Tips to Help Your Clients Get Smart About Credit

CFPB Webinar
October 21, 2021
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

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

Loan begins, Funds disbursed

Repayment ends, Loan is closed
Key Terms: Credit Products

Revolving Credit

- Open ended
- Monthly payment based on the balance
Understanding Account Status
Understanding Account Status

Closed to New Activity

Open

Open credit accounts with a positive status

Impact on Credit Score
Understanding Account Status

Closed to New Activity

Open

Open credit accounts with a positive status

Open credit accounts with past due or recent missed payments
Understanding Account Status

- Closed accounts with a history of late or missed payments
  - Collection accounts
  - Public records

- Open credit accounts with a positive status

- Open credit accounts with past due or recent missed payments
Understanding Account Status

**Closed to New Activity**
- Closed credit accounts with no late or missed payments
- Closed accounts with a history of late or missed payments
- Collection accounts
- Public records

**Open**
- Open credit accounts with a positive status
- Open credit accounts with past due or recent missed payments

**Impact on Credit Score**
Understanding Account Status

- Closed credit accounts with no late or missed payments
  - Closed accounts with a history of late or missed payments
  - Collection accounts
  - Public records

Open credit accounts with a positive status
- Open credit accounts with past due or recent missed payments

Potential to become active!
# Strategies for Building Credit

<table>
<thead>
<tr>
<th>Secured Credit Card</th>
<th>Unsecured Credit Card</th>
<th>Authorized User</th>
<th>Personal and Business Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Student Loan</td>
<td>Credit Builder Loans</td>
<td>Social Loan/Lending Circle</td>
<td>Rent Reporting</td>
</tr>
</tbody>
</table>

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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 Building as a Credit Invisible

<table>
<thead>
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Credit Building as a Credit Invisible

Case Study: Trevor

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?**

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**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?

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**Options**
- Shariah compliant credit product (no interest/compounding charges)
- Lending circle
- Rent reporting
THIN FILE
# Credit Building with a Thin File

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## Case Study: Raven

### 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?**

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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

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Credit Building with a Thick File
Case Study: Martin & Juanita

THICK(ER) FILE

Credit Report

Credit Score

Generally 3-5 ACTIVE tradelines

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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?

### 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

### THICK(ER) FILE

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**Generally 3-5 ACTIVE tradelines**

**Other features:**
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### IS YOUR PARTICIPANT AN IDEAL CANDIDATE?

*Ability to make on-time payments!*

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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

1. Review credit reports
2. Check accuracy and dispute errors
3. Know your score category and risk factors
4. What products are you eligible for?
Remember...

**HOW DO YOU BUILD CREDIT?**

**ON-TIME** payments +

**REPORTED** to a credit bureau +

**EVERY** month +

**BUILDS** credit ✓
QUESTIONS AND COMMENTS