Understanding Credit Reports and Credit Scores

May 7-9th
NAIHC Conference
Thank You
CBA’s Partnership with NAIHC

Developing a supplemental credit building module

Offer CBA membership to 14 Native Organizations

Initiate rent reporting for 5 Tribally Designated Housing Entities or Tribal Housing Developments
CBA Credit Building Community

Good Credit is an Asset
CBA helps organizations move people from poverty to prosperity by supporting their credit building:

- Programs
- Practitioners
- Products
- Policies

over 500 members nationwide
## Credit Jeopardy

<table>
<thead>
<tr>
<th>MYTH OR FACT?</th>
<th>Myth</th>
<th>Fact</th>
</tr>
</thead>
<tbody>
<tr>
<td>If you pay all your monthly bills on time, you will have a high credit score.</td>
<td>Myth</td>
<td></td>
</tr>
<tr>
<td>If you <strong>only</strong> have collection accounts on your credit report, you may not have a score.</td>
<td>Fact</td>
<td></td>
</tr>
<tr>
<td>You can ruin your credit by applying for a few new lines of credit (making inquiries).</td>
<td>Myth</td>
<td></td>
</tr>
<tr>
<td>It is possible to go from “unscored” to a prime score in 6 months if you have one reported loan paid on time each month.</td>
<td>Fact</td>
<td></td>
</tr>
<tr>
<td>A single delinquency can reduce a credit score by as much as 100 points.</td>
<td>Fact</td>
<td></td>
</tr>
<tr>
<td>Credit cards can be excellent vehicles for building credit.</td>
<td>Fact</td>
<td></td>
</tr>
</tbody>
</table>
Credit Jeopardy: Round 2

How many credit scores can one individual have?

a. One
b. Three – one from each bureau
c. No more than 20
d. Too many to count!
Credit Jeopardy: Round 2

Name two companies that generate credit scores that are NOT any of the major three credit bureaus.
Credit Jeopardy: Lightning Round

What are the five principle factors that influence a credit score?

Which of these five factors has the most influence on the credit score?
The Players

CONSUMERS

Consumer Reporting Agencies

Credit Score Developers

Lenders and Other Businesses

The Government

SOURCE: Experian

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Key Terms

Credit Report: summary of credit history

Credit Score: risk model used by lenders/other businesses to provide a snapshot assessment of credit information at a moment in time

Both are important!
Credit Empowerment

Access to credit reports is key:

- At intake
- Prior to applying for credit
- As part of ongoing coaching to support client success and financial stability
Know the Report

Personal Identifying Information

Credit History

Public Records

Inquiries
What a Credit Report May Tell You

- Financial patterns that may reflect stability/ability to make ends meet

- Debt obligations that may reflect ability to manage emergencies and save

- Access to asset building credit that may reflect potential for financial security
Consumer Access to Credit Reports

- **www.annualcreditreport.com**: one free report each year from each of the 3 major credit bureaus.
- Adverse action: when denied for credit or favorable terms.
- Through non profit coaching or counseling

Note: Credit reports prepared for consumers look different and contain slightly different information from the reports that are used by lenders.
Free Credit Score Platforms

What do these sites offer?

- Summarized credit information
- Free credit scores
- Personalized recommendations
- Product recommendations (Some, not all)
Free Credit Score Platforms

Things to know about using free credit score platforms with your clients:

✓ Can be useful for tracking *general* credit progress, keep the focus on overall trends

✓ Not ideal if consumers need detailed credit report information

✓ Consumers must share personal information and may receive marketing messages

✓ Difficult to access for people without a SSN or those who might have difficulty answering tricky security questions
Reviewing Credit Reports

Assess and Inventory:

1. What is on the credit report?
   - Good stuff?
   - Potential/future good stuff?
   - Bad stuff?
   - Incorrect information?

2. What is NOT on the credit report?
How Does Credit Building Work?

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

Focus on *behavior* now to create opportunities for the future
Understanding Account Status

Closed credit accounts with no late or missed payments

Open credit accounts with a positive status

• Closed Accounts with history of late or missed payments
• Collection accounts
• Public Records

Open credit accounts that are past due or have recent missed payments
Understanding Account Status

Closed credit accounts with no late or missed payments

Open credit accounts with a positive status + RECENT ACTIVITY

• Closed Accounts with history of late or missed payments
• Collection accounts
• Public Records

Open credit accounts that are past due or have recent missed payments

Potential to become active!
Which Score?

Different types of businesses + Assessing different types of risk = Many different credit scores designed for different lending and business purposes!
## Two Stand Out

<table>
<thead>
<tr>
<th>FICO</th>
<th>VantageScore</th>
</tr>
</thead>
<tbody>
<tr>
<td>Used by 90% of lenders</td>
<td>Used by a growing number of lenders</td>
</tr>
<tr>
<td>Multiple generations of FICO scores have been developed over the last 25+ years</td>
<td>Multiple generations of VantageScores have been developed over the last 12 years</td>
</tr>
<tr>
<td>Develops a FICO Score model separately on each bureau’s data</td>
<td>Developed one algorithm, used across each bureau’s data</td>
</tr>
</tbody>
</table>
FICO® Scores

- Generic
- Mortgage
- Personal Finance
- Bankcard
- Installment Score
- Auto

Experian
Equifax
TransUnion

Different bureau, different algorithm

FICO® is a registered trademark of Fair Isaac Corporation in the United States and other countries.
VantageScore Solutions

4 GENERATIONS

Experian

Equifax

TransUnion

Same algorithm across bureaus

VantageScore® is a registered trademark of VantageScore Solutions, LLC.
Credit Scores Commonly used in Mortgage Lending

- Equifax Beacon 5.0
- Experian/Fair Isaac Risk Model v2
- TransUnion FICO Risk Score 04
Scores are Important But...

...focus on the trend upwards, the range, and the underlying actions as reflected in the credit report.
- Establish credit history and score (ANY score model!)
- Develop understanding of credit
- Focus on successful management of credit products

- Graduate to other credit products that will support long-term credit building
- Benefit from improved access and more affordable rates

- Focus on specific credit scores and other factors needed to achieve asset building goal
# Scoring Factors: Payment History

<table>
<thead>
<tr>
<th></th>
<th>RED FLAGS CONSUMER</th>
<th>SAVVY CONSUMER</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payment History</strong></td>
<td>High risk</td>
<td>Low risk</td>
</tr>
<tr>
<td>Delinquencies within</td>
<td>All payments on</td>
<td></td>
</tr>
<tr>
<td>most recent 6 months</td>
<td>time</td>
<td></td>
</tr>
<tr>
<td>Previous serious</td>
<td>No serious</td>
<td></td>
</tr>
<tr>
<td>delinquency (90 days)</td>
<td>delinquencies in</td>
<td></td>
</tr>
<tr>
<td></td>
<td>history</td>
<td></td>
</tr>
<tr>
<td>Numerous late pays</td>
<td>Consistently uses</td>
<td></td>
</tr>
<tr>
<td>(30 or 60 days)</td>
<td>existing credit</td>
<td></td>
</tr>
<tr>
<td></td>
<td>accounts</td>
<td></td>
</tr>
</tbody>
</table>
### Score Reduction Due to Missed Payments (VantageScore 3.0)

<table>
<thead>
<tr>
<th>Missed Payments</th>
<th>Starting Score</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PRIME (660-780)</td>
</tr>
<tr>
<td>Credit Card 30 day</td>
<td>70–90</td>
</tr>
<tr>
<td>60 day</td>
<td>90-110</td>
</tr>
<tr>
<td>Car Loan 30 day</td>
<td>70-90</td>
</tr>
<tr>
<td>60 day</td>
<td>90-110</td>
</tr>
<tr>
<td>Mortgage 30 day</td>
<td>90-110</td>
</tr>
<tr>
<td>60 day</td>
<td>100-120</td>
</tr>
<tr>
<td>Charge-off/Foreclosure</td>
<td>110-130</td>
</tr>
<tr>
<td>External Collections</td>
<td>130-150</td>
</tr>
<tr>
<td>Bankruptcy</td>
<td>180-200</td>
</tr>
</tbody>
</table>

Source: VantageScore Solutions, LLC © 2017
A Tale of Two People

Client #1
Credit report: Last open account 2005

- 8/13: No FICO
- 10/13: Enrolls in TA
- 3/14: Low 700 FICO
- 11/14: Opened Secured Credit Card

Why it matters:

Client #2
Credit report: Blank

- 11/12: No FICO
- 12/12: Enrolls in TA
- 6/13: High 600 FICO
- 2/13: Opens Credit Card
- 3/14: Under 600 FICO
- 10/13: Credit Card Delinquent 1x
- Gets Car Loan @ 28%
# Scoring Factors: Outstanding Debt

<table>
<thead>
<tr>
<th>RED FLAGS CONSUMER</th>
<th>SAVVY CONSUMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>✗ High risk</td>
<td>✅ Low risk</td>
</tr>
<tr>
<td><strong>Outstanding Debt</strong></td>
<td></td>
</tr>
<tr>
<td>Maxing out multiple revolving credit—crisis mode</td>
<td>Uses under 10% of revolving credit</td>
</tr>
<tr>
<td>Very high overall debt level—may have difficulty paying</td>
<td>Pays off balance before statement date or before data is sent to bureaus</td>
</tr>
<tr>
<td>Single account maxed out</td>
<td>All revolving accounts keep balances very low</td>
</tr>
</tbody>
</table>
# Scoring Factors: Length of Credit History

<table>
<thead>
<tr>
<th>Length of Credit History</th>
<th>RED FLAGS CONSUMER</th>
<th>SAVVY CONSUMER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High risk</td>
<td>Low risk</td>
</tr>
<tr>
<td>Very little or very short length of credit history</td>
<td>Long history on file—experienced credit user</td>
<td></td>
</tr>
</tbody>
</table>
## Scoring Factors: Inquiries

<table>
<thead>
<tr>
<th>Inquiries</th>
<th>RED FLAGS CONSUMER</th>
<th>SAVVY CONSUMER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Many inquiries throughout the past year</td>
<td>High risk</td>
<td>Only apply for credit as needed</td>
</tr>
<tr>
<td>Possibly taking on too much debt</td>
<td></td>
<td>Shopping around for the best rates for auto loan or mortgage, within a 2 week period</td>
</tr>
<tr>
<td>Desperate need for cash—crisis mode—unlikely to pay back</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
# Scoring Factors:

## Credit Mix

<table>
<thead>
<tr>
<th>Credit Mix</th>
<th>RED FLAGS CONSUMER</th>
<th>SAVVY CONSUMER</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>High risk</td>
<td>Low risk</td>
</tr>
<tr>
<td>Only one type of account on record</td>
<td>Different types of accounts—can manage payments consistently in different ways</td>
<td></td>
</tr>
</tbody>
</table>
New Developments in Credit Scoring

- New credit scoring models:
  - FICO® Score 9
  - UltraFICO™ Score
  - VantageScore ® 4.0
  - Experian Boost
  - Scores using alternative data: FICO® Score XD, LexisNexis® RiskView™
New Developments in Credit Scoring

- Ways that new scoring models are innovating:
  - Trended data and machine learning to score more consumers
  - Consumer permissioned data
  - Incorporating alternative data points
  - Changes to weighting of medical and small collections
New Developments in Credit Scoring

- Overall movement towards financial inclusion, consumer protection, and more diversity of financial products
- Industry innovation is often driven by market forces, not necessarily in the spirit of economic justice
- Need to lift up and scale the impactful work of community-based lenders and financial institutions!
Score Impact: External Factors

- Whether creditors report to any or all of the credit bureaus
- Risk levels in the national economy
- Factors considered in the development of scoring models
Best Practices for Strong Credit Scores

**Keep it Active!** Establish and maintain a mix of at least 3 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!** You want at least 6 months of credit history – and activity! – on your credit report at any time.
Debt and Credit Building

Debt management ALONE is not a Credit Building strategy

Debt management is important and often essential to financial stability

Paying debts alone does not build credit

Debt management may need to happen before, or in conjunction with Credit Building
Debt and Credit Building

Help your clients make decisions about debt from a credit building perspective:

- Tackle low-hanging fruit
- Prioritize debt payments based on credit and financial stability
- Weigh the costs & benefits of paying debt/collections
- Navigate competing priorities
## When Does Information Fall Off the Credit Report?

<table>
<thead>
<tr>
<th>Type of Information</th>
<th>Retention Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open Accounts In Good Standing</td>
<td>Indefinitely</td>
</tr>
<tr>
<td>Closed Accounts In Good Standing</td>
<td>10 years from date of closure</td>
</tr>
<tr>
<td>Late or missed payments</td>
<td>7 years from date of first delinquency</td>
</tr>
<tr>
<td>Charge Off/ Collections</td>
<td>7 years from date of first delinquency</td>
</tr>
<tr>
<td>Bankruptcy</td>
<td>10 (Ch. 7) or 7 (Ch. 13) years from date of entry for relief</td>
</tr>
<tr>
<td>Civil Judgment</td>
<td>7 years from date of entry</td>
</tr>
<tr>
<td>Foreclosure</td>
<td>7 years</td>
</tr>
<tr>
<td>Tax Liens</td>
<td>7 years from paid date or no limit if unpaid</td>
</tr>
<tr>
<td>Inquiries</td>
<td>2 years</td>
</tr>
</tbody>
</table>
Date of First Delinquency

- Statute of Limitations
- Date that an account was turned over to a collection agency
- Date of Last Activity
Collections and Credit Building
Impact of collections on credit scores

Highest potential for negative impact:
New, unpaid collection accounts

Potential for negative impact:
Older unpaid or settled collection accounts

Reduced potential for negative impact:
Old paid and unpaid collection accounts
New Developments:
Public Records

As of April 2018, tax liens (in addition to civil judgments) will NO longer report to the bureaus.

- Public records disappeared in July
- Tax liens saw nearly a 49% decline
- Implications:
  - Few will likely see significant score changes
  - Coaches/counselors will need to identify other opportunities to gather this information
Who Are the Ideal Candidates?

Step 2: Know the Score

Credit Reports – or the lack of one – can help you determine if Credit Building is the best next step.

WAIT
<table>
<thead>
<tr>
<th>NO FILE (Credit Invisible)</th>
<th>THIN FILE</th>
<th>THICK(ER) FILE</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Credit Report</td>
<td>Credit Report</td>
<td>Credit Report</td>
</tr>
<tr>
<td>No Credit Score</td>
<td>No Credit Score/ Low Credit Score</td>
<td>Credit Score</td>
</tr>
<tr>
<td>No positive or negative information</td>
<td>Fewer than 3 ACTIVE trade lines</td>
<td>Generally 3-5 ACTIVE trade lines</td>
</tr>
<tr>
<td></td>
<td>May also include:</td>
<td>Other features:</td>
</tr>
<tr>
<td></td>
<td>- Small, paid or older collections only</td>
<td>- No current delinquencies</td>
</tr>
<tr>
<td></td>
<td>- No MIX of trade lines</td>
<td>- Small, paid or older collections only</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- No MIX of trade lines</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Low revolving credit utilization</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Not a lot of recent inquiries</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Long history</td>
</tr>
</tbody>
</table>

**Ability to make on-time payments!**
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
Step 2: Know the Score
Is Raven a good candidate for credit building? Why or why not?

How does what you’ve learned relate to credit as an asset?
Upcoming NAIHC Sessions

Session 3. Get the Good Stuff Going: Credit Building through Financial Products (May 9th from 9:00 – 10:00)

Session 4. The Power of Rent Reporting (May 9th from 1:45 – 2:45)

Check out www.cbatraininginstitute.org and become a CBA Member for more helpful resources that we may not cover in detail in this training!
Continued Learning

Credit as an Asset Training
Credit Builders Toolkit
Credit Building Consulting
CBA Members' Corner

www.cbatraininginstitute.org
Thank You!

Questions?

training@creditbuildersalliance.org

www.creditbuildersalliance.org