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

September 7th 2016
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.
Introduction:
CBA Credit Builder Community
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

- Bank Accounts
- Employment
- Transportation Options
- Housing
- Telecoms
Why Credit Building?

Improves Asset Building Potential

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 Catch-22

I can't get credit because I have bad/no credit

I have bad/no credit because I can't get credit
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
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

- March 2007: No Score
- October 2007: $500 Credit Enhancement Loan, Score of mid-600
- 2013: $2,000 small business loan, Qualifies for 2 credit cards, Score of high-700
- 2015: Successful Small Business, Home Ownership soon

Enrolls in BCNA’s IDA Program

$2,000 savings & $2,000 match grant
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!**

**SCORE2SAVE**
CREDIT BUILDERS ALLIANCE
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.
Pilot Overview

- EPIC Property Management
- Marquette Management
- East Bay Asian Local Development Corporation
- Cleveland Housing Network
- Covenant Community Capital
- Affordable Housing, Education and Development
- Commonwealth Land Trust
- AHC Greater Baltimore

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

<table>
<thead>
<tr>
<th>Risk Segment</th>
<th>Percentage of Unscoreable Population</th>
<th>Average VantageScore 3.0 before</th>
<th>Average VantageScore 3.0 after</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prime</td>
<td>72%</td>
<td>N/A</td>
<td>688</td>
</tr>
<tr>
<td>Nonprime</td>
<td>28%</td>
<td>N/A</td>
<td>646</td>
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<tr>
<td>Subprime</td>
<td>0%</td>
<td>N/A</td>
<td>N/A</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
<td><strong>N/A</strong></td>
<td><strong>676</strong></td>
</tr>
</tbody>
</table>
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