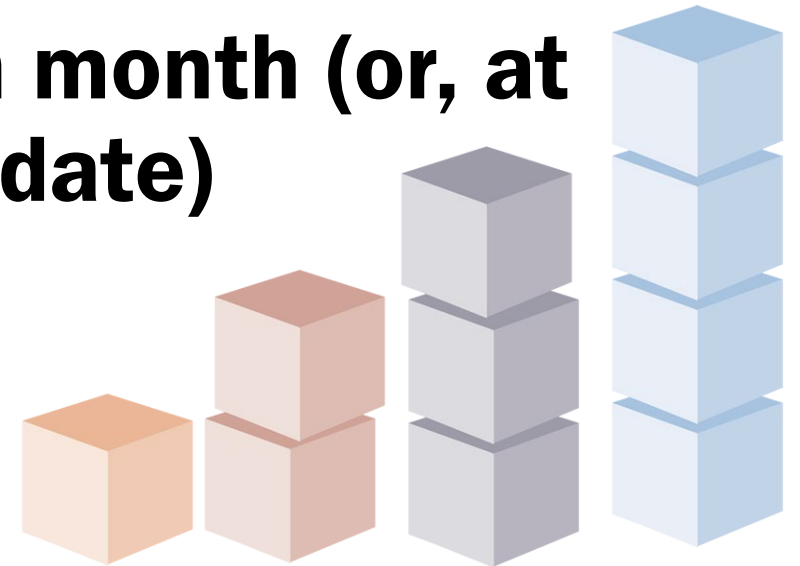
Focus on behavior **now** to create opportunities for the future

A 3D bar chart with four bars of varying heights, colored orange and blue, set against a light blue grid background. The bars represent data points, with the second and fourth bars being the tallest.

Credit
AS AN
Asset

Good Credit will Happen if you...

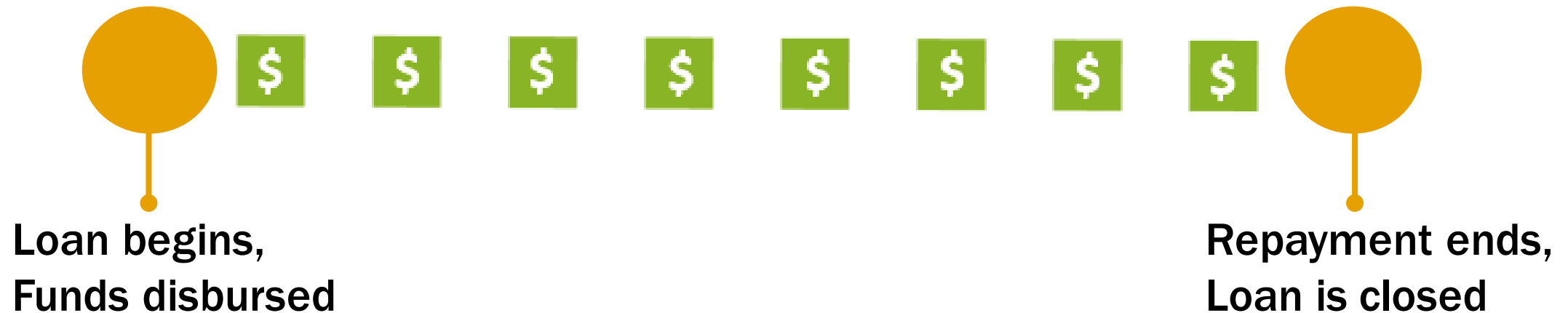
- 1) Open and use at least one credit product (credit card, loan, etc.)**
- 2) If you use a credit card, keep credit card balances low**
- 3) Pay your creditors on time each month (or, at least within 30 days of the due date)**



Key Terms: Credit Products

Installment Credit (Loan)

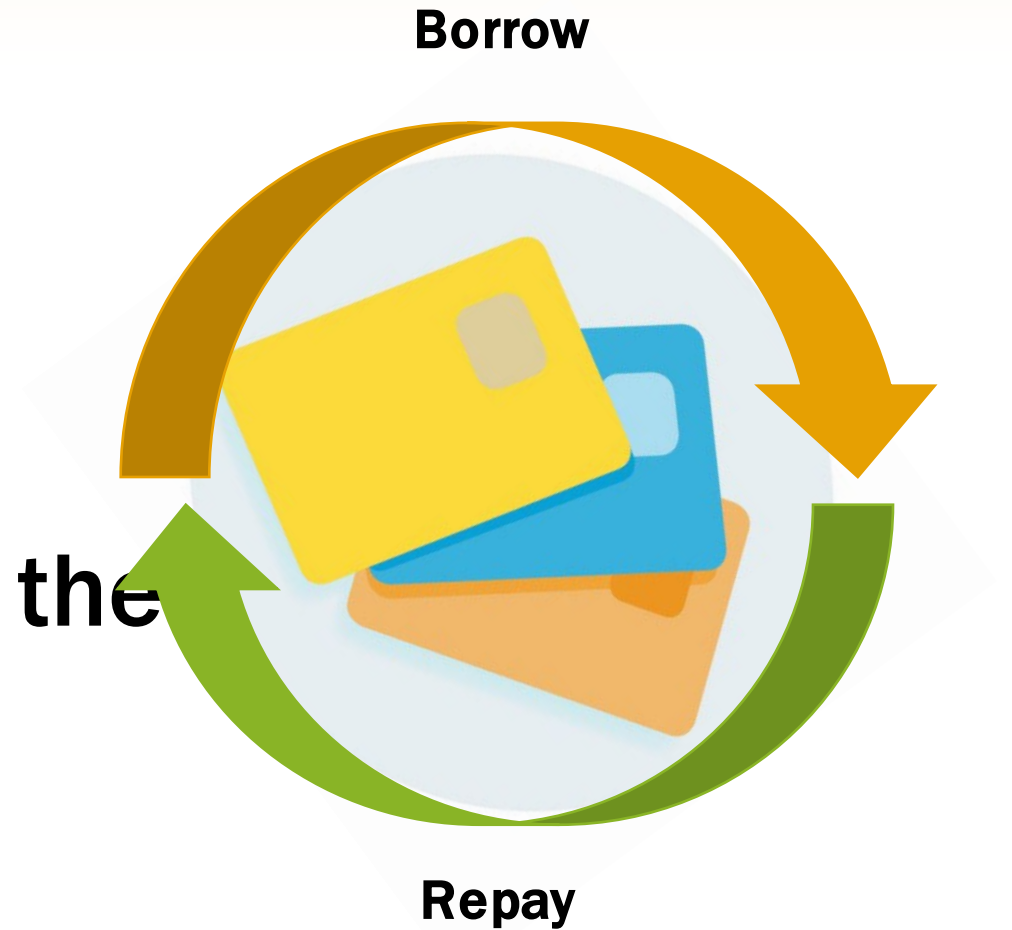
- Fixed loan amount and terms
- Lump sum disbursement



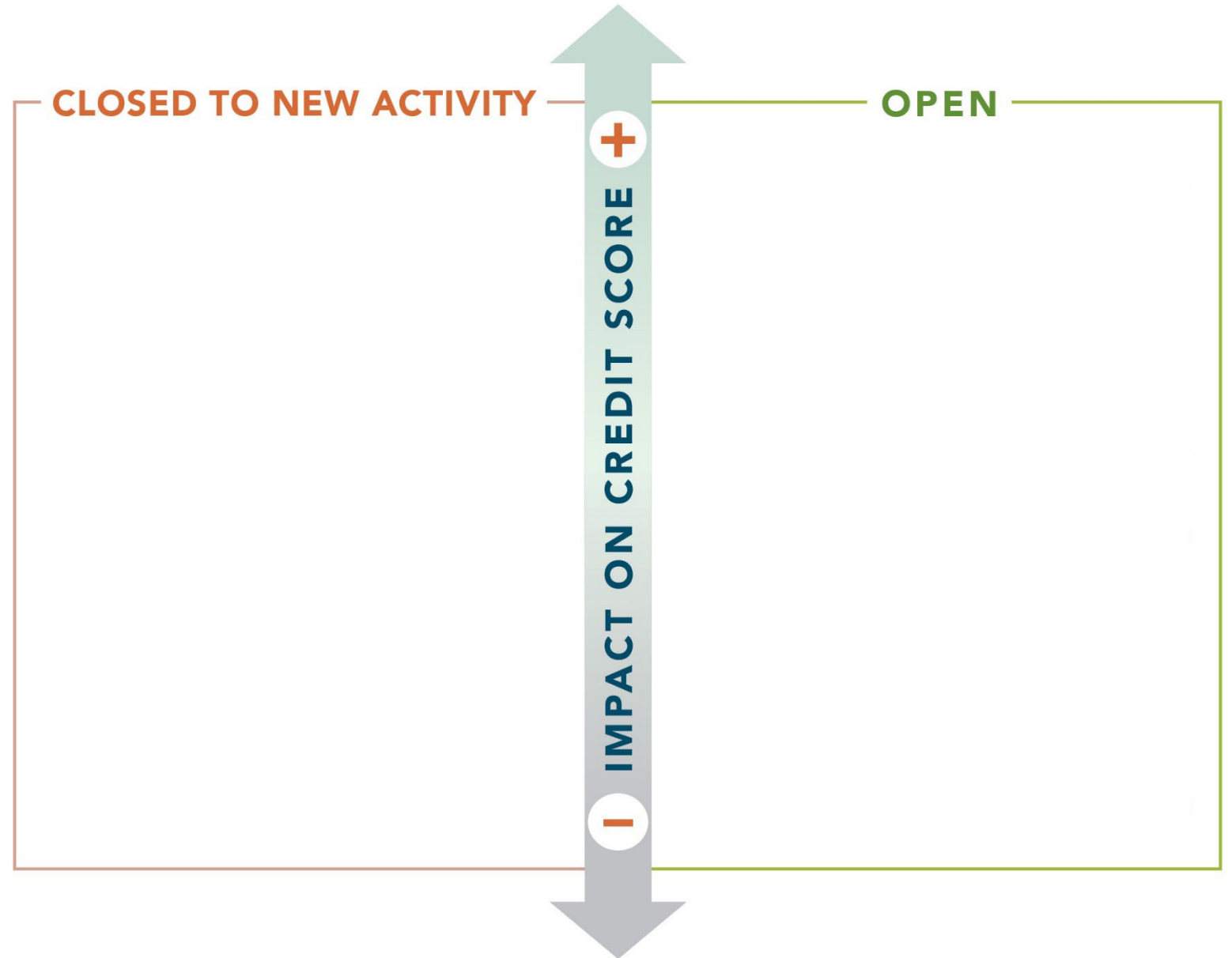
Key Terms: Credit Products

Revolving Credit

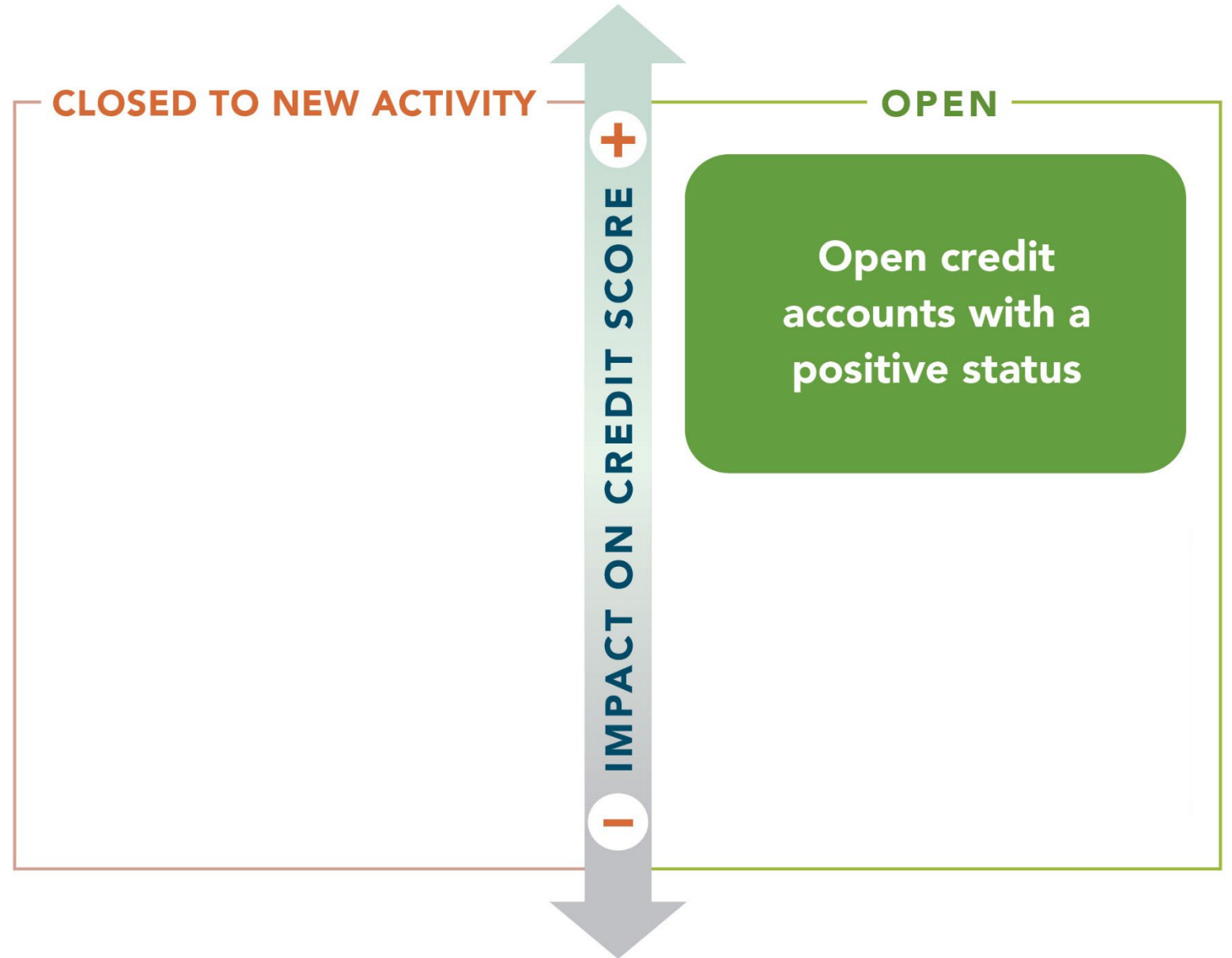
- Open ended
- Monthly payment based on the balance



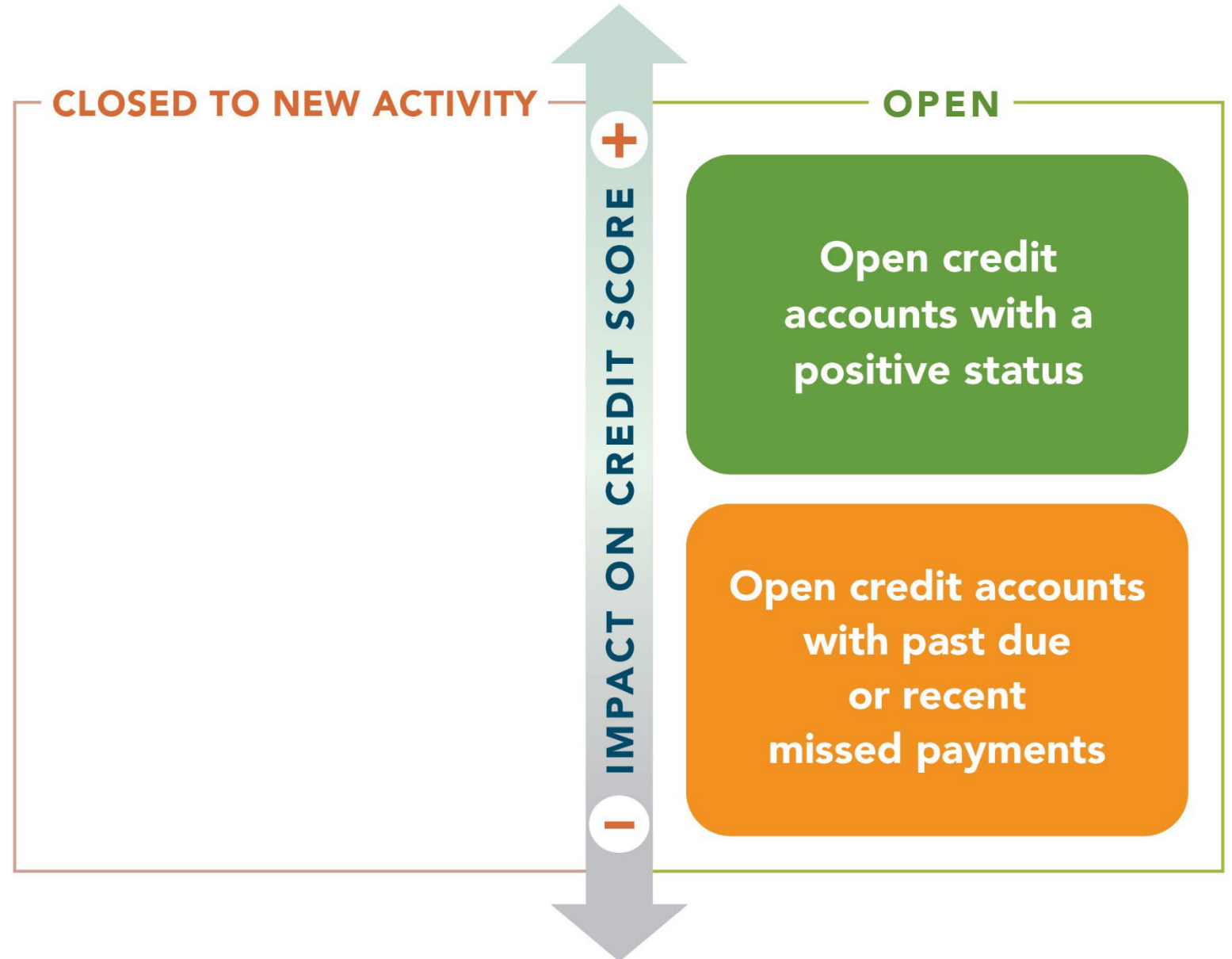
Understanding Account Status



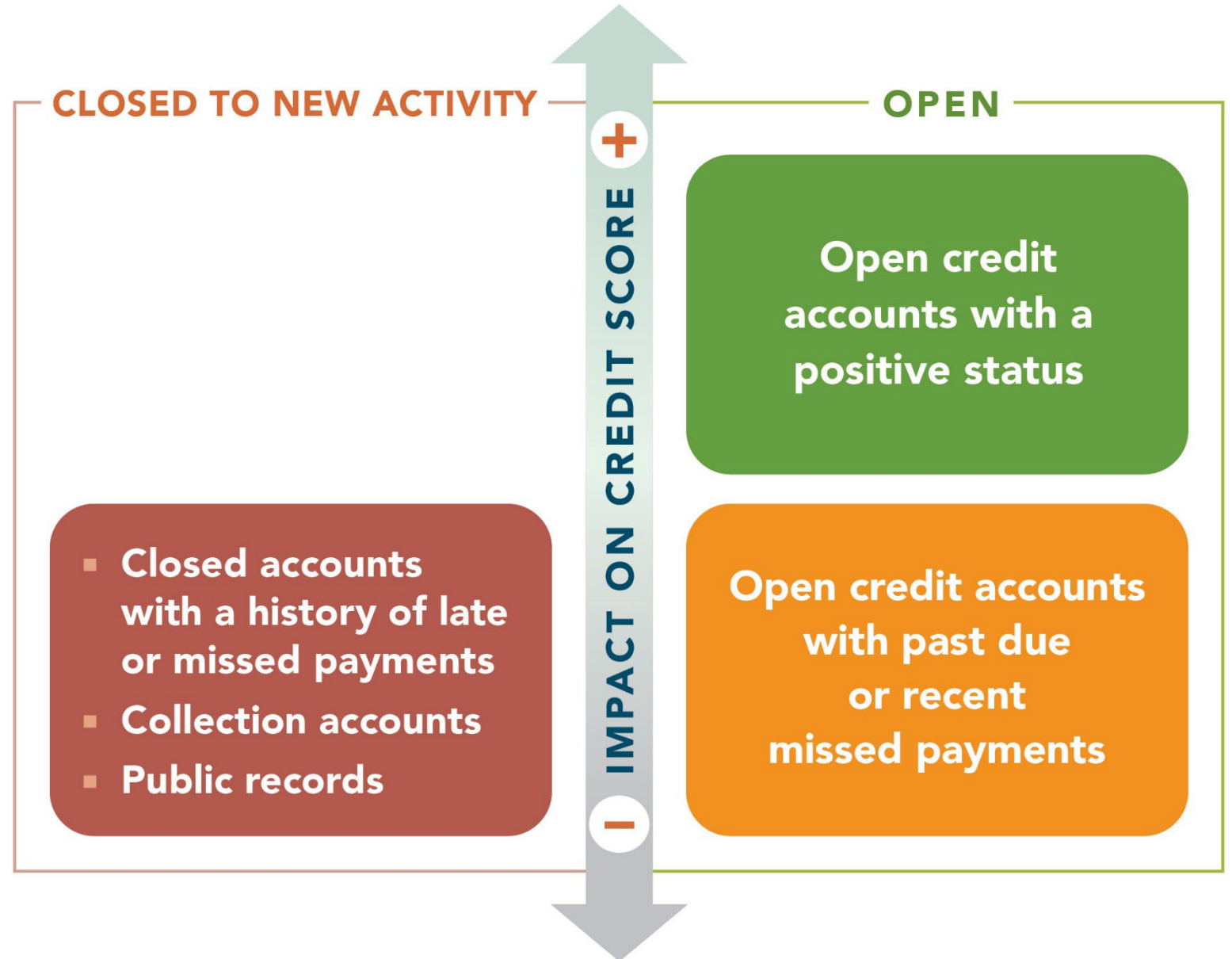
Understanding Account Status



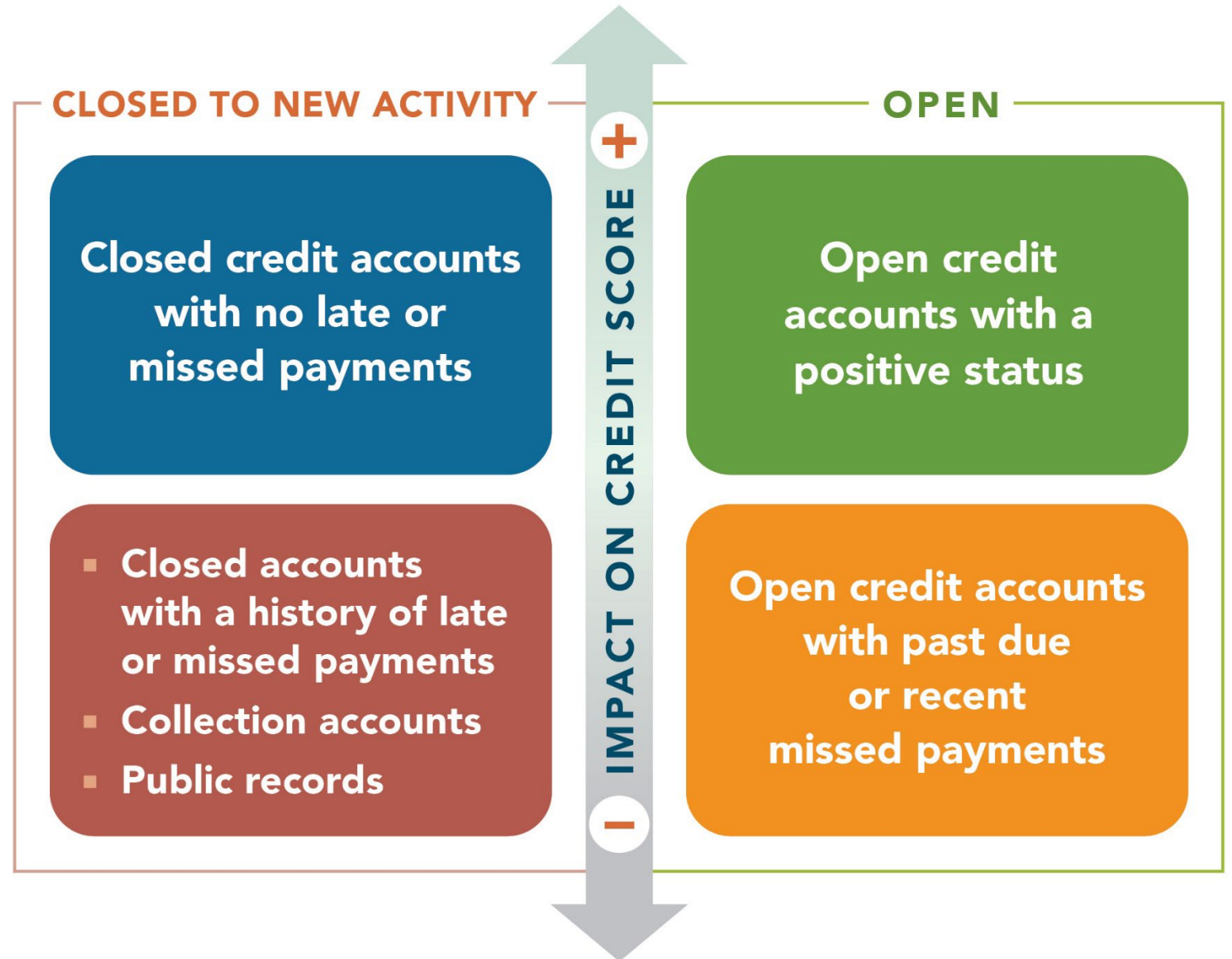
Understanding Account Status



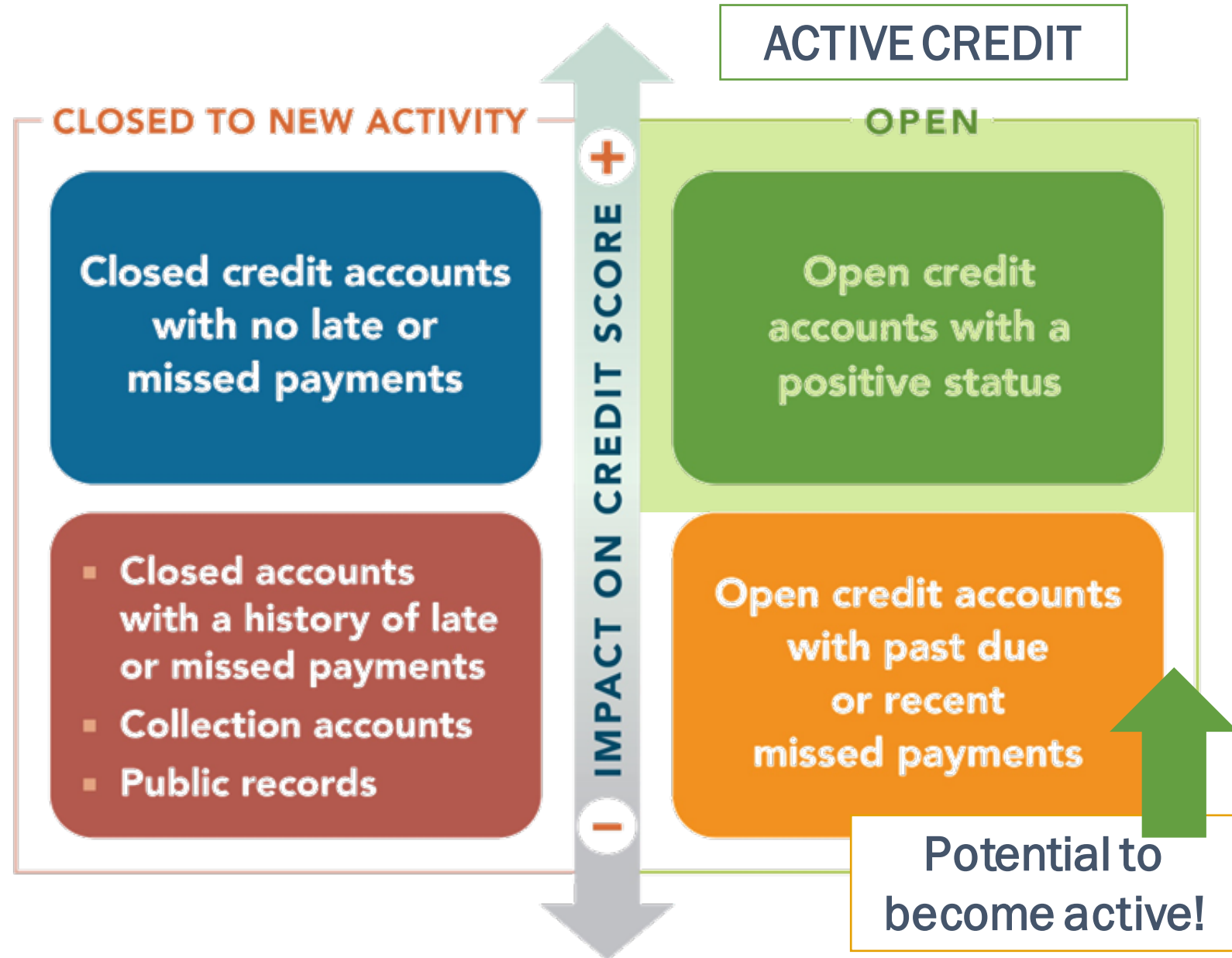
Understanding Account Status



Understanding Account Status



Understanding Account Status



Strategies for Building Credit

**Secured
Credit Card**

**Unsecured
Credit Card**

**Authorized
User**

**Personal and
Business
Loans**

Student Loan

**Credit Builder
Loans**

**Social
Loan/Lending
Circle**

**Rent
Reporting**





DEFINITIONS

- **Credit Invisible:** No credit report or score due to lack of credit history.
- **Unscored:** No credit score due to limited credit history (could have a credit report).
- **Thin File:** Limited credit history (may be scored or unscored).
- **Thick File:** Robust credit history including multiple active accounts and different account types.



CREDIT INVISIBLE

Credit Building as a Credit Invisible

NO FILE
(Credit Invisible)

No Credit Report

No Credit Score

**No positive or negative
information**



Credit Building as a Credit Invisible

Case Study: Trevor

NO FILE
(Credit Invisible)

No Credit Report

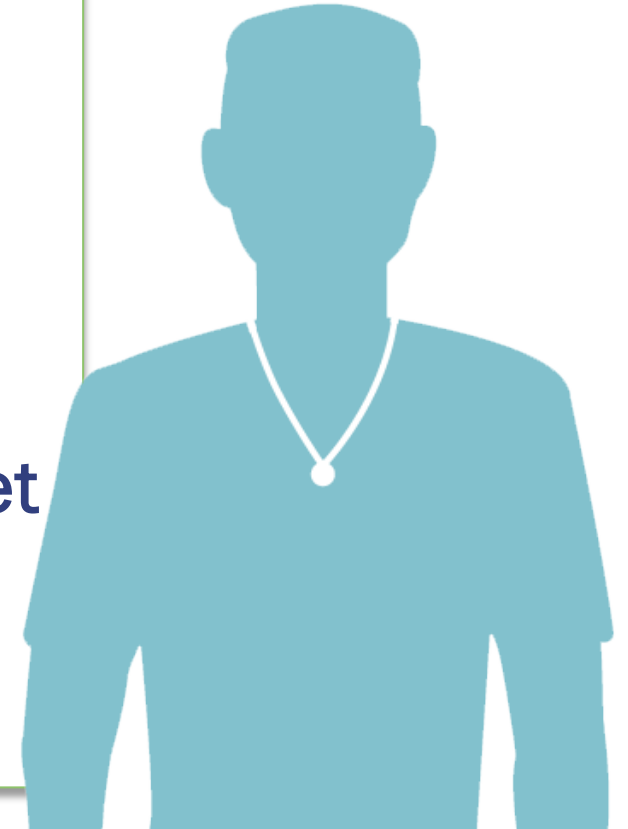
No Credit Score

No positive or negative
information



Trevor

- 17-years old
- High school student
- Credit: No credit history, no debt
- Part-time job: \$600 monthly
- Savings: \$1,000
- Goals: Attend college, get a job, rent his own apartment



Credit Building as a Credit Invisible:

What credit building options might be available to Trevor?

NO FILE
(Credit Invisible)

No Credit Report

No Credit Score

No positive or negative
information



Options for individuals <18

- Authorized user



Credit Building as a Credit Invisible

Case Study: Abner and Lydia

NO FILE
(Credit Invisible)

No Credit Report

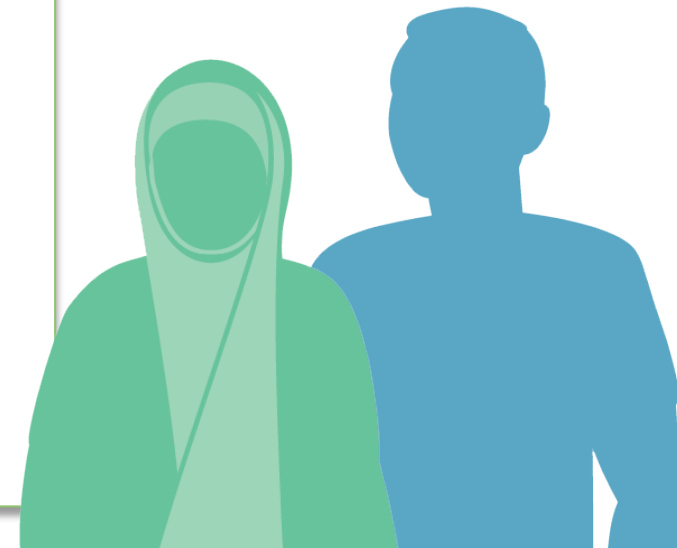
No Credit Score

No positive or negative
information



Abner and Lydia

- Immigrants from Iraq four years ago
- Credit: No credit history, no debt
- Variable monthly income: \$2,900 average
- Savings: \$3,000
- Goals: Expanding business and homeownership



Credit Building as a Credit Invisible:

What credit building options might be available to them?

NO FILE
(Credit Invisible)

No Credit Report

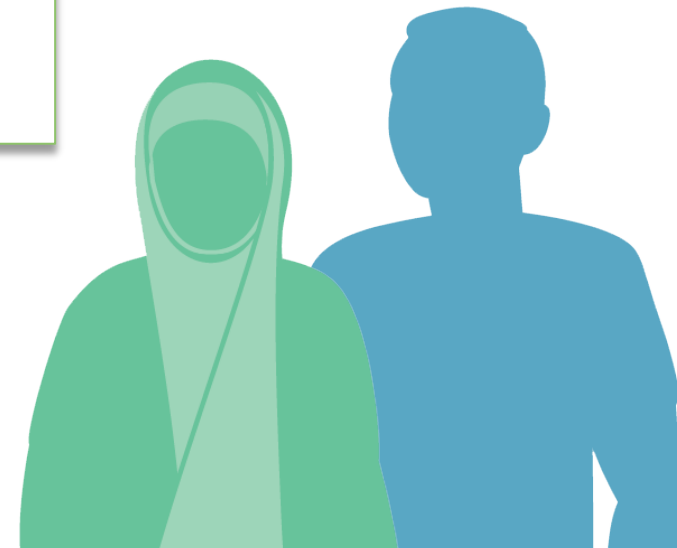
No Credit Score

No positive or negative
information



Options

- Shariah compliant credit product (no interest/compounding charges)
- Lending circle
- Rent reporting



THIN FILE

Credit Building with a Thin File

NO FILE (Credit Invisible)	THIN FILE
No Credit Report	Credit Report
No Credit Score	No Credit Score/ Low Credit Score
No positive or negative information	Fewer than 3 ACTIVE tradelines May also include: <ul style="list-style-type: none">■ Small, paid or older collections only■ No MIX of tradelines



Credit Building with a Thin File

Case Study: Raven

THIN FILE

Credit Report

No Credit Score/
Low Credit Score

Fewer than 3
ACTIVE tradelines

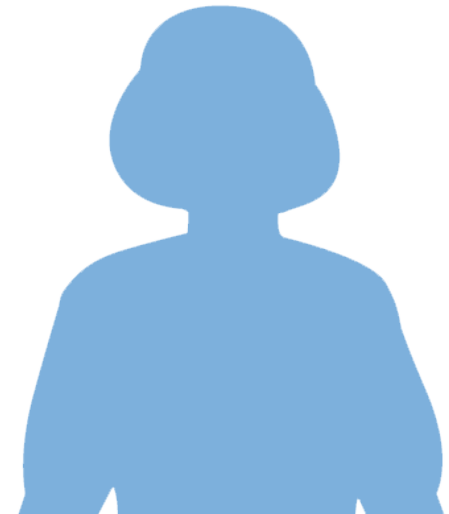
May also include:

- Small, paid or older collections only
- No MIX of tradelines



Raven

- 40-year-old Native Woman
- Credit: 645, only has student loans
- Income: Varies, averages \$1,900 monthly
- Savings: \$500
- Debt: \$5,000 Student Loans
- Goals: Increase savings, Homeownership



Credit Building with a Thin File

What options might be available to her?

THIN FILE

Credit Report

No Credit Score/
Low Credit Score

Fewer than 3
ACTIVE tradelines

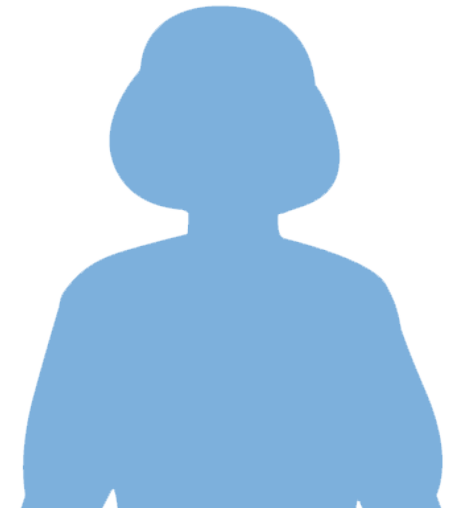
May also include:

- Small, paid or older collections only
- No MIX of tradelines



Options

- Installment accounts
 - Credit builder loan
 - Personal loan
- Revolving accounts
 - Secured credit card
 - Unsecured credit card



THICK FILE

Credit Building with a Thick File

THICK(ER) FILE

Credit Report

Credit Score

Generally 3-5
ACTIVE tradelines

Other features:

- No current delinquencies
- Small, paid or older collections only
- No MIX of tradelines
- Low revolving credit utilization
- Not a lot of recent inquiries
- Long history



Credit Building with a Thick File

Case Study: Martin & Juanita

THICK(ER) FILE

Credit Report

Credit Score

Generally 3-5
ACTIVE tradelines

Other features:

- No current delinquencies
- Small, paid or older collections only
- No MIX of tradelines
- Low revolving credit utilization
- Not a lot of recent inquiries
- Long history



Martin & Juanita

- Early 60s
- Homeowners in rural area
- Credit Scores: Martin: 740, Juanita: 755
- Savings: \$0
- Income: \$2,775 Monthly
- Debt: \$20,000+ in Credit Cards and Medical Debt
- Goals: Decrease Debt, Maintain Housing



Credit Building with a Thick File

What options might be available to them?

THICK(ER) FILE

Credit Report

Credit Score

Generally 3-5
ACTIVE tradelines

Other features:

- No current delinquencies
- Small, paid or older collections only
- No MIX of tradelines
- Low revolving credit utilization
- Not a lot of recent inquiries
- Long history






Options

- Create a debt payoff strategy
- Pay down existing debt (reducing utilization to less than 30%)
- Discontinue or reduce use of credit cards
- Debt consolidation or debt management plans
- Seek assistance with medical debt



IS YOUR PARTICIPANT AN IDEAL CANDIDATE?

Ability to make on-time payments!

NO FILE (Credit Invisible)	THIN FILE	THICK(ER) FILE
No Credit Report	Credit Report	Credit Report
No Credit Score	No Credit Score/ Low Credit Score	Credit Score
No positive or negative information	<p>Fewer than 3 ACTIVE tradelines</p> <p>May also include:</p> <ul style="list-style-type: none"> ■ Small, paid or older collections only ■ No MIX of tradelines 	<p>Generally 3-5 ACTIVE tradelines</p> <p>Other features:</p> <ul style="list-style-type: none"> ■ No current delinquencies ■ Small, paid or older collections only ■ No MIX of tradelines ■ Low revolving credit utilization ■ Not a lot of recent inquiries ■ Long history
		



Ready for Credit Coaching or Counseling But Not Necessarily Credit Building...Yet?

Red flags:

- !** 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



Assess Your Readiness for New Credit Accounts

Purpose

- ❑ Why do you need credit?
- ❑ Do you understand the terms?

Affordability

- ❑ What can you afford?
- ❑ How will this impact your financial stability?

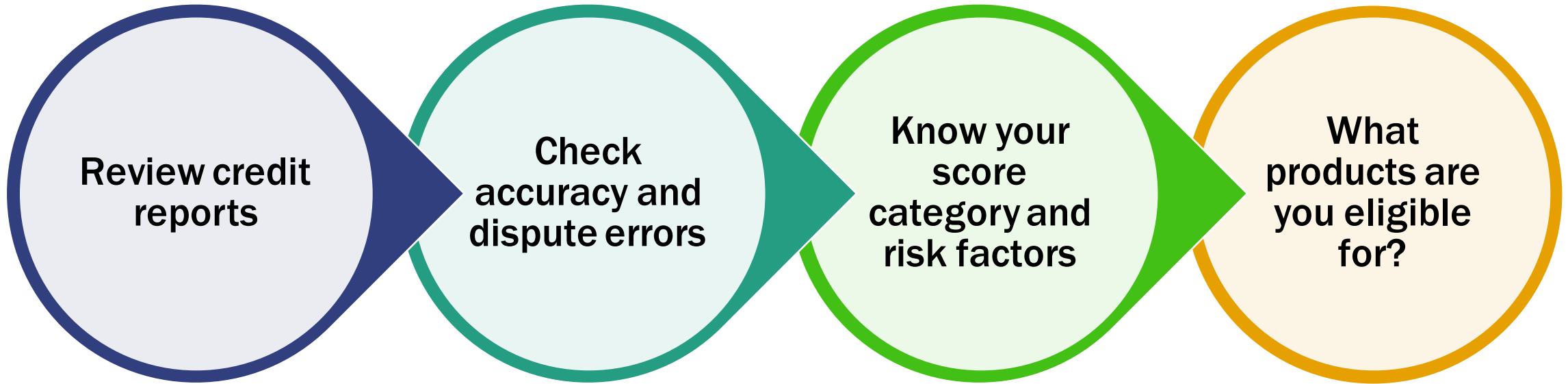
Responsibility

- ❑ Are you prepared to be successful?

Credit Building Readiness

- ❑ How will a new loan impact your credit profile?

Best Practices Before Applying for Credit



Remember...

HOW DO YOU BUILD CREDIT?

ON-TIME payments +

REPORTED to a credit bureau +

EVERY month +

BUILDS credit ✓





QUESTIONS AND COMMENTS
