



ONAP Training & Technical Assistance
Virtual Session
The Seven Key Steps to Credit Coaching

Day #1: August 10th, 2021
Preparing Eligible & Qualified Borrowers



This virtual training is sponsored by the
U.S. Department of Housing & Urban Development's Office of Native American Programs and the
National American Indian Housing Council



Sea Dolphin Consulting, LLC



**PRESENTED BY:
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Learning Environment

- Mute yourself
- Use the chat box
- Turn your video on
- Session will be recorded



Course Description

- Overview of essential Credit Coaching basics, including Credit scores, credit rebuilding tips, credit report checklists, and two federal consumer protection acts;
- How to use each step in the workplace; and
- How to establish Credit Coaching guidelines to ensure successful services.

Course Objectives

1. To understand the basics of credit scoring, credit reports, and overall credit to ensure your clients are eligible and qualified borrowers.
2. To understand the key steps Credit Coaches use to increase their client's credit reports.
3. To understand the key steps Credit Coaches use to rebuild their client's credit reports.
4. How to implement the "Seven Steps" into your programs.
5. Knowledge of key Credit Coaching questions, and how to customize the questions to meet the needs of a particular client.



QUESTION 1

A FICO credit score is?

- A. An alphabetical score grading your creditworthiness.
- B. A three-digit number summarizing the state of your credit.

QUESTION 2

What are the names of the credit bureau's that provide credit to lenders?

- A. Equifax, Miramax, and TransUnion
- B. TransLabor, Equimax, and Experian
- C. Experian, TransUnion, and Equifax

QUESTION 3

The credit score is the same at all three credit bureaus?

- A. True
- B. False

QUESTION 4

FICO credit scores range from...

- A. 0 to 800
- B. 300 to 850
- C. 250 to 900

QUESTION 5

The factor that carries the most weight in changing the FICO credit score is what?

- A. Credit History
- B. Types of Credit
- C. Payment History

QUESTION 6

Which of the following does not affect credit?

- A. Employment History
- B. Collection Accounts
- C. Charge-Offs

Client Consumer Rights

THE FAIR CREDIT REPORTING ACT, (FCRA)

FAIR CREDIT REPORTING ACT	
1	The right to privacy. Protects consumers from the unwanted release and circulation of their credit report.
2	The right to be told if information in the file has been used against the consumer.
3	The right to challenge inaccurate information.
4	Credit Bureaus must investigate challenges.
5	Challenges must be investigated within 30 days.
6	If the creditor cannot confirm derogatory information, it must be deleted from the credit report.

THE FCRA, (Continued)

6. The re-aging of collection accounts once sold by the original creditor is an invalid practice according to the FCRA section 605(c)-part A(1), which states:

- (c) Running of Reporting Period

- (1) *In general.* The 7-year period shall begin upon the expiration of the 180-day period beginning on the date of the commencement of the delinquency which immediately preceded the collection activity, charge to profit or loss, or similar action.

THE FCRA, (Continued)

FAIR CREDIT REPORTING ACT CONTINUED	
7	If the consumer still believes that the information is inaccurate, they may submit a consumer statement.
8	Consumer must consent for a credit report to be given to an employer.
9	Consumers have the right to exclude their name from a CRA list for unsolicited credit and insurance offers.
10	Consumers have the right to seek damages from credit information violators.
11	Outdated information may not be reported. A CRA cannot report negative information that is more than 7 ½ years old, or bankruptcies that are more than 10 years old.

CREDIT AND CONSUMER RIGHTS

www.ftc.gov

Fair Trade Commission:

1. Report Fraud
2. Register for a Do Not Call (telemarketers)
3. Report Identity Theft
4. Free Credit Report
5. Order Free Resources

Consumer Financial Protection Bureau:

www.consumerfinance.gov

- File a complaint
- Credit, collection, and validation letters
- How to guides

Consumer Financial Protection Bureau:

- Roots out unfair, deceptive, or abusive acts or practices by writing rules, supervising companies, and enforcing the law
- Outlaws' discrimination in consumer finance
- Enhances financial education through videos, tutorials, and how-to guides, etc.
- Monitors financial markets for any new consumer risks

THE FAIR DEBT COLLECTION PRACTICE ACT (FDCPA)

FAIR DEBT COLLECTION PRACTICE ACT

Debt collectors may not:

- Make threats or use violence
- Use obscene or profane language
- Publish lists of consumer names
- Call a debtor repeatedly

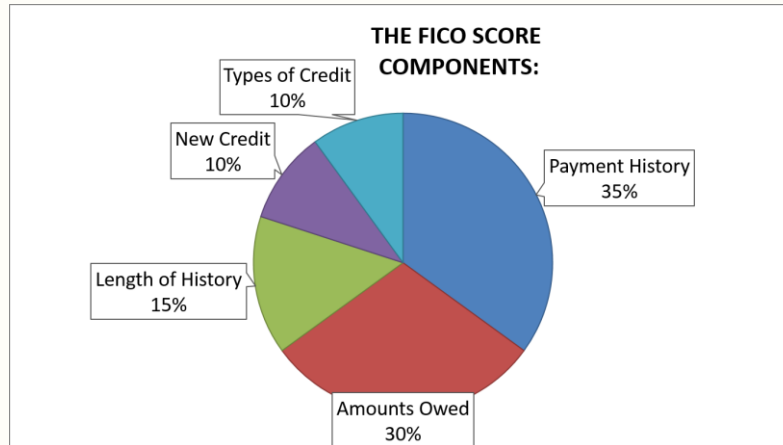
If a debtor is represented by an attorney, a collector may not make contact, unless the attorney grants them permission

Contact can only be made between 8am and 9pm in the time zone of the consumer

Contact may only be made at work if authorized by the consumer

Breaking Down the FICO Score

The 5 FICO Score Components



PAYMENT HISTORY- 35%

- How severe is the worst delinquency?
 - 30 days, 60 days, 90 days?
- How recent is the delinquency, collection or public record?
- How many items on the credit report is the client delinquent?

AMOUNT OWED- 30%

- How much does the consumer owe?
- What percentage of available credit being used?
- What percentage is outstanding on open installment loans?

LENGTH OF CREDIT HISTORY- 15%

- How long have accounts been established?
- How many months since the most recent accounts were opened?

NEW CREDIT- 10%

- How many new credit inquiries and accounts were opened in the last 12 months?
 - Credit inquiries remain on the report for two years, but are only used as part of the calculation for 12 months
 - Promotional offers, account reviews, consumer disclosure, insurance and employment checks do NOT negatively affect the FICO calculation

TYPES OF CREDIT- 10%

- What types of credit are being used, and is there diversity?

Installment

- **Closed-end credit**
- **Set regular payments, every month for a specific time period**

Revolving

- **Balance can be paid at a later date with minimum monthly payments**
- **Credit cards**

Service-Short Term Credit

- **The balance is due every billing cycle**

CREDIT COACHING RULES OF THUMB

FICO Credit Score

TO IMPROVE A CLIENT'S FICO CREDIT SCORE

Rule 1	Pay all credit report trade lines on time and for the amount agreed upon.
Rule 2	Do not come close to maxing out credit cards. Use no more than 30% of one's available credit.
Rule 3	Do not keep an excessive number of credit cards.
Rule 4	Do not "go over the limit" on credit cards.
Rule 5	Correct inaccurate information on credit reports.

Rebuilding Credit:

STEP 1: Obtain a copy of your client's credit report, and current statements of all debts.

STEP 2: Complete a thorough evaluation of the credit report and try match debts to the report. (Watch for inaccuracies).

STEP 3: If there are any delinquencies or defaults, it's important to get a clear understanding of the cause.

STEP 4: Once discrepancies have been found, draft a letter(s) to the credit bureaus , creditors and/or collection companies for each inaccuracy. (*"Validating debts"*).

STEP 5: Create a *budget* using the information gathered. Advise client to bring any past-due accounts up to date, pay them off entirely, or setup a repayment plan.

STEP 6: Record all action: *i.e., CAP, Telephone Tracking Log, notes, etc.*

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CLIENT CREDIT REPORTS

Credit Report Components:

1. Identifying information

- Name
- Address
- SS #
- Date of birth
- Current and previous addresses
- Current employer and previous employers

2. Credit information

- Trade lines

Credit Report Components (continued):

3. Public record information

- Liens
- Judgments

4. Collection Accounts

5. Inquiries

- Promotional “soft pull” (uninvited)
- Credit Identifying “hard pull” (authorized)

Negative Activity

- **Late Payments:**
 - Trade Line reports on how late the payments are, and how often the late payments have occurred (**in past 7 ½ years**)
- **Judgments:**
 - Legal determination that a certain amount of money is owed
- **Collection Accounts:**
 - Unpaid accounts that have been turned into the credit bureau as “not paid”
 - Paid accounts that are **not** 7 ½ years old
- **Charge-Offs:**
 - An unpaid account that the creditor has stopped trying to collect
- **Bankruptcies:**
 - Chapter 7: Liquidation of all assets
 - Chapter 13: Rehabilitation, (establishes a repayment plan for a portion of the debts)

Credit Report Tools

- ***Credit Rebuilding Letters***

Used by a Credit Coach and Housing Counselors :

- Provide to a customer to initiate and document a constructive dialogue with creditors and credit-reporting agencies to assist in rebuilding credit.

Tools (Continued): Debt Management

The **PowerPay® Debt-Reduction System** developed by F. Dean Minor, Jr. and Judy L. Harris of Utah State University addresses the issue of excessive debt.

- Used to help clients achieve an acceptable debt-to-income ratio for mortgage-loan qualification by applying the most strategic and effective repayment methods for accelerated debt reduction.

**CREDIT COACHING CLIENTS
TO BECOME ELIGIBLE AND
QUALIFIED BORROWERS**

What Do Lenders Look At?

The Credit Report & the FICO Score:

- Payment History
- Outstanding debt(s)
- Credit History (age of accounts, payments, closed trade lines, etc.)
- Pursuit of new credit
- The types of credit that are currently in use (trade lines, collection accounts, etc.)
- Overall management of credit

The Credit Application:

- Time on job (*character*)
- Amount of time in current job “industry” (*character*)
- Verification of income (*capacity/capital*)
- Low debt-to-income ratio, i.e., less than 43% (*capacity*)
- Money in a savings and/or checking account (*capital*)
- References (*character*)
- Time in living at current address, i.e., renter/owner (*character*)

Indicators of a Sub-Par Credit History

- Trade line payment(s) that are 30 days or *more* late
- Foreclosure(s)
- Outstanding Judgment(s)
- Collection Account(s)
- Charged-Off Account(s)

Lender “Exceptions”

****Documentation should be provided for any of the “causes” listed below.**

The cause was:

- Temporary
- Beyond the applicant's control
- Due to loss of job, illness, etc.
- Dispute over a trade line or collection payment is in progress

THE 7 KEY STEPS TO CREDIT COACHING



The 7 Key Steps to Credit Coaching

ASK YOUR CLIENT TO BRING THE FOLLOWING ITEMS:

- Current statements of all trade line accounts and monthly debts.
- Current paystubs or last tax return,
- A list of annual expenses that your client would like to save for,
- And a personal *Financial Mission Statement*

The 7 Key Steps to Credit Coaching, (Continued)

STEP 1

Review their *Housing Goal* together.

Example Questions:

- What has held you back in the past from reaching your financial goals?
- What things can you NOT give up in your budget? Why?
- What things are you willing to give up in your budget? Why?
- What circumstances in your life have caused you to fall behind in your payments? (If applicable)
- Would you be willing to talk to (creditor, collections, etc.) about a possible repayment plan?

Client Action Plan (CAP)

- Record at least 3 **ACTION STEPS** that you will coach your client to reach; to fulfill their Housing Goal.
- Give your client a notebook to write down daily spending until your next meeting. (Or keep all receipts).
- Decide when you will meet again and schedule the appointment now.

Client Action Plan (Example)

Housing Goal: Pay off credit card debt of \$3,100 by June of 2023, in order to qualify for a mortgage.

Action Steps:

1. Pay \$100 extra per month towards credit card debt
2. Client agrees to communicate with you, when they need to use their credit card for a future purchase.
3. Apply for a credit card with 0% interest in October 2021 to transfer remaining high interest credit card balances

The 7 Key Steps to Credit Coaching, (Continued)

STEP 2

Obtain a **copy of your client's Credit Report**. Ask questions and review it *together* in its entirety.

STEP 3

Complete a second **evaluation of the credit report** on your own.

The 7 Key Steps to Credit Coaching, (Continued)

STEP 4

If there are any **delinquencies or defaults**; get a clear understanding of the cause *directly from the client*.

STEP 5

If any discrepancies are found on the credit report, a **letter(s) will need to be drafted to the creditors, and the credit bureaus for each inaccuracy**.

Validation Letter

April 17, 2021

Collection Agency (address)

SENT VIA CERTIFIED MAIL

Certified Mail No. 12341234123412341234

Re: Collection Account #: 12341234

To Whom It May Concern:

This letter is being sent to you in response to an entry made on my Trans Union Credit report date April 3, 2021. Please be advised that this is not a refusal to pay, but a notice sent pursuant to the Fair Debt Collections Practices Act, 1:1692g Sec 809 (b) that your claim is disputed, and validation is requested.

Under the Fair Debt Collections Protections Act, I have the right to request validation of the debt you say I owe you. I am requesting proof that I am indeed the party you are asking to pay this debt, and there is some contractual obligation which is binding on me to pay this debt. This is NOT a request for "verification" or proof of my mailing address, but a request for VALIDATION made pursuant to the above-named Title and Section of the Fair Debt Collections Practices Act.

You should also be aware that reporting inaccurate and unsubstantiated information to a credit reporting agency might constitute fraud under federal law. Your legal staff will agree that compliance with this request is required under the laws of state and federal statutes.

In addition to the debt validation form, please attach copies of:

1. Agreement with your client that grants you the authority to collect on this alleged debt, or proof of acquisition by assignment.
2. Agreement that bears the signatures of the alleged debtor wherein he or she agreed to pay the creditor.

I require compliance with the terms and conditions of this letter with 30 days or a complete withdrawal, in writing, of any claim. In the event of noncompliance, I reserve the right to file charges and/or complaints with appropriate county, state and federal authorities. I also hereby reserve the right to take private civil action against you to recover damages.

In addition, the Fair Credit Reporting Act states that while the item is being investigated by you (under dispute) you must remove/cease from reporting this information to the Credit Reporting Agency until full validation has been completed. I have taken the liberty in also copying this request to the Credit Reporting Agency.

Sincerely,

Tom Jones

123 Any Street

Where, TX 12345

Cc: CRA's

The 7 Key Steps to Credit Coaching, (Continued)

STEP 6

Help your client Create a **budget** by using the information you have gathered.

1st: Pay food, shelter, and transportation budget items first.

2nd: Budget to bring past due accounts up to date, (ASAP), collectively decide to set up repayment plans, or negotiate payoff agreements.

3rd : When paying off collections- Start with most recent and work back to older accounts.

The 7 Key Steps to Credit Coaching, (Continued)

STEP 7

Record All Action:

- A. Complete a **Client Action Plan** for each client/family.
- B. Keep a record of all communication via phone, mail, email
- C. Send all letters certified/return receipt requested.

Telephone Tracking Log

Name of Company:	Company Address:
Phone Number:	
Fax Number:	
Type of Account:	Account Number:
Payment Due Date:	Regular Payment Amount:
Amount Past Due:	Reduced Payment Amount:

Record Calls Here:

Date: _____ Time: _____ Person I spoke with: _____
 Phone Number _____ E-mail _____ Fax Number: _____

Main Portions of Conversation:

What was the agreement?

Follow Up Date: _____

QUESTIONS:



TA Contacts by ONAP Area Office

	Name	Email	Phone Number
AKONAP	Deb Alston	deb.alston@hud.gov	907.677.9863
EWONAP	Mary White	Mary.White@hud.gov	312.913.8762
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SPONAP	Sherri Coleman	Sherri.A.Coleman@hud.gov	405.609.8549
SWONAP	Deborah Broermann	Deborah.S.Broermann@hud.gov	602.379.7198