



**CBA TRAINING INSTITUTE**

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# **Reading a Credit Report & Designing a Credit Action Plan**

**Part 2**

**January 10, 2019**

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# Agenda

- **About Credit Builders Alliance**
- **Summary of Key Points: Webinar 1**
- **Reading a Credit Report**
- **Assessing Credit Readiness**
- **Designing a Credit Action Plan**

# About Credit Builders Alliance

## Our mission:

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

## Our philosophy:

***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.

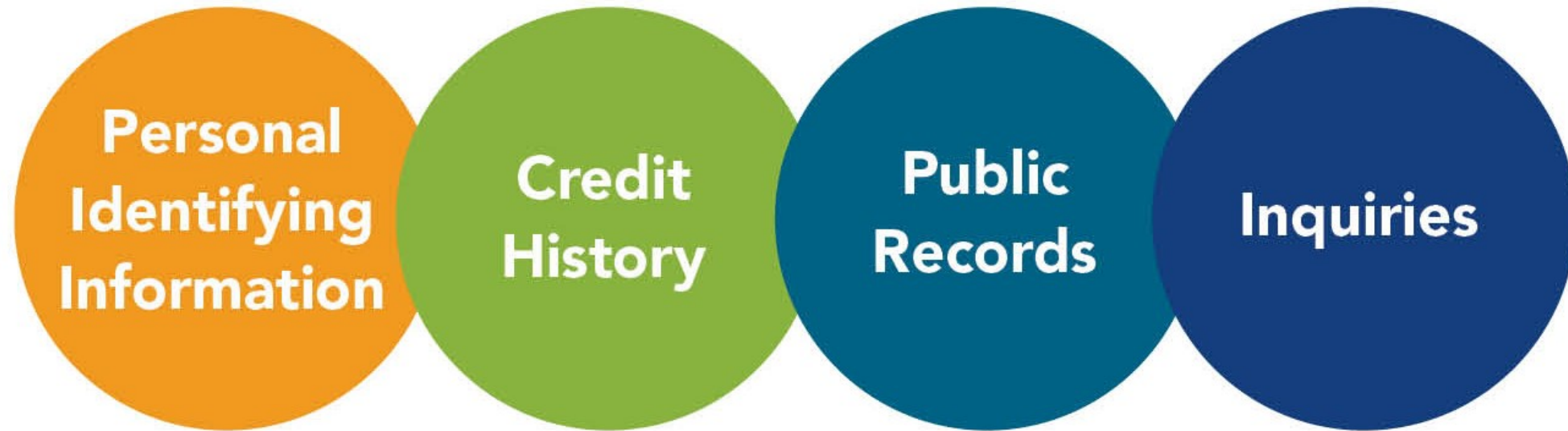
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TRAINING  
INSTITUTE**



# Summary of Key Points: Webinar 1

- **Consider business division credit reports as a programmatic tool**
- **Identify intersection points with credit reports and your current programs and services**
- **Familiarize yourself and clients around credit report updates that heavily impact their credit profiles**

# Main Sections of the Credit Report



# Personal Identifying Information

## May include:

- **Name and variations**
- **Addresses, past and present**
- **Employment information**
- **Spouse, Co-applicants**
- **SSN, DOB**
- **Contact information**

## NOT included:

- **Beliefs and affiliations (i.e. Gender, Ethnicity, Religion, Political Affiliation)**

# PERSONAL CREDIT REPORT

DATE OF REPORT:

*1/1/2019*

Report # 99999

## PERSONAL INFORMATION

**NAME**

*Geneva Smith*

**SSN:**

*xxx-xx-5555*

*Your SSN has been masked for your protection*

**You have been in our files since:**

*March 1999*

**Other Names Reported**

*Eva Smith, Geneva Doe*

**Year of Birth:** *1974*

**Addresses Reported**

*123 Main Street Anytown, HomeState 00001*

*321 Main Street, Othertown, HomeState 00002*

*789 County Rd A, AnotherTown, HomeState 00005*

**Telephone Numbers Reported**

*222-555-5555*

*222-888-8888*

**Spouse or Co-applicants**

*Juan L. Doe*

**Employers**

*Anytown Paper Co.*

*Generic Industries*

# Credit History

**Accounts in good standing**  
*(open and closed)*

- Open accounts remain on the report indefinitely
- Closed accounts in good standing remain on the report for 10 years following date of closure





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*Is it active?*





# DEFINITIONS

## Credit History

### **Active credit account:**

**Open account in a positive status and activity (i.e. a payment made) at least once in the last six months.**

***Active credit essential to establishing and building strong credit scores!***



# Poll Question

**Q: Which of the following types of accounts have the most potential for long-term credit building?**

- a) A closed mortgage account that was paid in full 5 years ago with no missed/late payments**
- b) An open credit card account that is used monthly and is paid as agreed**
- c) A collection account that is being paid through a monthly payment plan**

# Credit History

<b>Delinquent accounts and those with past negative history</b> <i>(open and closed)</i>	<ul style="list-style-type: none"><li>■ Negative information remains on the report for up to 7 years from the date of first delinquency</li></ul>
<b>Accounts in collections</b>	
<b>Not reported</b>	<ul style="list-style-type: none"><li>■ Many non-delinquent accounts (i.e. utilities, etc.)</li><li>■ Old accounts that may no longer report per the Fair Credit Reporting Act</li></ul>

# Credit History

## What to look for:

- **Creditor Information**
- **Responsibility/Liability (ECOA Code)**
- **Date account was opened**
- **Date last reported**
- **Date Closed (if applicable)**
- **Outstanding Balance**
- **Payment History**
- **Type of Account**



# DEFINITIONS

## Credit History

**Charge-off:** A debt, for example on a credit card, that is deemed unlikely to be collected by the creditor because the borrower has become substantially delinquent after a period of time.

**Collection:** Delinquent or past due account moved out of routine account processing to an internal collection department or third-party debt-collection agency.



# POTENTIALLY NEGATIVE ACCOUNTS

*Fictional Credit Report – for illustrative purposes only*

**CREDITOR:** Account # 321\*\*\*

*World of Auto  
7878 Motorcity Dr. Anytown, HomeState 00001  
(777)-777-7777*

<b>Date Opened:</b>	3/1/2018	<b>Balance:</b>	\$10,695	<b>Pay Status:</b>	Current; Paid or Paying as Agreed
<b>Responsibility:</b>	Individual	<b>Date Updated:</b>	12/28/2018	<b>Terms:</b>	\$295 per month for 48 months
<b>Account Type:</b>	Installment	<b>Last Payment Made</b>	12/5/2018		
<b>Loan Type:</b>	AUTOMOBILE				

2018							
DEC	NOV	OCT	SEPT	AUG	JUL	JUN	MAY
OK	OK	OK	OK	OK	30	OK	OK

APR
OK

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OK	OK	OK	OK	OK	30	OK	OK		
APR									
OK									

# Poll Question

**Q: Which of the following are true?**

- a) A single late payment on a credit account can drop a credit score significantly**
- b) The negative impact of a single late payment will decrease over time as long as the consumer resumes regular on-time payments**
- c) Both a and b are true**
- d) Neither a nor b are true**

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DEC	NOV	OCT	SEPT	AUG	JUL	JUN	MAY	
OK	OK	OK	OK	OK	30	OK	OK	

APR
OK

# ACCOUNTS IN COLLECTION

*Fictional Credit Report – for illustrative purposes only*

**CREDITOR:** Account # ABC654\*\*\*

*Collection Co*

*1212 Alpha Rd., Anothertown, HomeState 00005*

*(222) 221-8989*

**Place for collection:** 4/1/2014

**Responsibility:** Individual Account

**Account Type:** Open Account

**Loan Type:** Debt Buyer

**Balance** \$1,059

**Date Updated:** 11/01/2018

**Original Amount:** \$1,059

**Original Creditor** Big Telecom  
*Cable/Cellular*

**Past due:** \$1,059

**Status:**

In Collection

**Remarks:** Placed for Collection

**Estimated month and year that this item will be removed:**

04/2020

# Public Records

- **As of 2018, bankruptcies are the only public records that appear on the credit report\*.**
  - **Chapter 13: up to seven years from the filing date**
  - **Chapter 7: up to 10 years from the filing date**



\* It is possible for some limited instances of foreclosure records to appear in the public records section of the credit report

**HomeState Federal Court****DOCKET#***678910*

100 Court Ave. Othertown, HomeState 00002

*(555) 555-5555***Date Filed:** *01/01/2012***Date Paid:** *06/01/2013***Date Updated:** *06/01/2013***Type:** CHAPTER 7 BANKRUPTCY DISCHARGED**Responsibility:** Invididual Debt**Court type:** Federal District**Plaintiff Attorney:** SMITH SMITHERSON**Estimated month and year that this item will be removed:***01/2022*

# Poll Question

**Q: True or False: Pulling your own credit report can have a negative impact on your credit score**

**a) True**

**b) False**





# Inquiries

## Soft inquiries

Initiated by consumers and some businesses for educational and informational purposes

Soft inquiries do not impact the credit score

Appear on consumer disclosure reports only for 24 months

### **BIG CREDIT BUREAU/MY CREDIT APP**

123 Main St., Big City, STATE 00006  
1-(800)-999-9999

#### **Requested On:**

7/25/2018,05/21/2018, 05/18/2018, 05/03/2018, 05/02/2018, 04/23/2018

### **BIG BANK**

3232 Beta Rd., Anothertown, HomeState 00005  
(222)-222-2222

#### **Requested On:**

12/09/2018,11/09/2018,10/09/2018,09/09/2018,08/09/2018,07/09/2018,  
6/09/2018,05/09/2018,04/09/2018, 03/09/2018, 02/09/2018, 01/09/2018,  
12/09/2017, 11/09/2017, 10/09/2017, 09/10/2017, 08/09/2017,  
07/09/2017, 06/09/2017, 05/09/2017, 04/09/2017, 03/09/2017,

# Inquiries

## Soft inquiries

Initiated by consumer and some businesses for educational and informational purposes

Soft inquiries not impact the credit score

Appear on consumer disclosure reports only for 24 months

## Hard Inquiries

Initiated when consumer applies for credit

Hard inquiries initiated in the previous 12 months can impact the credit score

Appear on consumer disclosure reports and business division reports for 24 months

# REGULAR INQUIRIES

## ANYTOWN FEDERAL CREDIT UNION

875 BIG BOULEVARD, Anytown, HomeState 00001

(877)787-8787

**Requested On:** 2/26/2018  
**Inquiry Type:** Individual  
**Permissible Purpose:** CREDIT TRANSACTION

## WORLD OF AUTO

7878 Motorcity Dr. , Anytown, HomeState 00001

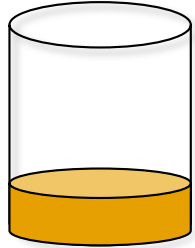
(777)-777-7778

**Requested On:** 5/26/2018  
**Inquiry Type:** Individual  
**Permissible Purpose:** CREDIT TRANSACTION

# Best Practices for Strong Credit Scores



**Keep it Active!** Establish and maintain a mix of 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!** Maintain at least 6 months of credit history – and activity! – on your credit report at any time.



# Creating a Credit Action Plan

## **What is on the credit report?**

The good, the bad, and the inaccurate

## **What is NOT on the credit report?**

Is there potential to open new positive trade lines?

## **What are the client's short and long(er) term goals?**

What actions will support the client's journey towards achieving their goals and how so?

## **How much is affordable?**

Ensuring a comfortable ability to repay and aligning the credit action plan with a realistic budget is critical



# What is credit building?

## CREDIT BUILDING:




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

- **Installment trade lines:** car, home, student loan, consumer loan
- **Revolving:** credit card, charge account



# Assessing Client Readiness for Credit Building

IS YOUR CLIENT AN IDEAL CANDIDATE?

<i>Ability to make on-time payments!</i>		
NO FILE (Credit Invisible)	THIN FILE	THICK(ER) FILE
No Credit Report	Credit Report	Credit Report
No Credit Score	No Credit Score/ Low Credit Score	Credit Score
No positive or negative information	<p><b>Fewer than 3 ACTIVE trade lines</b></p> <p>May also include:</p> <ul style="list-style-type: none"> <li>■ Small, paid or older collections only</li> <li>■ No MIX of trade lines</li> </ul>	<p>Generally 3-5 ACTIVE trade lines</p> <p>Other features:</p> <ul style="list-style-type: none"> <li>■ No current delinquencies</li> <li>■ Small, paid or older collections only</li> <li>■ No MIX of trade lines</li> <li>■ Low revolving credit utilization</li> <li>■ Not a lot of recent inquiries</li> <li>■ Long history</li> </ul>
		

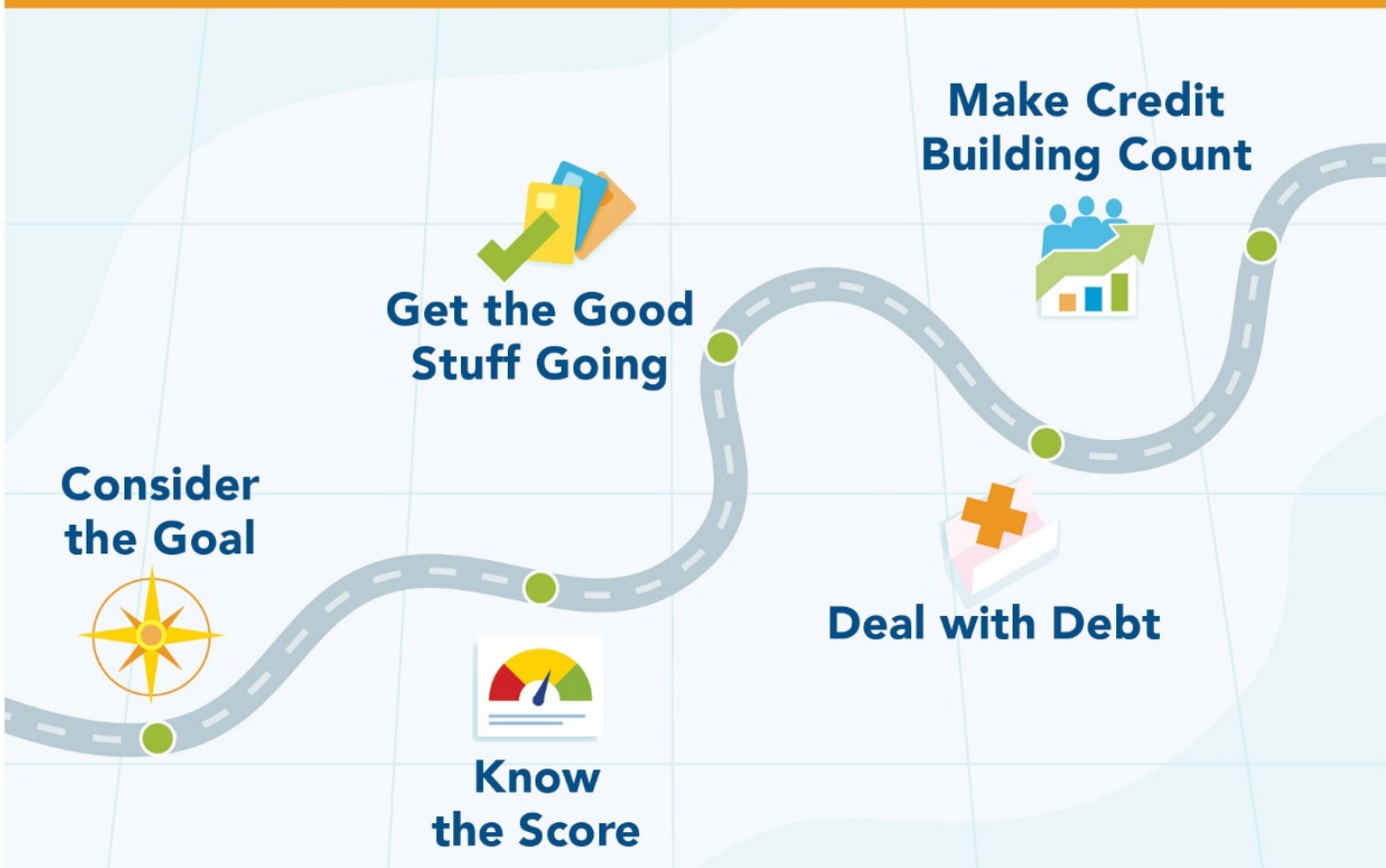
# Red Flags: Be Aware!

- !** 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



# A Model for Designing the Credit Action Plan

## CREDIT STRENGTH ROADMAP<sup>©</sup>



# Call to Action

- Get comfortable*** with reading and understanding different types of credit reports that you review with clients
- Create credit action plans*** with clients to help them take meaningful and incremental steps to achieve goals
- Track and leverage progress*** to help clients bolster long-term financial security

# Questions?

[programs@creditbuildersalliance.org](mailto:programs@creditbuildersalliance.org)

