FCAB Initiative
Center for Social Development
Brown School at Washington University
https://csd.wustl.edu

# Credit and Credit Building[1]

## PowerPoint Notes

### Slide 1 – Credit and Credit Building

### Slide 2 – Module overview

- This module presents an introduction to credit, credit products, the risks and benefits of using credit, credit reporting, credit scores, and credit building.
- The module uses a case example, Jewell and her social worker Monica, to show how social workers can help clients living on limited incomes manage their credit effectively and move towards their credit goals.

### Slide 3 – What is credit?

- People use the word *credit* in two ways:
  - Borrowing of money, services, or goods in exchange for a promise to pay for them in the future, usually with interest. Example: "I bought the car on credit."
  - A person's capacity to borrow or access money. Example: "My credit is good," referring to their credit record and/or credit score.
- Discussion: What do you think of when you think about credit? What feelings do you think your clients have about credit?

*Instructor: Students may talk about credit history, credit reports and scores, and credit instruments (e.g., credit cards, loans), each of which will be discussed in this module. They also might talk about their own feelings about credit. It is not uncommon for the idea of credit (and related debt) to arouse stress, anxiety, and other negative feelings. Normalize these feelings. Many of their clients also will experience credit as a source of stress.*

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[1] Notes adapted from:
*Financial Capability and Asset Building in Vulnerable Households: Theory and Practice*
*Introduction, Chapter 11, by* Margaret S. Sherraden, Julie Birkenmaier, and J. Michael Collins, Oxford University Press, 2018

## Slide 4 – Understanding the two types of credit

- Even though students—and clients—may talk about credit in negative terms because it can lead to problem debt, credit is not inherently bad. In fact, used carefully, it can be helpful in creating financial well-being.
- First, it is important to understand the two types of credit:
- *Secured credit* – Secured credit requires collateral (i.e., property or cash) to secure a loan. This means that if the borrower is unable to repay the loan, the lender can take the collateral to cover the cost of the credit. Examples include the following:
  - *Installment credit* – Credit arrangement in which the borrower must repay the amount owed plus interest in a specific number of equal payments. An example of an installment loan is a vehicle loan or home mortgage.
  - *Alternative secured credit* – Types of credit, such as auto titles loans and pawn loans, that are not reported to credit bureaus if they are successfully repaid, and therefore do not "build credit" (American Financial Services Association Education Foundation, 2013). Many low-income borrowers use these methods because they do not have access to traditional credit..
- *Unsecured credit* – Unsecured credit does not require collateral. Examples include the following:
  - *Revolving credit* – Credit that is automatically renewed up to a maximum limit as the borrower pays it off. For example, if someone spends $200 of a $500 limit, the person has access to $300 of credit. After repaying the $200, the person has access to the full $500 again.
  - *Credit cards and lines of credit* – The most common types of unsecured credit; low-income households are most likely to use credit cards.
  - *Service (or "open") credit* – Granted by utility companies, physicians, and other service providers that do not require payment when services are rendered (e.g., the electric company allows customers to use electricity and then bills them later). Service credit typically carries no interest, although penalties and fees may apply if payments are late.

## Slide 5 – Why is credit important?

- In the past, many families lived without using credit, but today this is no longer an option. Having a good credit history is an essential part of financial capability.
- Credit enables people to make purchases without using cash and borrow against future funds to pay for goods and services. It also helps build individuals' credit history (Federal Trade Commission, 2020).
- A good credit history can qualify a person for better interest rates on loans and insurance, as well as improve application status for rental housing and employment. This may free up some money for emergencies, retirement, and other types of savings.
- Credit enables people to make emergency purchases when cash is not available (e.g., car repairs, airplane tickets, medical bills).
- Having and using credit wisely allows people to build assets over time (e.g., a home mortgage). For most people, the only way to buy a home is to borrow the money.
- Having credit can also help with eligibility for some jobs and rental housing and can affect the cost of insurance and loans, such as home mortgages (Consumer Financial Protection Bureau [CFPB], 2014c)
- People can build a positive credit record by making payments on time, carrying a zero or low balance from month to month, and closing accounts in a responsible manner.

## Slide 6 – Credit challenges

- Financially vulnerable households pay more for credit—costs that accumulate over their lifetime (Brevoort, Grim, & Kambara, 2016).
    - Many financially vulnerable households do not qualify for credit, especially secured credit with lower interest rates.
    - Higher interest rates make it more difficult for families to keep up with loan payments.
    - When households cannot cover their loan payments in full, they may pay much more than the initial price for goods and services due to high interest payments, late fees, and penalties.
    - Individuals who have been denied credit or have had a negative experience using credit also may be reluctant to apply for more credit.
- Discriminatory policies and practices restrict opportunities to build credit. For example:
    - Fair credit with reasonable interest rates (i.e., those in line with the market) are often hard to find in low-income communities (Cover, Spring, & Kleit, 2011).
    - High poverty neighborhoods, where fewer resources are available, comprise a higher proportion of persons of color regardless of income: 48% of all Blacks and 41% of all Hispanics compared to 16% of all whites and 21% of all Asian Americans live in high poverty communities (Joint Center for Housing Studies of Harvard University, 2019).
    - Among those who have a bank account, almost twice as many households of color are denied or not given as much bank credit as they request, compared to their white counterparts (FDIC, 2020).
    - Families who are denied mainstream credit turn to riskier and more expensive alternatives such as auto title and payday loans.
- Problems paying on loans can lead to problem debt.
- Therefore, although credit is essential in the modern economy, many financially vulnerable households find it difficult to access and build a positive credit history.

## Slide 7 – Credit invisibility

- Approximately 26 million Americans are *credit invisible*, meaning they have no credit accounts at all. An additional 19 million have *unscorable credit,* meaning there is not enough activity or information about their financial history to generate a score (Brevoort, Grim, & Kambara, 2016; CFPB, 2015).
- Persons of color are more likely to be credit invisible or have unscored records. For example, approximately 28% of Blacks and 27% of Hispanics are credit invisible or have unscored records compared to 16% of whites (Brevoort, Grimm, & Kambara, 2015).
- Approximately 62 million Americans have *thin files,* meaning they have only one or two credit accounts on their credit report (Brevoort, Grim, & Kambara, 2016; Mangla, 2018).
- There are large differences by race/ethnicity that reflect differential access to credit due to many factors, including discrimination, predatory lending, and poverty:
    - Fewer Hispanic Americans (58.6%), American Indian/Alaskan Native (54.4%), and African Americans (52.5%) use mainstream credit compared to whites (78.7%) and Asian Americans (83.4%) who use mainstream credit (FDIC, 2020).
    - Compared to white bank accountholders, almost twice as many bank account holders of color have been denied or were not given as much bank credit as requested (FDIC, 2020).

- Overall, credit scores are consistently lower in minority communities. Contributing factors include a history of housing and employment discriminatory practices and racial profiling. Predatory mortgage lending during the 2007/09 foreclosure crisis resulted in almost twice as many home foreclosures by African Americans and Hispanics (8%) compared to whites (4.5%) (National Consumer Law Center, 2016b).

### Slide 8 – Case example: Jewell and credit

- Jewell Murray, is a 24-year-old single mother who has a 3-year-old daughter. Jewell was in the foster care system from age 9 to when she aged out. She worked part time and studied dental hygiene at the community college when she met Todd Murray. After they were married and she got pregnant, Todd convinced her to quit work and school to stay home and take care of their child. He insisted on managing all the household finances. Todd began to drink more heavily, exhibit an explosive temper, and physically assault her. With help from friends, she recently left this abusive relationship and is living in transitional housing. She obtained a job as a server at a restaurant, and she receives some public assistance.
- Monica Baker, her social worker, is helping Jewell build a life without her husband. Jewell has many financial (and other) challenges, but Monica knows that it's important to build on Jewell's strengths and help her identify her short- and long-term goals.
- Jewell wants to move out of transitional housing into her own apartment with her daughter Taylor.
- Jewell has learned in her financial education class that she has to have a good credit score to rent an apartment. She also learned that poor credit can affect credit card borrowing terms, as well as insurance rates. She has a job now, but she learns good credit can affect her future employment prospects.
- But Jewell has used mostly cash to avoid getting into debt. The one time she tried to use credit only brought her problems: She opened a store credit card with a special low offer interest rate, and didn't notice the fine print about annual fees and increases in interest rate if she missed any monthly payments.
- Monica explains to Jewell that she has what is called a "thin file.". Her abusive ex-husband insisted on managing all the finances, so Jewell never had an opportunity to build credit in her own name.
- So, without a credit history (i.e., a thin file), Jewell must build credit to rent an apartment.

### Slide 9 – Case example: Monica discusses credit issues with Jewell

[*Instructor: Refer back to the issues that came up in the earlier class discussion. This will facilitate a constructive discussion about what clients want to do (goals) and what steps they can take*.]

- To work on building credit—which can take a long time—Monica focuses first on *building trust* with Jewell as the basis of their professional relationship.
    - Monica begins the credit discussion with a focus on Jewell's *personal goals*. This encourages Jewell to invest in the work ahead.
    - She discusses Jewell's experiences with and *feelings* about credit, and is prepared to work through them.
    - She is optimistic with Jewell that she can succeed, but also *manages expectations* by making it clear that building credit takes time.
    - Monica helps Jewell to *set objectives* that Jewell believes are realistic and achievable to reach her goals.

    - Monica maintains a *strengths-based perspective*, hoping to relieve stress and promote Jewell's self-efficacy.
- Jewell begins to feel at ease because Monica is nonjudgmental and understanding, but at the same time informed and helpful.

## Slide 10 – Policy Spotlight: Credit Card Accountability Disclosure Act of 2009

- Known as the CARD Act.
- Prior to 2009, credit card companies aggressively marketed their cards, even on college campuses, and many borrowers accumulated problem credit card debt.
- Intended to protect consumers in the credit card market, the CARD:
    - Curtails marketing to young adults, including marketing on or near college campuses.
    - Places limits on fees, interest rate hikes, and billing.
    - Requires transparent disclosures on credit card statements. For example, credit card companies have to show the length and cost to pay down the balance if making the minimum monthly payment.
    - Limits the fees for gift cards and other nonreloadable prepaid cards (Tsosie, 2020) (https://www.nerdwallet.com/article/credit-cards/credit-card-act).
- As a result of the CARD Act, credit card costs fell and there is no evidence that it caused interest rates to rise or reduced access to credit (Agarwal, Chomisisengphet, Mahoney, & Strobel, 2015).

## Slide 11 – Credit Reports

Repairing or building credit can increase credit scores (as shown in the image).

- Each of the three largest credit bureaus show scores before and after credit building work.
- The scores on the right demonstrate strong scores.

## Slide 12 – What is a credit report?

- A *credit report* contains information about a person's credit history and status of current credit accounts.
- It is used by businesses, employers, landlords, insurance companies, and others to determine a person's "credit worthiness" (i.e., the level of risk the company would take in extending credit to that person).
- Credit reports are issued by credit bureaus.
    - These companies receive information from past and current lenders regarding people's use of credit, their credit history, and their repayment history.
    - The three largest national credit bureaus are Experian, Equifax, and TransUnion.
    - Each bureau has its own scoring method, so credit scores may vary among the bureaus. The mathematical formulas used by each bureau to assess credit worthiness are secret, but they are based on similar factors.
    - Some creditors only report their data to one or two credit bureaus. So the bureaus do not have the exact same information.
- To have a credit report, a client must have at least one account open for 6 months or longer.
- In 2017, leading credit bureaus came under scrutiny after an Equifax data security breach resulted in the exposure of sensitive personal and financial information of more

than 143 million people. The CFPB filed a complaint on behalf of the people leading to stricter security and monetary compensation to victims.

  - The breach also raised questions about the use of people's data, and the harm the reports and scores can cause to the financially vulnerable, and discussion about possible changes to credit reports (e.g., using other types of evidence of a person's ability to manage their finances).

## Slide 13 – How to obtain a credit report and credit score

- The *Fair and Accurate Credit Transactions Act of 2003* allows anyone with a credit record to obtain a free credit report from each of the three credit bureaus once a year (Federal Trade Commission, n.d.).
  - The only site from which consumers can access their free report is www.Annualcreditreport.com.
  - There are scams on the Internet about obtaining a free credit report. See this warning from the Federal Trade Commission: http://www.consumer.ftc.gov/articles/0155-free-credit-reports.
- Free reports do not contain a credit score, but the information in the report:
  - Enables clients to check for errors, figure out how to fix problems, and plan how to build credit.
  - Offers clients to take important steps in building a positive credit record.
- For protection, individuals can place fraud alerts and credit freezes on their credit report. Fraud alerts make companies verify the person's identity before granting new credit. A credit freeze can prevent others from borrowing fraudulently in the client's name (i.e., identity theft) (Federal Trade Commission, 2020).

## Slide 14 – What is a credit score?

- A *credit score* is a number used to predict repayment based on data in the credit report (CFPB, 2017).
- A credit score is a supplement to a credit report (and is not reported on free annual credit reports). People usually pay a fee to receive a credit score, although some credit cards and financial institutions provide free scores.
  - People who are unbanked and underbanked, however, are less likely to receive a free score from their financial providers.
- There are different types of credit scores, but the most popular is the Fair Isaac Corporation (FICO) score (CFPB, 2014b; myFICO, 2016; National Consumer Law Center, 2016a). There are also different versions of the FICO score used for different reasons.
- A FICO score ranges from 300 to 850. Americans' average score is around 700 and is considered "fair" or "good." It is difficult and very expensive to borrow from mainstream credit sources with a score below 600.
- A lower score is interpreted to mean that a person is less likely to repay (CFPB, 2014a).
- Credit scores are calculated each time they are requested; therefore, they vary as the information on the credit report changes (myFICO, 2016).
- Approximately one-third of Americans with a credit record have low credit scores meaning they are paying higher interest rates than those paid by people with higher scores (Stolba, 2021).
- During the COVID pandemic, the average FICO score has increased, primarily because households are reducing their debt (paying off and using less revolving credit such as credit cards) (Stolba, 2021).

## Slide 15 – What makes up a FICO credit score?

- A FICO score is based on the five basic factors (below). People can improve their credit score if they know how each factor affects the score.
  - *Payment history* (35%) – How credit has been used in the past, whether payments were made on time, how late any late payments were, and how often payments were late.
  - *Amounts owed (debt)* (30%) – The total amount owed to all creditors compared to the amount of credit possible, based on a person's current limits. For example, if a client has three credit cards with a combined credit limit of $1,000, the credit score compares that total to the amount of credit actually used that month. Experts recommend that people stay at or below 30% of their credit limit on each credit card (Hicks, 2020).
  - *Credit length* (15%) – The length of time an account has been open. A longer history allows the credit bureau to assess a history of use for particular line of credit. Keeping a line of credit open for a long time and not closing many accounts at one time increase a credit score. Clients with several inactive accounts should stagger the closing of the accounts over time rather than all at once.
  - *Types of credit (credit mix)* (10%) – Different types of credit used (e.g., revolving, installment). FICO recommends a mix of both types to maximize one's credit score (myFICO, 2020; https://www.myfico.com/credit-education/credit-scores/credit-mix).
  - *New credit* (10%) – Opening many credit accounts at once lowers a credit score. Clients should evaluate their credit priorities and stagger credit applications over time.
- Credit bureaus also track credit inquiries, which can lower a credit score.
  - Inquiries occur when a potential creditor "pulls" a report to check an individual's credit score and history.
  - Consumers should comparison shop for credit within a relatively short period, such as shopping around for 2 weeks for an auto loan or a mortgage loan, to avoid damage to the credit score (CFPB, 2014c; National Consumer Law Center, 2016a).
  - Inquiries may stay on a credit report and impact the score for 2 years.

## Slide 16 – Why is a credit score important?

*[Instructor: Explore how it feels to be rated with a credit score. What other scores do institutions use? Examples: Driving score for lower insurance rate; China human behavior score.]*

- A low score negatively affects a person's financial well-being, including:
  - Higher interest rates on loans
  - Higher insurance rates
  - Restricted employment opportunities
  - Reduced rental housing options
  - Difficulties with other financial transactions

- FINRA (2015) offers this example for how a credit score affects the cost of borrowing on credit:
    - *"Suppose you want to borrow $200,000 in the form of a fixed rate thirty-year mortgage. If your credit score is in the highest category, 760-850, a lender might charge you 3.307% interest for the loan. This means a monthly payment of $877. If, however, your credit score is in a lower range, 620-639 for example, lenders might charge you 4.869% that would result in a $1,061 monthly payment."*
    - *"Although quite respectable, the lower credit score would cost you $184 a month more for your mortgage. Over the life of the loan, you would be paying $66,343 more than if you had the best credit score. Think about what you could do with that extra $184 per month."* https://www.finra.org/investors/personal-finance/how-your-credit-score-impacts-your-financial-future
- For lenders, lower credit scores signal the person is at higher risk to be able to make housing payments and so they charge a higher amount to cover their own risk of not getting paid. For employers, lower credit scores signal potential lack of reliability due to financial instability (e.g., excessive loss of work due to loss of housing, lack of childcare, transportation costs).

## Slide 17 – Case example: Exploring Jewell's credit report

*[Instructor: This slide uses Jewell's credit report as an example (See FCAB textbook chapter 11, pp. 180-183). You may also want to show students sample credit reports, which gave descriptions about each section.*
*Experian: http://www.experian.com/credit_report_basics/pdf/samplecreditreport.pdf.*
*TransUnion: http://www.transunion.com/docs/business/HowToReadCreditReport.pdf*
*Equifax: http://www.equifax.com/howto/3creditreportandscores/]*

- The reports from each of the three credit bureaus look different, but the information is more or less the same.
- Together, Jewell and Monica pull Jewell's credit report from https://www.annualcreditreport.com/ and review the information from the they bureaus. It includes:
    - *Personal information* – Name, current address, Social Security number, and date of birth
    - *Employment information*, aliases (e.g., name with middle initial, or a shortened version of the name), and past addresses
    - *Open accounts* – Any credit accounts that are currently open and active. The total balance, payment amount, and high balance are listed for each account. In this case, a credit account refers to any open line of credit, such as a credit card, home loan, student loan, or car loan on which the clients currently is making payments. *Jewell has two open accounts: a revolving credit card and auto loan*.
    - *Closed accounts* – Accounts that are closed but still reported. Closed accounts could have been closed by the consumer or by the company. These include accounts paid as agreed, or accounts with no remaining balance on them when closed. These remain on the report for up to 10 years after being closed. *Jewell has no closed accounts which reflects lack of credit history.*
    - *Length of credit history* – FICO considers length of time in years and months of oldest open account, newest account, average age of all accounts, and length of time since accounts were used. Negative accounts will stay on a credit report for 7–10 years (myFico, 2020). *Jewell has a credit history of three years and one month.*

- *Inquiries* – Companies that have requested a credit report. *Hard inquiries* result from an application for credit and impact the credit report. *Soft inquiries* do not involve an application for credit and do not damage the credit score. Companies often check borrowers' credit reports to see how they use other lines of credit. *Jewell had a recent inquiry related to a credit application.*
  - *Payment history* – For each account listed, the report will show any late payments and the dates the accounts were opened and closed. *Jewell missed a car payment in March*.
  - *Negative accounts* – Some reports provide a summary of all negative accounts (i.e., accounts that are delinquent). *Jewell's report shows a delinquency*.
  - *Collections*/derogatory section – Any accounts that are in collections or are past due. Accounts in collections have been assigned to or purchased by a collection agency for the purpose of obtaining payment on the debt. *Jewell's report shows an account was turned over to collections.*
  - *Opt-out* – Allows clients to opt-out of receiving unsolicited credit offers.
  - *Alerts* – Consumers can put a credit freeze and fraud alerts on their file so that others cannot open new accounts in their name. (See Federal Trade Commission consumer information site: [https://www.consumer.ftc.gov/blog/2018/09/free-credit-freezes-are-here](https://www.consumer.ftc.gov/blog/2018/09/free-credit-freezes-are-here)). *A credit freeze was put on Jewell's report for 3 months*.
  - *Consumer statement* – Clients can add a statement for potential lenders. For example, clients may want to note that someone has used their credit illegally (identity theft) or that they have disputed how a particular item is reflected in their report. *For example, Jewell could have added a statement to explain that a delinquent account belongs to her ex-husband.*

## Slide 18 – Removing errors from credit reports

- Errors made by the credit bureaus are common and can negatively affect credit scores. Removing errors can improve scores.
- 10 million people (5% of all consumers) are estimated to have serious errors, but only 1 in 4 report them (Federal Trade Commission, 2013).
- Potential inaccuracies include the following:
  - Name misspellings
  - Inaccurate addresses
  - Inaccurate employment history
  - Inaccurate loan payment history
  - Accounts that are not the client's
  - Duplicate accounts

  (CFPB, 2014b)
- There is an electronic option for challenging errors but it is wise to dispute errors in writing. The credit bureau has 30 days to respond (CFPB, 2014d).
- Social workers can help clients dispute inaccuracies, as Monica does with Jewell.

## Slide 19 – Case example: Checking Jewell's credit information

- The social worker, Monica, helps Jewell dispute errors and request corrections for items on her credit report:
  - Jewell did not cosign on her ex-husband's loan, so they are able to get his account removed from her credit report within 3 months. (NOTE: If Jewell had cosigned, there would be nothing she could do about the negative account even though the debt may have belonged to her ex-husband.)

- Monica helps Jewell write a Consumer Statement that explains that the delinquent account belongs to her ex-husband. Potential future lenders can consider this information in their lending decisions (National Consumer Law Center, 2016a).
- Missed payment. Jewell missed a car payment in March but made it up the following month. However, it still shows up as a delinquency and can hurt her credit.

## Slide 20 –Determining Jewell's loan payment priorities

- Monica advises Jewell to prioritize paying accounts that will last the longest on her credit report.
- Accounts that were paid as agreed over the life of the account remain on the credit report for 10 years from start date of loan. These help to increase the credit score since the account was paid in full.
- Collection accounts can lower a credit score. They are removed after a certain time:
  - *Collection accounts* – Unpaid accounts that are 90 days late or more stay on a credit report for 7 years from first delinquency.
  - *Bankruptcy* – A legal process whereby a client seeks debt relief. It stays on a credit report for 7 to 10 years depending on the type of bankruptcy.
- Usually, social workers advise clients to prioritize paying accounts that will remain the longest over items that will ”time out” soon.
  - For example, a collection account that has been on a report for 6 years (and will "time out" soon) usually should be a lower priority than one that is only a year old.
- There is still the issue of Jewell's "thin file" and the need to build credit, but Monica advises Jewell to add accounts slowly.
- To begin, Monica recommends auto bill payment to help Jewell avoid missing payments and possible late fees in the future.

## Slide 21 – Building and Using Credit

## Slide 22 – How to build credit

- Practitioners work with clients who have had trouble with credit. They also work with clients with no credit history ("credit invisibles" or those with "thin files"). In both cases, they help clients improve their credit score.
- Building credit involves adding positive accounts (those paid on time) to the credit report. This raises the credit score even when there are unpaid debts.
- In fact, credit is built by having debt and paying on it regularly.
- There are several ways to build credit using mainstream credit products:
  - *Secured credit card* – A line of credit backed by a bank account held by the issuer. If a bill is not paid as agreed, the card issuer can take money from the account. As a person uses and pays off the card, the positive activity is reported to the credit bureaus, resulting in better credit.
  - *Cosigner* – A cosigner is a person who signs for credit with another individual, agreeing to be responsible for the debt if the other individual does not pay. Creditors are more likely to give credit to a person with no credit if someone else with good credit cosigns. Borrowers then build credit as they pay off the loan.
  - *Gas/department store cards* – Gas and department store credit cards are easier to obtain than major credit cards. After building credit through these types of cards, the client will be more likely to qualify for a major credit card, which makes it possible for the client to avoid high fees and short terms associated with store cards.

- Recently, some advocates have promoted using alternative credit to establish credit worthiness. Care must be taken to avoid negative effects (National Consumer Law Center, 2019).
  - *On-time bill payment* – When households pay their bills faithfully each month (e.g., rent, utilities, cell phone, daycare), this is not reported to the credit bureaus. Some groups, such as the National Consumer Law Center, have been working to make such records of on-time bill payment build a person's credit record (Brevoort, Grimm, & Kambara, 2016).
  - *Bank data* – Income and expense information
  - *Subprime credit* – Payday loans and other alternatives also could show a record of credit worthiness.
  - *Lending circles* – Nonprofits, such as Mission Asset Fund in San Francisco, are offering lending circles. Using this model, a small number of people work with a nonprofit to lend and borrow with one another at a 0% interest rate. Each member makes the same monthly payment, which is reported to the credit bureaus (Mission Asset Fund, 2014).

## Slide 23 – Case example: Jewell begins to build credit

- Jewell and Monica work on a strategy to build credit:
  - First, Jewell decides to focus on paying her credit card debt because it has the highest interest rate.
  - Second, Jewell applies for a secured credit card and begins using it for things that are already part of her budget (like food and gasoline).
- Monica advises keeping her credit card balance below 30% of the credit card's limit because spending more can be detrimental to her credit record.
- Monica also emphasizes the importance of paying the full balance on time each month.
- Within 6 months, Monica reassures Jewell that her credit score should start to increase.

## Slide 24 – Advocating for Safer and More Flexible Credit Products

- How can social workers ensure that people have access to credit? In the long run, strong credit and high scores qualify people for safe and more affordable financial products from financial institutions and helps them build assets.
- When social workers note that their clients are struggling with many of the same credit issues, they turn to thinking how systems change would improve outcomes.
- They can work at the local level with other human service practitioners and community advocates, financial services, and policymakers to make such changes. This might include expanding access to better credit products and services, reining in the abuses of creditors, or organizing local communities to defend their rights to credit.
- National organizations are focusing on improving access to credit in vulnerable groups.

## Slide 25 – Spotlight on Research: Center for Responsible Lending (CRL)

- A nonprofit organization that conducts research and advocates for policies and practices that protect family financial well-being.
- CRL has influenced policy in several important areas related to credit:
  - Before the housing and mortgage crisis of 2008, CRL drew attention to mortgage lending and abuses and the negative impacts on communities of color (Bocian, Ernst, & Li, 2006).

- CRL helped pass *The Military Lending Act* (2006), which placed a 36% annual interest rate cap on payday loans made to military service members and their families (CFPB, 2018).
- CRL advocated for requiring online lending companies to assess borrowers' ability to repay before approving a loan (CRL, 2015a).
- CRL advocated against high overdraft fees on student checking accounts and prepaid cards offered through some college and financial institution agreements (CRL, 2015b).

## Slide 26 – Spotlight on an Organization: Credit Builder's Alliance

- Credit Builders Alliance (CBA) is a national nonprofit that supports member nonprofits to build credit in financially vulnerable households.
- It is an intermediary between member organizations and credit reporting bureaus.
- Small nonprofits, such as credit unions, use CBA when they lack the volume of repayment data required by large credit bureaus. CBA bundles repayment data from their members (e.g., nonprofit agencies, credit unions) so that even the smallest nonprofit portfolio can be reported on their clients' loan repayments.
- CBA also provides training to practitioners, promotes responsible credit building products, and advocates for consumer friendly policies.
- Research by Experian and CBA found that, in the long run, credit building is valuable because it improves credit, thus qualifying people for safe and more affordable financial products from financial institutions, and helps them build assets (Experian, n.d.).

## Slide 27 – Case example: Monica advocates for system change

- Jewell's caseworker, Monica, sees credit as an important issue for her clients' well-being. She works with an advocacy group to pressure the city and local organizations to provide information to clients about their credit rights and how to build credit. They also advocate for more state regulation of nonbank credit, such as payday and auto title loans that are trapping too many of their clients into problem debt.
- Practitioners like Monica can help to change unfair systems in a variety of ways:
  - Practitioners can lend their support to Credit Builder Alliance, the Center for Responsible Lending, and other organizations to develop new credit scoring models that take into account information such as on-time utility and phone bills, and how to reduce harmful information on people's credit records, such as medical bills (Ortiz, 2016; O'Shea, 2016).
  - Practitioners also can advise technology development on criteria for automating fair and transparent credit decision making systems (BLDS, LLC, Discover Financial Services, Inc., & H20.ai, 2020).
  - Practitioners can advocate on behalf of people who have no control over their financial troubles. For example, during the COVID-19 pandemic millions of people lost their jobs and are unable to pay medical bills, mortgage, or rent. Practitioners advocate for local moratoriums on evictions, for affordable health care, and for households subsidies to pay bills. They can also advocate that missed payments due to pandemics or natural disasters not impact credit scores.
  - Practitioners can support efforts to expand access to credit through community-based nonprofit organizations, such as community development finance institutions (see module on financial services).

*[Discussion: Do your clients have credit problems? What can be done to improve their credit situation? What strategies would you like to work on?]*

## Slide 28 – Summary of what we learned

- There are many different types of credit, each with varying costs and effects on a credit score.
- Providing clear information about wise ways to use credit and assisting clients with accessing appropriate types will facilitate their future access to credit.
- Understanding credit reports, their components, and how to correct mistakes and build credit are important steps in FCAB work
- Social workers have an important role to play on behalf of clients to advocate at the community, state, and federal level to influence positive change. Some social workers hold policy leadership positions and can make their voices heard through direct legislative action.