



**CREDIT
BUILDERS
ALLIANCE**

Helping Nonprofits
Build Stronger Credit
in their Communities



Underwriting the Credit Invisible: Non-traditional Credit-building Strategies

September 7th 2016



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Introduction: Credit Builders Alliance's Mission



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

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.

Why Credit Building?

Credit Realities among US Consumers



64 million U.S. consumers have no or thin credit history (Experian)

- **26 million are credit invisible:** About one in 10 Americans do not have any credit record.
- **19 million have unscored credit records:** About 8 percent of the adult population has credit records that are considered unscorable (almost evenly split between the 9.9 million that have an insufficient credit history and the 9.6 million that lack a recent credit history).



(CFPB)

Why Credit Building?

Credit Realities among US Consumers



- **Less than half of Americans have what is considered to be a “prime” credit score**

(CFED)

- **Consumers in low-income neighborhoods are more likely to be credit invisible or to have an unscored record**

- **Black and Hispanic consumers are more likely to have limited credit records**

(CFPB)



Why Credit Building? Credit Matters



Good Credit = ACCESS



Why Credit Building?

Improves Asset Building Potential



620+



650+



Federal Reserve's 2014 Joint Small Business Credit Survey found that the top reason for denial of credit to micro and small businesses was "Low credit score"

What is Credit Building?

Rules of Thumb



- ✓ 3 ACTIVE trade lines
- ✓ MIX of installment and revolving
- ✓ 6 months
- ✓ Reported to a Credit Bureau

Credit Builder Products



Assistive Technology Loans

Credit Building IDAs

Immigration Loans

Referrals to banks and credit unions

Auto Loans Social Loans Specific Purchase Loans

Financial Capability

Credit Builder Loans

Point of transaction education

Appliance loans Microenterprise Loans

Home mortgage loans Peer Lending Circles

Employer-based lending

Payday Loan Alternatives

Ways to provide credit builder products



Create referral relationships with financial institutions

Partner with responsible lenders to offer new products

Offer & report your own products!

Product Example



Central Vermont Community Action Council

- Applicants referred to local Credit Union by CVCAC for secured credit card
- Credit Union waives annual fee and has lowered \$500 required deposit to \$150 for CVCAC clients.
- Increased credit scores allow clients to access a wider array of products through Credit Union.

Product Example



Kentucky Domestic Violence Association

Allstate MicroLoan

Loan Amount: \$200-\$800

Loan Type: Secured by IDA match

Interest Rate: 0%

Term: 12 months

Target Market: survivors of domestic violence who are ongoing IDA savers with at least loan amount in their IDA trust account



Product Example



LISC Chicago: *Twin Accounts Enhanced IDA Credit Builder Account*

Purpose: IDA and Credit Builder

Loan Amount: \$300

Loan Type: Secured by loan proceeds

Interest Rate: 2.5% above interest rate on savings account

Term: 6 or 12 months

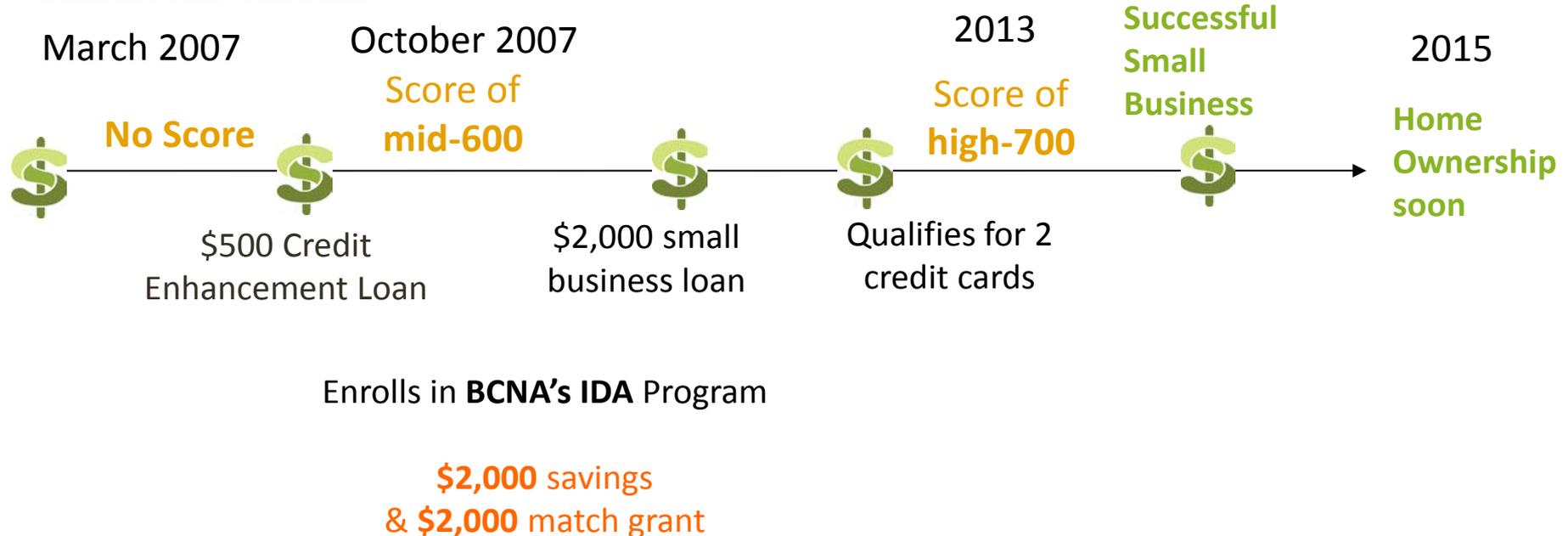
Target Market: low-income Center for Working Family clients



Tracking Outcomes Astou's Story



**BUSINESS CENTER
FOR NEW AMERICANS**



Tracking Outcomes

Robert's Story



September
2009



**Initial credit score
= 624**

Balance budget by
reducing spending

June
2010



Shop around
and open car
loan at credit
union

Save \$3,839

**Found a car
loan at 9.9%
vs. 13.9 %**

March
2012



Score jumps **117
points**

**New credit score
=741**

**Restructured
car loan after 6
months. 9.9%
to 3.9%**

Save \$3,936

April
2012



Approved for
home
improvement
loan.

May
2012



Access
weatherization
grant funds.
Save on heating
and energy!

Cha-CHING!



Why Rent Reporting?



Problem:

Unlike homeowners, renters do not build credit by making their monthly housing payments.

Solution:

Reporting rental payments offers low-income renters an opportunity to build credit as a financial asset: Mission-driven affordable housing organizations are poised to help them do so.

Goal:

To catalyze rent reporting as a valuable and viable option for low-income renters to build credit and financial capability.

The image shows a sample rent receipt form. At the top, it says "RECEIPT" in blue and "No. 123456" in red. Below that, there are fields for "DATE", "FROM", and "DOLLARS". A checkmark is next to "FOR RENT". There are radio buttons for "CASH", "CHECK", "MONEY ORDER", and "CREDIT CARD". The "CASH" option is selected. There are also fields for "ACCT.", "PAID", "DUE", "FROM", "TO", and "BY". The form is tilted slightly to the right.

Pilot Overview



EPIC Property Management

Marquette Management

Affordable Housing, Education and Development

East Bay Asian Local Development Corporation

Cleveland Housing Network

Commonwealth Land Trust

Covenant Community Capital

AHC Greater Baltimore

Pilot Results: Credit Impact



100% of residents with no trades transitioned to the thin-file category and are now **SCOREABLE** by VantageScore 3.0.

Risk Segment	Percentage of Unscoreable Population	Average VantageScore 3.0 before	Average VantageScore 3.0 after
Prime	72%	N/A	688
Nonprime	28%	N/A	646
Subprime	0%	N/A	N/A
Total	100%	N/A	676

Credit Building Challenges



1. Need the lenders to report
2. Need the credit bureaus to accept the data
3. Need funders to require credit reporting