Credit Strength Framework©

Making Credit Building Count

Acknowledgments

The Credit Strength Framework© was developed through a partnership between Credit Builders Alliance and Capital One.

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About the Capital One
Capital One is dedicated to providing access to fair and transparent, high-quality products and services for the benefit of our customers. We ensure that appropriate products are made accessible to and effectively serve low- and moderate-income households and neighborhoods. For us to succeed, it's important that our customers and our communities understand what they can expect from us as a company and as their financial partner. For more information, visit www.capitalone.com.

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About Credit Builders Alliance
Credit Builders Alliance (CBA) is a national nonprofit social enterprise dedicated to increasing the capacity of a diverse and growing network of hundreds of nonprofit member institutions in nearly all 50 states and Puerto Rico to help low- and moderate-income households and businesses build credit and financial access, which, in turn, support the growth of businesses and personal assets. CBA was created by and for its nonprofit members in response to a serious gap in the modern credit reporting system that locks millions of individuals with poor or no credit out of the financial mainstream, often leaving them without safe, accessible, or affordable products. For more information, visit www.creditbuildersalliance.org.

The work and learning around the Credit Strength Framework© would not have been possible without the commitment and hard work of CBA's Credit Building Outcome Tracking Peer Group. CBA thanks peer group members (see Appendix 1 for a list of members) – and those of their clients who participated in focus groups and interviews -- for their generosity, openness, hard work, dedication, and participation, without which this Framework would not have been possible.

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Executive Summary

A good credit history and score can save a person a significant amount of money in interest and fees over the course of a lifetime.[1] Landlords and utility companies often require a large security deposit from individuals with no or poor credit scores. A prospective employer may include credit history in a background check. Many auto and property insurers price their products in part on credit histories. And a mortgage or small business loan applicant's credit history could be the difference between obtaining a loan that allows him or her to build a major asset and getting no loan at all.[2]

Credit building is a young field in the nonprofit sector however, in order to continue to grow and gain recognition as an effective strategy for combating poverty, credit building programs must accurately measure and communicate their successes. In response to this, Capital One provided CBA with generous support to develop the **Credit Strength Framework©.** The Credit Strength Framework© establishes for the field the first ever Framework designed to increase the capacity of nonprofits to effectively monitor and support individual clients' credit building progress and their own organizational impact by setting out the essential, basic components of a comprehensive credit building program.

The strength of the Framework is that it draws directly from field experience in what it takes to build and sustain good credit. First, it establishes a universal understanding of and language around credit building for nonprofit practitioners and their clients and other stakeholders. Second, it helps nonprofits identify what components – and respective indicators of success -- they already have in place (for example, credit education that teaches factors that drive credit scores) and what they may be missing in order to successfully implement and measure a rounded credit building program.

The challenge of the Credit Strength Framework© is that it must apply to a hugely diverse group of organizations with varying missions and client populations with many different credit profiles, financial circumstances, and goals. As a result, CBA determined that the Framework has to be simple enough to apply in a multitude of contexts and be able to implement over time, and sets a floor -- not a ceiling – for foundational design of and measures necessary for credit building success. With generous follow-on funding from Capital One, CBA has also created a user-friendly, interactive Credit Strength Roadmap© -- adapted from our Credit Builder 5-Step© for nonprofits to help move their clients towards credit strength through this Framework.

At its most basic, the Credit Strength Framework© and the Credit Strength Roadmap© companion tool together help nonprofits and the people they serve better understand what it means to have strong credit and how to get there.

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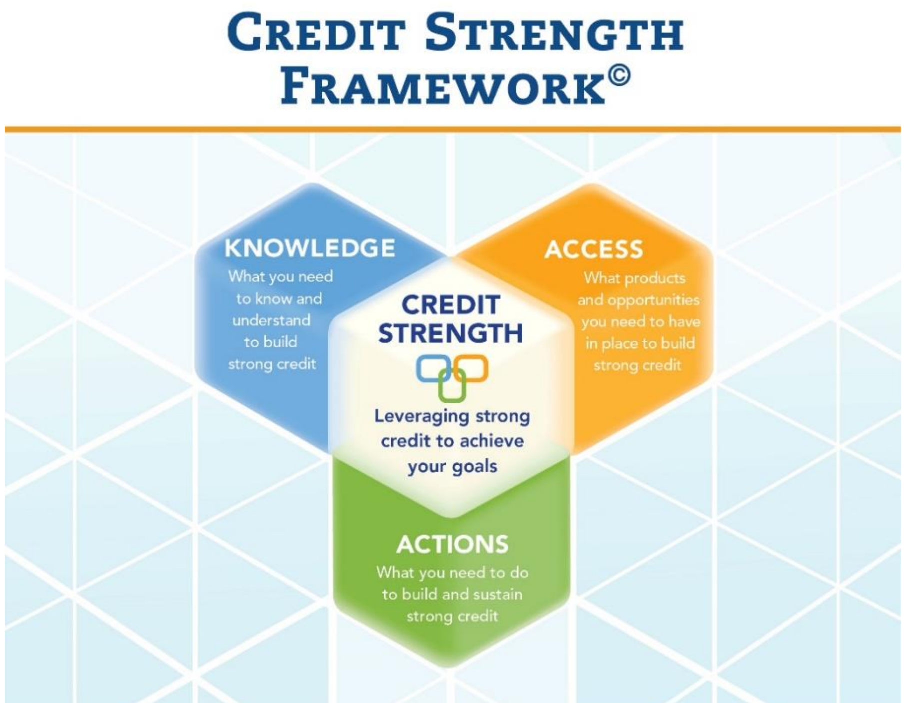
[1] It has been estimated that a 100-point difference in FICO scores could save a person with good credit approximately $200,000 over his or her lifetime, based on a simulation comparing two consumers with student loans, credit cards, and auto and mortgage debt. Liz Weston, "Lifetime Cost of Bad Credit: $201,712." October 13, 2011.

[2] For example, in 2009, Fannie Mae raised its minimum FICO credit score for conventional loans from 580 to 620. Even if mortgage applicants could afford to make a 20 percent down payment, they could be rejected with a score below 620. In all of 2013, only 1.4 percent of the single-family loans Fannie acquired were to borrowers with scores below 620. The trend continued in 2014. The average FICO score needed to secure a mortgage loan in the first quarter of 2014 increased to 741.

The Credit Strength Framework©

At its most basic, Credit Building requires a) the reporting of positive trade lines to the major credit bureaus (access to credit products) and b) intentional financial behavior through on-time payments, debt reduction or elimination, and correcting errors as needed (the knowledge and actions necessary to establish and improve credit histories and scores). As a result, three elements, working in tandem, are essential for individuals to achieve credit strength:



First, they have to have knowledge about how the system works and what would most benefit them personally in order to establish and improve their credit profiles and corresponding credit scores. However, knowledge alone is insufficient if people cannot act on it.

Second, they have to be able to access responsible credit products and ultimately other opportunities that help them establish and continue to improve their credit profiles and corresponding credit scores. Unfortunately, access may be one of the single greatest challenges for those who are credit invisible, unscored and/or with low credit scores.

Third, they have to be in a position to take actions that help them establish their credit profiles and improve their corresponding credit scores. Healthy credit building actions are contingent on a number of variables including knowledge, readiness, commitment, and in many cases actual ability – most importantly, the ability to make on-time payments on open credit accounts. Furthermore actions are often complicated by individuals' different experiences with credit specifically and finances and money generally. How we interact with credit may be shaped by what our parents or community modeled, emotional triggers that can influence behavior, external circumstances outside of our control like loss of a job, divorce, or illness, and more.

In spite of some of the challenges faced by many people in order to successfully implement credit strength in their lives – indeed because of them – nonprofit members of CBA's credit building community across the country and across many sectors are working to help their clients achieve credit strength. This Credit Strength Framework© is the first ever attempt in the credit building sub-field to comprehensively support these nonprofits in their quests to comprehensively design/enhance and measure the success of their clients' credit building progress and their own credit building programs.

But we already track credit scores? Why do we need the Credit Strength Framework©?

While credit scores are a highly useful and objective data point, they are not the only metric of credit or credit building success that nonprofit organizations can track. In fact, an increase in credit score alone may not be a definitive indicator that an individual has the knowledge and capability necessary to sustain credit building success going forward. Organizations also realize that consumers are "more than just credit scores,"[i] and that focusing on score alone may be too narrow an approach in order to affect more holistic progress towards financial well-being. This is why, without neglecting the importance of a credit score, many nonprofit practitioners are seeking alternative means of tracking outcomes for credit building programs by also considering the bigger picture in designing, implementing and measuring the success of their credit building programming.

The Credit Strength Framework© identifies other foundational credit profile information as well as additional elements necessary to comprehensively support their clients' successful and sustainable efforts to build credit to achieve their ultimate financial and other goals.

How do we put it into action?

As we have established, having a good credit score does not mean much unless it is being used, credit knowledge does not help people if they cannot put it to use, and access to loans and products in a vacuum will not help people if they are not able to manage them successfully.

Nonprofits of all ilk can use the Credit Strength Framework© to design new or enhance existing programs as well as measure them. Fundamental to the Framework's success is understanding your clients' goals within the context of your organizations' missions. The Framework itself is agnostic as to what those goals are, which can include but are not limited to renting a safe apartment, getting a job, reducing debt, starting a business, purchasing a home, or going back to school.

A comprehensive credit building program will incorporate each of the Framework's three key elements. First, it will provide comprehensive credit education that teaches clients the fundamentals of credit, including how to access and review their credit reports, the basic factors that make up credit scores, and how to proactively and regularly monitor and manage their credit profiles. Second, it will connect clients to affordable, responsible credit products that both meet their needs for capital and are reported to one or more of the major credit bureaus. Finally, it will provide services that help to support clients take ongoing healthy credit actions in pursuit of their goals.

Furthermore, the Credit Strength Framework© can be used by nonprofit lenders and non-lenders alike. Consider how to make this happen whether you are direct lender or not. For example, no matter what the primary focus or scale:

Lending programs can:

- ✓ Offer financial education as a program requirement helps to increase borrowers' *knowledge* about credit
- ✓ Provide *access* directly to loans or other credit products that both meet clients' specific credit needs in the moment and build credit (in more and more cases CBA members are making Credit Building Loans specifically for the purpose of helping their clients build credit) to help them meet future credit needs and other opportunities.
- ✓ Connect with borrowers during the loan application and repayment process to support healthy credit building *actions* necessary in the short- and longer-terms.

Non-lending programs can:

- ✓ Prioritize *knowledge* about credit and credit action planning as a key component of helping clients achieve their financial and other goals.
- ✓ Create referral relationships with local financial institutions and/or nonprofit lenders that offer *access* to credit building products.
- ✓ Provide one-on-one support to help clients translate credit *actions* into success by leveraging credit score improvement into attainment of their greater goals.

Examples of how nonprofit lenders and non-lenders are currently doing just this!

Founded in 1997, Justine PETERSEN (JP), a nonprofit lender, passionately believes that linking financial products to financial counseling is the most efficient and effective way to assist clients to build strong credit. Just telling someone about good financial management doesn't cut it, giving them the power and opportunity to manage their finances and build positive behaviors is key. It's all about financial capability.

Credit building is hard-wired into how JP does it's work, which started with a focus on homeownership preparation and retention and in 2001 added microenterprise lending and training, when it became an SBA microloan intermediary.

JP is now the largest microloan intermediary in the country. From the beginning credit has been a focal point for JP as they work with clients on the path to financial stability. They pull credit reports for everyone that walks through the door, providing credit building counseling to over 1200 people a year since it was formally built into their our work in 2006 when they introduced credit builder loans. Building on these partnerships JP recently launched “Credit Building Nation,” to expand access to credit building products coupled with credit building coaching across the country. Through Credit Building Nation, JP can spread its credit building mission and maximize the impact of the financial education and counseling of its partners. How does JP know it is making a difference in the lives of its clients? Clients’ median credit score increase is 40 points, 82% of applications for other JP credit products are accepted, and 96% of account holders are making monthly on-time payments.

MyPath is a San Francisco-based nonprofit that engages low-income working young adults in credit-building alongside saving to provide them with greater access to quality employment, college, housing, and loans. It creates cross-sector partnerships to deliver MyPath Credit through youth workforce programs to provide young adults with the opportunity to direct a small portion of their monthly income toward deposits that serve as payments on the Fresh Start Secured Credit Builder Loans in partnership with Self-Help Credit Union. MyPath Credit includes an in-person introductory credit workshop, a Fresh Start Secured Credit-Builder Loan enrollment workshop, one-on-one financial coaching (including support to address negative accounts), and financial incentives.

In addition to calculating client success by showing the change in credit scores (3 pulls - baseline, 6 months and 1 year) over the course of the program revealing that the average score for unscored clients is 673 and the average increase in score for those with low credit scores is 30 points, MyPath leverages its successes in many ways that include clients using the credit score they built to help them access opportunities in housing, employment, education and entrepreneurship. Clients are also able to continue savings into their Fresh Start Secured Credit Builder Loan even after the loan term has been completed to continue the “set it and forget” habit.

How do we know if our clients are actually achieving a position of credit strength?

The Credit Strength Framework© lays out four key indicators for each Framework element: knowledge, access and actions. In order to measure clients’ progress, you are prompted to consider answering the following questions at intake and any given follow-up check-in interval with clients. Some information can be gleaned from direct client surveys and others can be addressed by looking at their credit reports. CBA’s companion Credit Strength Roadmap© provides more details on and examples of how nonprofits can implement these surveys and/or access credit reports if they are not already doing so. CBA also recognizes that the questions for each element below may be insufficient to meet the larger objectives of any given particular program. They are not meant to be exclusive or exhaustive, but many are suggestions considered important to the extent that they reflect the ability of clients to establish and sustain a good credit profile over time.

CBA's Credit Strength Framework

	Does your client…
Knowledge	know how to pull a free annual credit report?
	know how to dispute errors?
	know what financial actions drive credit scores generally?
	know how to connect to the right credit products to achieve their goals?
Access	have active credit?
	have a mix of credit types?
	have a credit account with a mainstream financial institution?
	have a prime credit score?
Actions	dispute errors found on a credit report?
	pay all bills on-time?
	maintain revolving debt balances at 30% or less of total available credit?
	apply for credit only as needed?

That's great, but there are a lot of efforts out there to help organizations measure client financial success. How does the Credit Strength Framework© integrate with those?

In response to the growing prevalence of Financial Capability programming and the lack of standardized methods for tracking outcomes in among practitioners[ii], several industry leaders have recently taken on the task of creating uniform measurement tools and frameworks for tracking financial capability outcomes. These include the Financial Capability Index, developed by the Center for Financial Security at the University of Wisconsin-Madison, the Financial Well-Being Scale recently created by the Consumer Financial Protection Bureau, and the Center for Financial Services Innovation's Eight Ways to Measure Financial Health. These efforts in combination with broader reaching strategic guidance such as through the Financial Capability Integration Toolkit created by CFED, are helping practitioners, including community lenders and non-lender social and asset building service providers to create consistency and maximize effectiveness in their work to support financial empowerment among economically vulnerable communities.

While credit is alluded to, and certainly a component of in scope of these scales and toolkits, credit building as a financial capability strategy is still misunderstood among many in the industry. It is a unique and still relatively new subfield of the financial capability and asset building fields, which has yet to engage in an intentional, dedicated, and ongoing discussion about how to accurately, efficiently, and consistently measure credit building success. The Credit Strength Framework© provides a specific and deeper focus on credit building and can be used in conjunction with these scales and is not meant to replace them.

Like to Learn More?

For more information CBA, visit:
www.creditbuildersalliance.org or contact programs@creditbuildersalliance.org

Appendix 1: Make Credit Building Count Peer Group Members

Participating Practitioners

Baltimore CASH Campaign

Business Center for New Americans (BCNA)

Cleveland Housing Network

Cleveland Neighborhood Progress

Compass Working Capital

Greater Newark Enterprises Corporation

Innovative Changes

Justine PETERSEN

LISC

Maryland CASH Campaign

Mission Asset Fund

Neighborhood Trust

Oakland Planning and Development Corporation

Rural Dynamics

Urban Upbound

Washington Access Fund

Working Credit NFP

Participating Industry Leaders

CFED

Consumer Financial Protection Bureau

Center for Financial Security

FIELD, the Aspen Institute

NeighborWorks America

Opportunity Finance Network

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[i] Schneider, Rachel and Vivirito, Elizabeth, 2015. "Measuring Your Financial Health beyond the Credit Score." Tech Crunch. http://techcrunch.com/2015/07/04/measuring-your-financial-health-beyond-the-credit-score/

[ii] Collins, J. Michael, and O'Rourke, Collin 2013. "Finding a Yardstick: Field Testing Outcome Measures for Community-based Financial Coaching and Capability Programs." Center for Financial Security, University of Wisconsin-Madison.