ACHIEVING CREDIT STRENGTH:

A TOOLKIT FOR SUPPORTING RETURNING CITIZEN ENTREPRENEURS

CREDIT BUILDERS ALLIANCE

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Executive Summary

Millions of Americans have been touched by incarceration. In 2015 alone, 4.7 million Americans were on probation or parole[1], many returning to society at a social and economic disadvantage, making it difficult to find a home, reclaim relationships, or get a job upon—and even long after—release. The reality of a lack of employment options combined with an entrepreneurial drive, means that many returning citizens[2] turn to small business[3] development as a pathway to successful reintegration over time.

A key obstacle along this path, however, is that many returning citizens reenter their communities with no or poor credit scores. Without a solid credit history and score, it is not only extremely difficult for returning citizens to qualify for loans, but also to achieve the basic stability necessary to pursue entrepreneurship. This includes, but is not limited to, renting an apartment, turning on utilities, or buying a car. Impaired credit history makes them more susceptible to the ubiquitous and predatory marketing practices of payday lenders and other fringe creditors. This only perpetuates cycles of debt and further instability, particularly if they are already debt-strapped and/or struggling to reintegrate into society.

One reason that many returning citizens have no credit scores upon release is that if they have been incarcerated for an extended period, they may have a stale credit history. This is because they could not keep any positive credit accounts (i.e. credit cards, car loans, etc.) active while incarcerated, resulting in a loss of credit scores.

Alternatively, the task of managing credit and other accounts may have been left to family members or friends who did not handle them well, causing credit scores to decrease. Incarcerated individuals are also susceptible to identity theft, perpetrated in some cases by those whom they know and in other cases by anonymous scammers.[4] Finally, many face overwhelming debt upon release, either due to accounts gone unpaid such as child support and/or new outstanding expenses such as court and restitution fees and fines.

Whether returning citizens are unscored or experience damaged credit and accumulated debt during incarceration, the challenges posed by these circumstances can feel overwhelming upon release. This is particularly relevant because access to affordable credit is an essential building block for those hoping to start or expand a small business. Nonprofit practitioners across the country offer direct technical assistance to returning citizens seeking to build small businesses, including business planning and financing. This toolkit is designed to complement and augment their efforts to more intentionally integrate credit building into these services for the benefit of these clients.

[1] Kaeble, D. and Bonczar, T. P., "Probation and Parole in the United States, 2015". Washington, D.C.: U.S. Department of Justice, Bureau of Justice Statistics, 2016. Revised February 2, 2017, http://www.bjs.gov/content/pub/pdf/ppus15.pdf

[2] Throughout this toolkit, CBA uses the term "returning citizens" as a general category – synonymous with formerly incarcerated – to refer to anyone who has previously been in jail or prison. Returning citizens are the primary, but by no means the exclusive, target market for this toolkit. We encourage practitioners to find what may be useful here if they are serving individuals pre-release, those who may be justice-involved (convicted of a crime, regardless of whether they have gone to jail or prison), or those who are justice-exposed (exposed to the criminal justice system themselves or via others but have not been convicted or incarcerated).

[3] All references to "small businesses" throughout this toolkit also include micro-enterprises, sole proprietorships and those who are self-employed.

[4] Haralson, L. E., "The Old, the Young and the Incarcerated: Latest ID Theft Victims." St. Louis Federal Reserve, Bridges, Winter, 2010-2011. https://www. stlouisfed.org/publications/bridges/winter-20102011/the-old-the-young-and-the-incarcerated-latest-id-theft-victims.

What is Credit Building?

A good credit history is crucial in today's economy. Far more than just a number, a good credit score is a prerequisite for every day financial services such as a low-cost credit card, a bank account or a car loan. A good credit history can make the difference in accessing the affordable lending products necessary to go to college, buy a home, or start and grow a small business. Renting an apartment, paying for car insurance, signing up for utilities and even landing a job can be affected by a person's credit history—or the absence of one.

Good Credit is the Passport to the New Economy

Credit building is a powerful financial capability strategy to help individuals and small businesses take control of their financial lives. By engaging in credit building activities, individuals can access opportunities, reduce expenses and build assets.

Credit Builders Alliance (CBA) defines credit building as the ***act of making on-time monthly payments on a financial product such as an installment loan or a revolving credit card that is reported by the creditor to at least one of the major consumer credit bureaus***. Opening and successfully managing financial products is key to building and maintaining a good credit history.

While credit building may include reducing current debt loads and paying off historical accounts in collections, addressing past credit problems alone does not constitute credit building.[5] Responsibly and regularly using active credit accounts is the only way someone with a thin or no credit file is able to establish or reestablish a credit score. It can also be an effective first step for those with poor credit profiles who wish to boost their credit scores.

DEFINITIONS:

CREDIT BUILDING:
Establishing and maintaining ACTIVE trade lines that are reported by the creditor(s) to the major credit bureaus.

ACTIVE TRADE LINE:
An open installment loan or revolving credit account that is being used on a regular basis.

ACTIVE INSTALLMENT LOAN

- Has a balance
- Has a monthly payment
- Is not closed
- Examples: Auto loan, personal loan

ACTIVE REVOLVING ACCOUNT

- Does not require a balance
- Must have had at least one payment made in the past 6 months. (Monthly use is best for credit building)
- Examples: Credit cards, lines of credit

[5] "Credit repair" is a term often used interchangeably with credit building/credit remediation but it is a red flag to the credit bureaus. The bureaus consider credit repair to be a specific tactic that disputes every negative trade line on an individual's credit report regardless of whether a consumer recognizes the debt as his or her own. Nonprofit and other socially responsible entities working to help individuals resolve legitimate errors, manage debt and deal with collections, may wish to use the term credit rebuilding or credit remediation.

Who Should Use this Toolkit

The primary purpose of this toolkit is to help create a common language and easy-to-use resource for practitioners offering credit building services to returning citizens who are aspiring (pre-startup, startup) entrepreneurs or who have started but still have fledgling businesses. Many aspects of this toolkit are also relevant to the credit building efforts of returning citizens more generally. Acknowledging that many of the challenges faced by returning citizens extend well past the first years post-release when the most comprehensive support is often provided, we welcome all members of the formerly incarcerated population to use this toolkit at any point throughout their journey. We also hope that this toolkit will be useful to groups supporting returning citizens in other capacities, if nothing else to plant the importance of credit building in the process of building financial health.

While conducting interviews for the development of this toolkit, practitioners emphasized the myriad pressures that exist for returning citizens immediately post-release to secure housing, generate income, and successfully re-integrate back into society. Credit is surely a factor in an individual's ability to navigate this phase. Thus, pre- and post-release credit coaching/counseling may be highly valuable in helping returning citizens identify and begin to mitigate immediate credit issues. In some cases, however, a more intentional credit building process, especially in combination with small business development, may need to wait until basic needs are met. While this toolkit is specifically geared towards those organizations serving returning citizens, we hope it also offers ideas and options for pre-release programming, as well as those who may not wish or need to pursue entrepreneurship at all.

The strength of the toolkit is that it draws directly from the field experience of those working on credit and other financial issues faced by returning citizens who wish to pursue business development. The organizations that contributed to this toolkit all recognize that entrepreneurship is not for everyone, and thus prioritize both the commitment needed to pursue business development goals, as well as particularly credit challenges that entrepreneurs exiting incarceration may face.[6] A limitation of the toolkit, however, is that at its core it has to be applicable to a broad base of organizations with many different approaches to their work.[7] These practitioner groups also offer a broad set of program activities and client supports, including individual and group learning and mentoring opportunities. A further complication is that they work with clients dealing with a wide variety of issues that may impact the credit building process (i.e. type of crime, systemic incarceration, credit related challenges faced by people of color, and gender-specific issues of women and economic abuse). For these reasons, it is difficult to make any standardized comparison in the exact implementation of each program and how this toolkit is best applied.

Although the toolkit has been designed to be simple enough to implement in a variety of contexts, CBA also recognizes the opportunity for layering on additional lenses, and hopes that those who use it will leverage their own expertise to continue to improve upon it. All the tools and worksheets included may be downloaded and modified to meet any given organization's or practitioner's needs.

[6] Klein, J. & Mohan, L. "Prison to Proprietor: Entrepreneurship as a Re-entry Strategy". FIELD, The Aspen Institute, 2016.
[7] There was a wide range of programmatic approaches used by the organizations who contributed to this toolkit. These included but were not limited to a combination of the following:

- Reentry programs in prison pre-release
- Reentry programs focused on post incarceration
- Small business curricula specific to returning citizens
- Specific focus on credit building and by default serving returning citizens
- Services offered to returning citizens and general population.

The myriad approaches are in line with recent research in the field that reveals the diversity of programs supporting returning citizens and others who are justice-exposed.

Methodology

To create this toolkit, CBA applied a mixed-methods research design to successfully 1) understand and document the credit and other challenges faced by returning citizens, specifically as they apply to those seeking to start or expand a small business and 2) identify promising practices and strategies used by practitioners working with this population to help them build and leverage improved credit for these purposes.

In addition to conducting secondary research, CBA collected qualitative primary information from practitioners and other stakeholders—including returning citizen entrepreneurs themselves—through surveys, interviews and focus groups. These data were layered onto CBA's existing Credit Strength Roadmap©, developed with years of experience identifying best practices in the credit building field to help practitioners and the people they serve better understand what it means to have strong credit and how to get there. A handful of practitioners tested the toolkit's relevance and applicability in the field.

How to Use the Toolkit

This toolkit is meant to provide practitioners with credit building strategies and tools to enhance their clients' outcomes. It should complement and augment existing business development curricula, with a laser focus on how to integrate credit building in order to help clients achieve these outcomes. Each section of the toolkit is designed to provide practitioners with the information and tools they need to help guide their clients through CBA's Credit Strength Roadmap® along with a set of ideal client outcomes necessary to achieve and sustain strong credit profiles.

The challenge when defining a toolkit comprised of best practices is that there is no one way to approach this work. CBA does not attempt to be prescriptive with any of the information presented in this toolkit and encourages practitioners to mix and match sections as they make most sense to their respective programs and client populations.

Returning Citizens with Entrepreneurial Goals: Credit Building Call to Action

Credit building is critical for entrepreneurs in the start-up phase and for those with existing but not yet mature businesses. While this toolkit focuses on a very specific target population—returning citizen entrepreneurs—the work to serve this community is embedded in a larger eco-system of financial capability, community development and reentry programming. Thus, there are opportunities for a larger group of stakeholders to come together to leverage the toolkit. Together they can work to increase and improve opportunities to collaborate on local strategies that promote moving returning citizens along the spectrum from reentry to successful entrepreneurs. Specifically:

- Reentry-focused service providers can explore ways to integrate credit building programs and assessment into existing services navigation and delivery.
- Other nonprofit financial capability and social service providers can explore access to credit building strategies such as rent reporting, credit builder loans, secured credit cards and lending circles to best serve the reentry population in their communities.
- Nonprofit lenders offering microenterprise and small business loans can support credit building by reporting their loan portfolios.
- Funders and other stakeholders can advocate and support the importance of credit building as a strategy that helps returning citizens to establish businesses as financial assets themselves, as well as to the future transfer of intergenerational wealth.

Key Takeaways

Offering credit education as early as possible, at the very least pre-release, has the potential to minimize common issues, including identity theft, debt accrual, etc.

As remarked upon by many returning citizens interviewed for this toolkit – in prison there is nothing but time, yet little to no programming is offered. This provides an opportunity for groups on the ground working with this population to provide credit and financial education. Instituting credit education early on could decrease the prevalence of identity theft, minimize debt accrual and allow for a smoother transition back into society. Helping returning citizens in formulating a financial plan while in prison can give them hope for a better future, for themselves and their family.

Credit/entrepreneurship education will be most effective if presented with tangible, actionable steps

Remember that many returning citizens will have had little to no financial education prior to prison. Follow the mantra "the simpler the better". While it is necessary to share about the importance of credit, make sure that the takeaway offers tangible actionable steps. In addition, be sure to identify opportunities to create meaningful connections to credit access and goals.

Credit and entrepreneurship can improve the self-worth of returning citizens

Establishing a good credit score can be a source of pride for returning citizens. It offers a way that they can positively represent themselves beyond their criminal history. As Jason, one of the returning citizens interviewed for this toolkit put it, "I saw having good credit as a source of pride. I wanted to figure out how to make myself have a really great credit score. I felt good [as I achieved it]." Entrepreneurship is similar. For many returning citizens it offers a sense of empowerment, freedom, and hope. Identifying opportunities to support this growth is critical.

Supporting returning citizens in their reintegration into society is work that requires a holistic approach to facilitate healing and growth and will require a change of narrative

Identify opportunities to engage across industries—look at building relationships with law enforcement, prosecutors, faith communities, policymakers, social service agencies, mental health professionals. Start at the local and regional levels. Share success stories, humanize the returning citizens and integrate the voice of those who have been villainized in your work.

Credit Realities for Returning Citizens

Over 71 percent of those who responded to a CBA survey about the credit profiles and challenges faced by their returning citizen clients (the vast majority of whom are low- and modest income) stated that lack of or limited credit history is a key barrier. The same percentage identified poor credit scores (defined as under 620) as presenting a credit catch-22 for their clients. For example, without good credit, it is tough to access housing, affordable financial products, and meet other critical needs. Most survey respondents also stated that their clients had difficulty obtaining rental housing post-release and over 57 percent identified opening bank accounts as a challenge. It is difficult to access credit without a stable place to live and a safe place to store your money.

For many returning citizens, there is also a lack of knowledge about financial topics and sometimes a distrust of the financial system. Practitioners interviewed by CBA identified that some of their clients did not have responsible guidance on their finances at critical moments in their lives and are often the targets of deceptive marketing of predatory or high-cost financial products.

Furthermore, generational poverty and structural discrimination faced by many are major drivers of incarceration, exacerbated in many cases by systemic problems outside the scope of this toolkit. Child welfare policies, predatory for profit colleges, usurious financial service providers, and poor options for mental health and drug treatment are all determinants of whether one has poor or no credit. Among these factors, however, looms one of the greatest challenges to successful and sustained reintegration—the ability for returning citizens to earn income.

The Challenge of Finding Stable Housing

Many practitioners identified stable housing as a critical factor in a returning citizen client's ability to focus on credit building and have success with planning and launching an entrepreneurial venture.

Clients in unstable housing situations – homeless or in transitional housing, or staying with a friend, partner or family member temporarily – can easily become derailed when their housing situation shifts. Yet securing stable housing can be very difficult with a criminal record and poor credit.

Individuals with a criminal record are typically not eligible for federally funded affordable housing. This limits access to safe and affordable housing. In alignment with CBA's own research, one study reported that 79 percent of formerly incarcerated individuals are denied or found ineligible for housing because of their criminal record.[8]

Credit building, therefore, can be an important strategy in helping returning citizens obtain stable housing. Organizations working with returning citizens on housing should integrate and/or refer out credit building initiatives. Conversely, those working with returning citizens on entrepreneurship should connect with housing providers and advocates. In doing so, those serving returning citizens in either capacity will create stronger, connected opportunities and options to support returning citizens more holistically.

Practitioner Tip: As your returning citizen clients begin building credit, consider writing a letter on their behalves to prospective landlords, who may then be more willing to rent to them.

–Justine PETERSEN

[8] DeVuono-Powell, S., Schweidler, C., Walters, A., & Zohrabi, A. (2015). Who pays? The true cost of incarceration on families. Oakland, CA: Ella Baker Center.

The Many Voices of Returning Citizens

Programs successful in supporting returning citizens are those that shed light on and incorporate the voices of returning citizens in the work they do. In this section, we hope to share a few stories, musings and suggestions from returning citizens interviewed in the creation of this toolkit. We hope that they can serve as fodder for the importance of this work and plant a seed of change in the work that you do.

Meet Armand, an entrepreneur with a leather business

Just a year out of prison, Armand started his business. Although he had minimum student loan debt and 'decent' credit prior to incarceration, post release Armand struggled to open a bank account and access credit. Still he considered himself lucky. He had a goal to make starting his own business a reality, regardless of the struggles. "At the beginning, when I started applying for business credit I couldn't get anything because my personal credit was shot. Credit is huge, you either have someone who trusts you or not. For a bank, it is the bottom line. For us, it [the business] is a dream. Find the right people that will work with you—I turned to the local bank after the national option turned me down."

In the end, Armand filed bankruptcy, which limited some opportunities. Nevertheless, he knew it was going to be the only way to dig himself out of the hole he was in. "I knew I was going to struggle, but I knew I wanted to be financially independent and the only opportunity I would have to be so was if I was self-employed. I did my research and worked hard. I consider myself an entrepreneur—I had business sense, the hustle and grit, and knew how to sell."

Armand was fortunate that university students taught finance classes at his prison. Before incarceration, he did not know that compound interest could easily turn a $500 computer into an $8,000 debt. With help and support from many along the way, including Defy Enterprises, Armand's business is still in operation. Today he sells to major retailers in the U.S., maintains a part-time job, and does some freelance work.

Meet Michelle, a readily employed returning citizen

"It's not easy returning to society. Things change, to a larger degree than what is shared during reentry workshops. There should be a much larger focus on credit—I wasn't able to get a car or a cell phone due to my poor credit. I was never told this would happen. On paper I looked like a horrible person to the bank. My husband was told to file a divorce to separate himself financially from me, and now I have nothing positive in my name. I wish credit was talked about before I walked out of the door, it is something so universal.

Looking back, it would have been helpful to have had this information pre-release; credit building and recovery needs to be part of the process. 95 percent of people would really want this information, especially if they understood its impact. Credit not only impacts the individual, but the family unit.

It's like banking and personal finances should be taught while in prison. Something as simple as how to deal with creditors post-release, how to open a bank account—there's just so much fear of the system. And you're surrounded by folks that may have committed identity theft crimes, so you are already reluctant to share your personal information. Building safe spaces for this to be shared is so important."

Meet Quan, an entrepreneur with a janitorial supply business

Quan spent 22 years in and out of prison. When Quan was released, he had no credit at all. Now, just under two years post-release, Quan has established a credit score of 822 and operates a successful business with three employees. Quan attributes his success to his entrepreneurial spirit and to the time that he spent educating himself about credit pre-release.

"I have always been entrepreneurial. Always drawn towards business—though some illegal. I realized [in prison] that I had certain talents that I could translate to business."

In addition to self-study on the topic of credit while incarcerated, Quan opened a secured credit card once released. Quan considered the $500 deposit that he had to put down as collateral for the card as an investment towards his personal financial and business goals.

The investment paid off. "I applied for my first business credit card and they ran my personal credit. I was able to grow my business credit. My credit limit went up. My bank will every now and then send me offers. Having larger credit lines helps me know that I can leverage credit to take on bigger contracts."

More perspectives and recommendations from returning citizens and service providers

On how to talk about credit with returning citizens:

- "Explain the importance of credit, in a tangible way. Speak in 'street' terms. With a felony, you are issued a 'Scarlett Letter'; credit is the same way, that is if you have no credit, or just poor credit. Credit is the entryway into the system. Talk about credit in a positive way. Simple is key—move away from theory and use easy to understand language."

  "Out in the streets, your name is your credit. If you have bad credit, you're not going to get what you're looking for. But if your name is 'golden' or 'platinum' [in the streets] you can go anywhere and get what you want. The word spreads. It's the same with credit."

  [When explaining how to build credit] "My clientele is my money [in the streets]. If I know I cannot pay you back, it's not a smart deal for me. Otherwise, I am risking my life on something. Same goes with credit and your potential creditors."

- "With credit, there are so many barriers, both systematic and internal. When working with returning citizens, find ways to formulate self-limiting beliefs in a positive way. Talk about opportunities to add to their value proposition. Having good credit will support your case in job and rental applications, for instance."

- "Avoid saying you *need* to do this. Because I will have already tuned you out by the time you're done with your sentence; I just shut down."

On the impact of credit:

- "Like anyone with poor credit, you get used to a series of denials, that is, if you are even lucky enough to understand, or at the point that you come to understand the importance of credit. You begin to fight yourself to keep trying, there has to be another door open. But it is hard. For some, that first obstacle defeats them. And that's where you see recidivism. Self-defeat is not easy and it's often easier to return to prison; at the very least, they know they can make it there. They think society does not care about me. It's the self-defeatist voice talking."

- "Once they have a job, they can begin to pay off debt—lawsuits, fines, restitution—and focus on building their credit. You'll notice as the credit situation improves, the clients will speak about their credit [unlike when credit is poor and a source of shame]. When [my client's] score increased he would talk about his credit. He had a 740, he was proud of it. His father, who he always had a poor relationship with, asked him to co-sign on a car loan. He was happy to expand opportunities and support his family as well. Because of his strong score, today he can sit down with a lender [whereas before he wouldn't share how he made money]."

Employment to Entrepreneurship: Barriers and Opportunities for Returning Citizens

> "People who have barriers, they know they have barriers and often have difficulty speaking about those barriers with potential employers. They are also reticent to fully disclose their criminal history for fear the conversation will be over right there."
>
> -- Mon Valley Initiative

Statistics remain bleak for returning citizens attempting to join the workforce.[9] In a 2015 Poverty and Opportunity profile published by The Sentencing Project, more than 60 percent of formerly incarcerated individuals are unemployed a year after release. In spite of efforts in recent years to "ban the box," which involves efforts to eliminate or mitigate the impact of criminal background checks, 87 percent of employers still conduct often unregulated background checks. Thus, not surprisingly a criminal record is often a barrier to accessing employment.[10] According to the National Employment Law Center, more than 65 million people with criminal records have been barred from finding secure, sustainable employment due to the background checks. [11] Criminal justice debt is also reported to the credit reporting agencies, providing another avenue for employers to find out information about the job applicant.[12]

Consistent with these data, almost 86 percent of respondents to CBA's survey said that it was hard for their clients to find employment and that background checks are a major deterrent.[13] Self-employment or entrepreneurship is a major opportunity for many, especially those for whom previous life experiences make it difficult to hold down a structured job. In fact, almost 29 percent of respondents to CBA's survey said that some criminal behavior is entrepreneurial by nature. Whether challenged in obtaining traditional employment or inclined to pursue their own endeavor,

[9] Klein, J. & Mohan, L. "Prison to Proprietor: Entrepreneurship as a Re-entry Strategy". FIELD, The Aspen Institute, 2016.

[10] The Sentencing Project. "Americans with Criminal Records". http://www.sentencingproject.org/wp-content/uploads/2015/11/Americans-with-Criminal-Records-Poverty-and-Opportunity-Profile.pdf.

[11] DeVuono-Powell, S., Schweidler, C., Walters, A., & Zohrabi, A. (2015). Who pays? The true cost of incarceration on families. Oakland, CA: Ella Baker Center.

[12] Ibid.

[13] In recent years there have been efforts to eliminate or mitigate the impact of criminal background checks such as the Fair Criminal Record Screening Act of 2014, popularly known as "Ban the Box". While enacted to protect employers from inquiring about job applicants' arrest records, charges or convictions prior to a conditional offer of employment, various loopholes often impact the effectiveness of such legislation. Learn more about the Fair Criminal Record Screening Act at https://ohr.dc.gov/sites/default/files/dc/sites/ohr/publication/attachments/OHRGuidance16-02_FCRSA_FINAL.pdf.

returning citizens often consider starting their own business as a logical path to establishing an economic livelihood.

Entrepreneurship is no easy feat, and *strong personal credit provides a crucial foundation for business success* at various stages throughout the business' life cycle, in particular when:

- Establishing a new business;
- Personally guaranteeing or cosigning on a business loan; or
- Seeking access to financing and other business opportunities to grow.

Ensure that entrepreneurship programs do not unintentionally diminish the importance of credit.

An unintended consequence of programs that support returning citizens through entrepreneurship is that the importance of credit may not surface right away. For example, some small business development programs promote business financing opportunities that do not consider credit as a condition to access financing, such as some peer-to-peer lending and financial institutions that employ alternative underwriting criteria. Thus, entrepreneurs may not immediately view credit as important to their business development goals or access to financing. Regardless of the role of credit in a particular underwriting scenario, it is important to discuss generally the role of credit in small business start-up and growth.

Moreover, while the opportunity to access capital for those with limited or poor credit profiles is valuable and often critical to small business establishment and growth, entrepreneurs may not always recognize the importance of one's credit. They only make this realization once it affects their ability to secure larger amounts of business financing, often from sources that are more traditional. Without a programmatic focus on credit, returning citizens may face challenges when accessing basic services, such as cell phones, utility service, or housing due to poor or no credit. In addition, lack of or poor credit may serve as a barrier to building long-term financial stability, accessing wealth-building opportunities, and business capital.

Consider beginning conversations about small business with an overview of the role credit plays both in entrepreneurship and in life more generally. Ultimately, a lack of or poor credit will eventually limit an entrepreneur's access to capital. A concise, convincing and realistic business plan will often not suffice on its own, nor will a strong business credit score alone. Most lenders still take into consideration personal credit scores!

Credit Strength Framework©

Program design to support credit building: How comprehensive is your credit building program?

At its most basic, credit building requires the reporting of positive trade lines to the major credit bureaus (access to credit products) and 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 any individual to achieve credit strength: **Knowledge, Access, and Actions.**

First, people need **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. As already stated, for many returning citizens this can be a challenge if they have not previously been exposed to relevant and timely financial education or have experienced systemic barriers to accessing the financial mainstream. Programs that provide an educational component about personal and business credit, amid other financial education/money management topics are essential to beginning to level the knowledge playing field for their clients. Knowledge alone, however, is insufficient if those clients cannot act on it.

Second, people 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 so that they can achieve their goals. Unfortunately, access to affordable financial products can be a great challenge for returning citizens, many of whom have no or low credit scores but who wish to start or expand a small business. Organizations that lend to returning citizen entrepreneurs open doors for access to capital that might not otherwise exist. For non-lenders, developing partnerships with community leaders such as local Community Development Financial Institutions (CDFIs) as well as mainstream credit unions and banks is critical to providing a pathway to products. With returning citizens in general, extra care needs to be taken to ensure that the products available in the local community are accessible.

Third, once they do access affordable financial products, individuals have to be in a position to take **actions** that 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. As with financial knowledge—or the lack thereof—financial actions are often complicated by different experiences with credit specifically and finances and money generally. How returning citizens interact with credit may be shaped by what their parents or community modeled, emotional triggers that can influence behavior, and external circumstances like loss of a job, divorce, illness, *incarceration*, and more.

In spite of some of these challenges—indeed because of them—CBA's mission driven credit building community members across the country and across many sectors are working to help their clients achieve credit strength. Programs that integrate credit building intentionally can help their returning clients achieve successful entrepreneurship specifically, as well as financial wellbeing generally.

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 program focus or scale…

Lending programs can:

- ✓ Offer financial education as a program requirement to help 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.
- ✓ 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.

Credit Strength Roadmap©

A Practical Guide for Working with Clients to Build Credit

As a companion guide to the Credit Strength Framework©, which is meant to help organizations strengthen their credit building programming, CBA has developed a Credit Strength Roadmap©, which is designed to help practitioners support their clients through a successful credit building process. Embedded in the Roadmap are five key areas to assess and address:

- Consider the Goal
- Know the Score
- Get the Good Stuff Going
- Deal with Debt
- Make Credit Building Count

In an ideal world, practitioners using the Roadmap© would guide their clients through a linear process over a set and relatively quick period. If everything goes perfectly, clients can move from goal setting to establishing a strong credit profile within as short a time as six months to a year. However, this is not how people's lives track, nor is it realistic to assume that practitioners can guide their clients through this roadmap without fits and starts. Factors such as starting credit profile, client financial and life circumstances, as well as idiosyncrasies within the credit system itself can cause dips and blips along the way. Furthermore, sustained credit building is an ongoing process, requiring continuous and sound management of credit products.

Tip for Practitioners: Set Your Expectations!

Using this roadmap in the context of each client's situation can help ensure that you match their needs, as they start and progress with building strong credit. This may take time, sometimes months, and sometimes years. The toolkit sections are designed to provide you with general guidance on the importance of each step, as well as their sequencing. Also included are issues of pertinence to entrepreneurship and relevant to returning citizens. Finally, practitioner considerations, suggested activities, and modifiable tools for use with clients conclude the toolkit's contents.

More information about CBA's interactive Roadmap©:

CBA's e-learning platform for practitioner professional development and more are accessible on the CBA Training Institute website at www.cbatraininginstitute.org. To learn more about CBA's services and to register to become a member please visit: www.creditbuildersalliance.org/become-member.

Step 1: Consider the Goal

Overview

Credit building is a goal-focused process and should take place as early as intake with any client. Whatever their short- or long-term goals may be (financial and otherwise), identifying the credit building connection to these goals can help your clients create concrete action plans for moving forward. For example, returning citizens eager to start or expand a small business may have as a goal taking out a small loan to purchase inventory. For others, this could be obtaining a contract for a new equipment supplier, moving into an office space, or simply accessing an affordable cell phone plan.

Use the SMART framework to help clients identify short, mid- and longer-term financial goals and the steps that are required to achieve each of these goals respectively. Combining the SMART goal setting framework with opportunities to connect good credit back to clients' goals may not always be obvious, but it is important. For example, programs that help people with access to goals like acquiring cell phones, turning on utilities, and moving into housing enhance their clients' outcomes if they combine their services with credit building.

Specific
Measurable
Actionable
Realistic
Time-based

Sample client goal (before SMART):

I want to start a business

Sample goal (SMART):

I want to start my business by x date and increase sales by x percentage over x years...

Making the connection to credit building:

Improving my credit score will help me save money on insurance that I can reinvest in my business. A good credit score will also help me to access capital for my business.

Goal Setting and Entrepreneurship

Motivation, persistence and dedication are all characteristics that successful entrepreneurs often embody, especially those who are underserved already. According to research by the Association for Enterprise Opportunity (AEO), 45 percent of young adults (ages 18-24) with little connection to post-secondary education or employment were "highly interested in owning their own businesses."[14] That same research revealed that female-owned businesses are growing dramatically, particularly among women of

[14] Association for Enterprise Opportunity. (Feb. 2017). "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success." https://aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB.pdf

color. Among Black business owners who responded to the survey, 88 percent chose "I always wanted to run my own business" as the reason for becoming an entrepreneur.[15]

Yet not enough entrepreneurs understand the importance of credit building to their business development goals. Because it takes time to build a credit history, and because entrepreneurs often personally shoulder the responsibility of financing their small businesses throughout the business' life cycle, personal credit histories are extremely important as small businesses start, grow and expand. If a business is brand new or very young, lenders will most likely weigh an entrepreneur's personal credit history as they decide whether to offer him or her financing and under what terms. Lenders view their personal credit history as an indicator of how well they will manage their business finances.

Goal Setting with Returning Citizens

Helping returning citizens connect a good credit profile to their goals, which may range from basic financial stability to small business ownership, is worthwhile. However, working with clients to create realistic goals—and credit building expectations—depending on where they are on their journey is critical to their success.

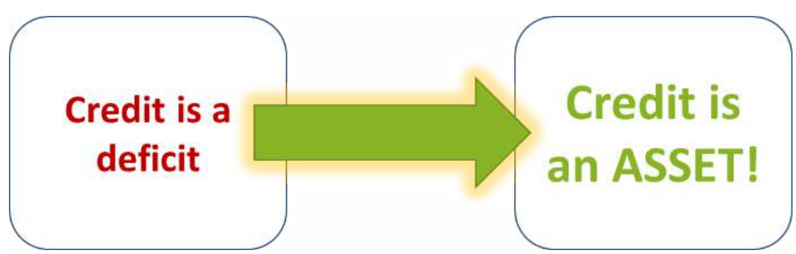
> This process may take time!
>
> Special considerations for returning citizens' capacity to achieve their business development and credit building goals may include things like the lack of a driver's license or reliable transportation—or the need to work around more than one job schedule as they move forward, for example.
>
> -- Fountain Fund

Start the Conversation by Shifting the Paradigm

A basic understanding of personal financial management (banking, budgeting, saving, etc.) is essential to a conversation on credit. Depending on the age of the individual upon incarceration, some may have limited or no prior experience with credit. Furthermore, it is very common for people to have negative associations with credit. A cycle of credit denials, as a result of no or poor credit, can lead to a reticence to engage again with financial institutions.

Nearly all (83 percent) of the practitioners surveyed for this toolkit stated that their clients have limited or no credit history and/or have poor credit scores. For many, this has been a barrier to achieving certain goals. Their past experiences with accessing credit have led to higher cost loans, unsustainable cycles of debt and overall financial stress. These experiences with credit create fear. Furthermore, the association of credit with debt leads to greater susceptibility to quick-fix and predatory credit repair scams—or even the seemingly well-intended belief that cutting up credit cards and never using credit again will solve all of one's problems.

Because many may not see the value in credit, credit is and should be at the forefront of financial planning, particularly if that plan includes starting or expanding a small business. Separating the concept of credit from the burden of debt can help transform someone's credit paradigm from a negative association with debt to one, instead, of empowerment.



[15] Ibid.

Practitioner Considerations: Meeting Returning Citizens Where They Are, Helping Them Get Where They Want to Go

When working with returning citizens on connecting credit building to their entrepreneurial goals, practitioners may want to consider some or all of the following in the process:

- Do staff have the training in cultural competency necessary to work with returning citizens? [16] This may include reinforcing a person's belief in his or her ability to change their relationship with money in general and credit specifically. For example, the majority of incarcerated individuals were indigent before serving time. One study found that over two-thirds of those in jail had incomes of less than $12,000 a year.[17]
- Do staff take into account responsivity issues such as learning disabilities and mental, physical, or substance use disorders that could impact a returning citizen's capacity to manage their money and credit moving forward?[18] Prior to incarceration, many individuals faced societal disadvantages including sustained bouts of homelessness, unemployment, physical abuse, and have struggled with addiction and mental health challenges.[19] Approximately 65 percent of prisoners do not have a high school degree and 14 percent have less than an 8th grade education.[20]
- Can staff help clients to understand implications of their money/credit choices and the inherent risks/reward while remaining positive but maintaining objectivity and avoiding judgement while staying realistic in conversations with them?[21] This may include helping clients assess their short-, medium and longer-term business goals, relevant especially to where they are on their entrepreneurial and credit building journey at the time.
- Do staff provide more compliments than critiques (researchers have demonstrated that a ratio of four to one is most effective)?[22] The connection between credit and self-worth is prominent and multiple CBA member interviewees mentioned this. Establishing a good credit score can be a source of pride for returning citizens as it offers a way to positively represent themselves beyond their criminal history. At the same time, having poor credit (related or not related to incarceration) can be a source of shame. Credit building offers hope as it is all about what someone can do well moving forward.

In considering some of these questions, practitioners may wish to seek culturally specific trainings for service providers such as the Substance Abuse and Mental Health Services Administration (SAMHSA) GAINS center, which has a trauma-informed training for criminal justice professionals that aims to help professionals develop a trauma-informed response when working with individuals involved in the criminal justice system.

[16] Adapted from ASPIRE Programmatic Best Practices Assessment.
[17] DeVuono-Powell et al., 2015.
[18] Ibid.
[19] Nelson, L.M (Eds.). (October 2016) "Barriers to Reentry" From: A Handbook for Jewish Communities Fighting Mass Incarceration: After Incarceration. T'ruah.
[20] Council of Economic Advisors Issue Brief. (December 2015). "Fines, Fees, and Bail." Retrieved from https://obamawhitehouse.archives.gov/sites/default/files/page/files/1215_cea_fine_fee_bail_issue_brief.pdf
[21] Ibid.
[22] Ibid.

Forging local partnerships with others that exist to serve justice-involved individuals and their families is another way to effectively and efficiently meet needs in a way that leverages each other's core competencies. Reentry specific partners can include but are not limited to:

- *Parole and Probation Officers.* For example, probation officers can refer clients to your program. Since the probation officer has an established relationship with the individual, this can help build trust. The Lansing Financial Empowerment Clinic has partnered with parole officers to make monthly financial counseling appointments a stipulation for returning citizens who receive housing assistance. They also attend resource fairs held by the parole office to advertise services available to returning citizens before and after release.
- *Reentry Programs.* Agencies that provide assistance to those entangled in the criminal justice system may focus on mental health support, financial assistance, treatment programs, etc. One example is Volunteers of America, a national nonprofit providing services to help offenders successfully transition from prison to a productive life in the community.
- *Legal Aid Programs.* Public defenders play a critical role in preventing incarceration as well as supporting returning citizens post-release. Oftentimes, returning citizens face a plethora of legal issues, in part due to the legal financial obligations (LFOs) that accrue and are due post-release.

For those returning citizen entrepreneurs seeking to start their own businesses, connecting the importance of credit building to successful entrepreneurship is important. Doing so with a clear understanding of when and how a returning citizen client is ready and able to move forward with both is critical. According to CBA members who serve this specific population, if successful, both the act of credit building and the act of starting one's own business provides their clients with a sense of empowerment, freedom, and hope.

Working with Individuals Pre-Release to Enhance Post-Release Outcomes

While outside the scope of this toolkit, many CBA members recommended the opportunity to and benefit of working with aspiring entrepreneurs while they are still incarcerated. Engaging with individuals pre-release to set and begin to work towards entrepreneurial and credit building goals, as well as connecting them with opportunities to access resources and support post-release, can be a powerful way to help set them up for success upon and even long after reentry.

Program Examples

Mercy Corps Northwest

In 2007, Mercy Corps Northwest (MCNW) launched Lifelong Information for Entrepreneurs (LIFE) at the Coffee Creek Correctional Facility in Wilsonville, OR. This business education course targets women inmates, within 18 to 24 months of release, and provides them with business planning and training that promotes:

- ✓ Job creation and economic self-sufficiency
- ✓ Reduces reliance on social welfare programs
- ✓ Prevents further criminal activity
- ✓ Most of all, it betters the lives of these individuals, their families and communities.

The classes are delivered by MCNW staff with help from community experts and volunteers. Students are taught small business development topics such as profit and loss projections, legal organization, break-even analysis and marketing as well as life skills such as effective communication, conflict management, goal planning and time management.

With support from the Multnomah County Health Department, the LIFE program also incorporates bridging services to allow participants to meet 1:1 with a social worker both pre and post release. During these meetings, the social worker…

Pre-Release: Identifies gaps and gives individualized feedback on the student's transition plan, offers county-specific resource information and provides assistance in navigating and accessing primary medical care, mental health, and addictions treatment, and delivers practical support related to problem-solving, stress-management, action planning, and communication skills.

Post-release: In-person or phone-based counseling and emotional support, as well as referrals to medical/mental health care, housing, alcohol and drug support, and other re-entry services.

Along with coursework and mentoring support, MCNW offers an innovative matched savings program that encourages both the fiscal discipline of saving toward a goal, and the development of resources for successful reentry. Students must demonstrate consistent attendance, complete homework, create and execute a savings plan based on their current earnings and needs, and complete both a transition and a business plan. Once they have filled these requirements, the students are eligible for a $500 grant for transition needs upon release.

For more information visit https://www.mercycorpsnw.org/reentry/life/.

Prison Entrepreneurship Program

The Prison Entrepreneurship Program (PEP) partners with the Texas Department of Criminal Justice to identify eligible inmates to participate in the PEP's Leadership Academy. Of about 10,000 eligible male candidates, annually 500 are selected to participate. The Leadership Academy begins with a three-month, in-prison character development program and is followed by a six month "mini MBA". The program offers holistic training focused on participant empowerment and incorporates in courses on financial literacy, employment, business etiquette, and public speaking.

Those who complete the program are honored with a formal graduation and receive a Certificate in Entrepreneurship from the Baylor University Hankamer School of Business. Best of all, the certificate issued does not include the word "prison" anywhere. Finally, participants are paired with a family liaison who supports rebuilding lines of communication with family members during prison and post-release.

For more information visit http://www.pep.org/empowering-nnovation/.

Step One Tools

Consider incorporating these helpful tools into goal-setting activities with your clients:

- CBA Credit Strength Roadmap© Consider the Goal Worksheet (*next page*- also available to download at www.cbatraininginstitute.org).
- "Setting goals worksheet" from CFPB's Your Money Your Goals Toolkit: Focus on Reentry Companion Guide. Available at www.consumerfinance.gov/practitioner-resources/your-money-your-goals/companion-guides/

Step 1: Consider the Goal

CBA Credit-Strength Roadmap©

Important Questions to Ask

What do I want my life to look and feel like? What are my goals (Make them **SMART**)?	
Short-Term (< 6 months)	Longer-Term (> 6 months)

How can building my credit help me achieve my goals?

What are some concrete steps can I take now to achieve these goals?	Deadline

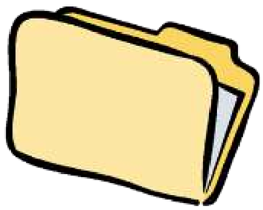
What are my immediate needs for loans/credit? (if any)		
Amount needed	Purpose	Needed by

Step 2: Know the Score

Overview

Help your clients understand their credit report and credit score,
how they are different, and why they are **both** important to credit building success.

Though they are often lumped together, there are two essential tools to helping a client understand their credit profile. Both are important.



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

Credit Reports

First, the credit report is a powerful tool, reflecting what is in one's credit file. Credit reports typically do not include arrests or criminal convictions but background screening reports do, and these reports are often used by employers and landlords when considering prospective employees and renters.[23] While different credit reports may display information differently and/or not display certain information at all (for example, credit reports sold to employers will not have personal information such as age, marital status, account numbers or other personal information protected by the Equal Credit Opportunity Act), all credit reports contain the same general categories of information:

[23] For more information on background reports, see Chapter 6 of the CFPB YMYG Focus on Reentry Guide.

Personal Identifying Information

<u>Personal Identifying Information</u>

This type of information is updated often only when someone applies for credit, so it may be common for it to be out of date. Check this section carefully with your clients for errors, and signs of ID theft.

<u>Includes:</u> Full (formal) name, Date of birth, Social Security Number, Current and past employers.

Considerations for Returning Citizens:

A recent prison address can cause problems with attempts to access a free credit report online. In such cases, returning citizens may need to mail in a request for their credit reports and include a notarized letter or affidavit listing verifying the name of the prison that was one of their most recent places of residence.

Credit History

<u>Credit History</u>

This section provides information about a consumer's current and inactive credit accounts, and how they have managed their payments to creditors.

<u>Includes:</u> Open—active and inactive—trade lines and derogatory information such as collections accounts.

Considerations for Returning Citizens:

Inactivity or misuse of active credit by others during incarceration can result in unscored or poor credit status upon release.[24] Alerting creditors and requesting modifications to accounts prior to incarceration is ideal, and working with individuals to freeze their credit prior to incarceration is another solution. The Lansing Financial Empowerment Center, for example, engages financial counselors who visit individuals before their sentencing interviews and walk them through the steps of freezing their credit.

For many practitioners, working with returning citizens post-release may be a more common reality. In this case, the focus shifts to disputing anything that may be the result of ID theft. This, however, can also be a fraught solution for many returning citizens for whom family members or friends may be the perpetrators (see Appendix 5 for a special note on ID theft).

[24] Persons who are at risk of or have been victims of identity theft may want to get a Security Freeze or Fraud Alert placed on their credit reports. While a security freeze will stop potential new lenders from accessing an individual's credit file, there may be fees to place and lift the freeze. Initial and Extended Fraud Alerts, on the other hand, provide notice to lenders about potential fraud activity. These are free and require creditors to take steps to verify an individual's identity before opening a new account or increasing the credit limit on an existing account. However, they do not prevent potential new creditors from gaining access to an individual's credit file. For more information, see files.consumerfinance.gov/f/documents/201604_cfpb_fraud-protection-tool-for-justice-involved-individuals-handout.pdf.

Public Records

<u>Public Records</u>

County, state or federal materials that are typically viewable by the public. These records can only impact the credit report negatively and some items may stay on the report longer than 7 years.

<u>Includes:</u> Bankruptcies and some tax liens and civil judgments.

Considerations for Returning Citizens:

Certain public judgments and tax liens may no longer show up on credit reports as of July 2017.[25] In addition, new limitations to what can be reported will extend to debts that did not arise from a contract to pay. Thus, court and restitution fees and fines may not appear on the credit report either. However, this does not mean any associated debt is extinguished. Practitioners may wish to help clients access other tools to inform themselves about any outstanding public record that may not appear on a credit report. For instance, some municipalities may have a public records database available for reference.

Inquiries

<u>Inquiries</u>

Records of lenders, employers, and other businesses and parties who have requested access to view your credit report.

<u>Includes:</u> Soft and hard inquiries.

Considerations for Returning Citizens:

Only hard inquiries affect credit scores, and generally only minimally. Incarcerated individuals cannot apply for credit so there should be no hard inquiries made during that time. Any such inquiries may indicate error or identity theft and likely should be disputed as soon as possible.

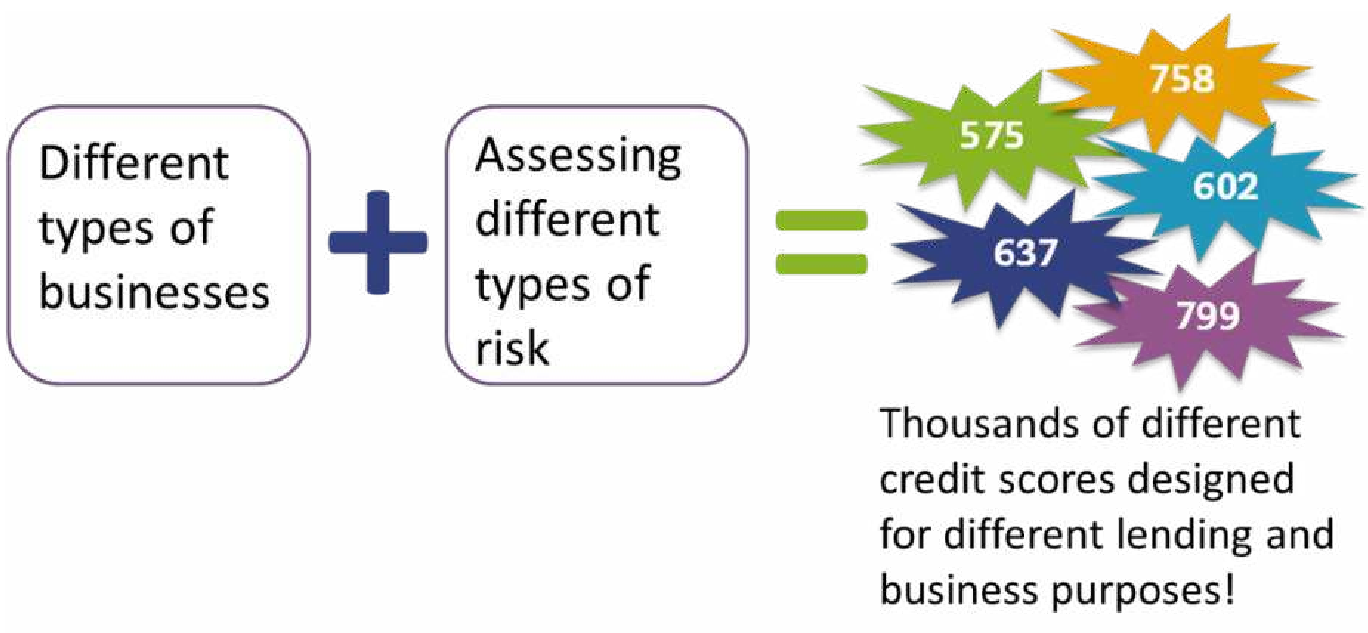
[25] See section Deal with Debt for more information.

Credit Scores

Second, depending on the nature of the account (i.e. mortgage, auto, business loans, etc.) and risk level of the consumer, lenders use different scoring models. This can make it confusing for the consumer to understand why the score viewed through an online resource or coaching may be distinct from the actual score used by the lender. Although it is important for practitioners and consumers to understand the reality, it is often better to avoid getting caught up in the nuances.

In general, it is best to choose to track the establishment and improvement of only one score over time, as long as it is the same score model at baseline and for every follow up. Pay attention to the behaviors that lead to a positive increase in credit score, as this is key to improvement across models. Finally, remember that without positive activity reported, there can be no credit building.

While there are many different scores, and different companies that create them, including the major credit bureaus themselves, there are two score modeling companies that generate the scores most major creditors use and with which you and your clients might be most familiar: FICO Score® and VantageScore®. While the scores themselves are different, the factors that drive each model's scores—most of which range from 300 to 850—are similarly weighted in terms of importance, with the single most important in each case being payment history.



Regardless of the score model used, a helpful chart is included on the next page for identifying both red flags and healthy credit actions.

	Red Flags Consumer	Savvy Consumer	Considerations for Returning Citizens
Payment History Single most important factor!	Delinquencies within most recent 6 months	All payments on time	✓ Payments may not have been made during incarceration or may have been made late.
	Previous serious delinquency (90 days)	No serious delinquencies in history	✓ Pay it on time, every time: Make all post-release payments on time. Just like emerging from a bankruptcy, for those who leave prison with no credit score, this can be a fresh start. Consider this as a clean slate opportunity!
	Numerous late pays (30 or 60 days)	Consistently uses existing credit accounts	
Outstanding Debt	Maxing out multiple revolving credit – crisis mode	Use under 10% of revolving credit	! Revolving credit accounts may have been closed during incarceration, which could result in artificially inflated outstanding debt-to-credit limit ratios. ✓ Keep it low: Keep credit card balances as low as possible.
	Very high overall debt level – may have difficulty paying	Pays off balance before statement date or before data is sent to bureaus	
	Single account maxed out	All revolving account balances kept very low	
Length of Credit History	Very little or very short length of credit history	Long history on file indicates experienced credit user	✓ Accounts that are closed prior to or during incarceration may negatively impact a returning citizens' scores since the length of history is calculated based on the age of one's oldest account and the average age of all OPEN accounts. ✓ Wait it out: Opening credit accounts and paying on time monthly will pay off in time.
Hard Inquiries	Many hard inquiries throughout the past year	Only apply for credit as needed	✓ Some may place a security freeze or alert on their accounts to prevent ID theft while incarcerated. A security freeze must be proactively lifted, often for a small fee. Regardless, no hard inquiry should be made while incarcerated, since one cannot apply for credit inside prison. This is a sign of error or more likely, ID theft. ✓ Do not over-apply: After lifting any security freeze, keep applications at a minimum. Dispute anything that is not yours.
	Possibly taking on too much debt	Shopping around for the best rates for auto loan or mortgage, within a 2 week period	
	Desperate need for cash – crisis mode – unlikely to pay back		
Credit Mix	Only one type of account on record	Different types of accounts – can manage payments consistently in different ways	✓ For those without active credit post-incarceration, one type of account managed well is most important. ✓ Diversify: If possible, apply for a different type of credit product (i.e. installment and revolving).

Credit Reports and Scores and Entrepreneurship

Reviewing credit reports and scores with clients at intake helps you understand their financial circumstances, shows them what creditors/ businesses will likely see (or not see), and helps them make the best credit building decisions in the moment and also plan for future goals. In the lead up to starting or as part of an effort to grow an existing small business, entrepreneurs seeking to build credit should consider pulling reports and scores at least six months before seeking credit products, renting a space, applying for vendor contracts, etc. Doing so will provide time to make a plan to correct and update information as necessary.

In the early stages, an entrepreneur's personal credit is the most relevant data for underwriting. The business may not exist yet, be incorporated, or be able to demonstrate other factors considered by creditors in extending credit. In the early stages of any business's development, an entrepreneur's personal credit may remain the primary factor in applications for business loans and/or lines of credit, especially until the business grows to a minimum revenue or other size threshold (determined at the discretion of the financial institution).

While not the focus of this toolkit, in addition to the benefits of consumer credit reporting, establishing a business credit profile[26] can also open doors for businesses small and large, by:

- Improving access to cash flow of business credit in today's economy, supporting business growth;
- Supporting more accurate mainstream business loan underwriting;
- Helping entrepreneurs toward FUTURE separation of business and consumer credit; and
- Improving access to new vendors by demonstrated financial reliability.

By the time a business is mature and ready for larger business loans, those loans should be underwritten based on the business instead of its owner or owners' personal credit history.

[26] Business credit is separate from personal credit. In order to establish business credit, a company must: 1) incorporate or form an LLC (Limited Liability Company) to ensure that the business is seen as a separate business entity, 2) obtain a federal Employer Identification Number (EIN), 3) open a business bank account in the legal name of the business, and 4) set up a dedicated business phone line in the business name and list it. Business credit collects in part information that is accessible via the public record. It includes general information about the business, such as the business address, years in business and the industry, as well as information about the credit relationships the business has with its suppliers and vendors, and finally payment history on any current business loans and/or credit cards. There are also three primary business credit bureaus – Dun & Bradstreet (D&B), Equifax Business, and Experian Business. For more on business credit, see the resources listed in the appendix.

Credit Reports and Scores and Returning Citizens

There are a number of ways credit reports have particular significance for returning citizens. Although credit reports do not generally include arrests or criminal convictions, returning citizens may have unpaid consumer debts and obligations upon release. This may include mortgage or car notes, credit cards, student loans, child support, telecom and utility services.

Accessing Credit Reports While Incarcerated

During incarceration, it may be difficult for individuals to access their credit reports therefore making it challenging to sufficiently deal with any related issues until release.[27] This is often due to restrictions on online access to credit reports as well as challenges posed by verifying identity when requesting a report. However, it should not be impossible. A letter from a prison official verifying the inmate's current address can accompany a written credit report request to help with address verification. In addition, some financial and credit counseling programs may offer credit report access and review services inside prisons. Those who may be victims of identity theft may not know until they check their reports upon release. Reviewing and understanding what is on the report is critical.

However, one potential outcome of checking the credit report while in prison is that the prison address could later appear on the credit report. This information could then be viewable when a credit report is pulled by an employer or landlord. This is may be a concern for some individuals.

Many returning citizens who have been incarcerated for an extended period of time may have a stale credit history due to a lack of activity on their credit accounts (i.e. credit cards, car loans, etc.), leading ultimately to a loss of credit scores. Alternatively, the task of managing credit and other accounts may have been left to family members or friends who did not handle them well, leading to poor credit scores. Incarcerated individuals are also susceptible to identity theft, perpetrated in some cases by those close to them and in other cases by scammers (see Appendix 5 for more information about how to help clients deal with Identity Theft). Finally, many face overwhelming debt upon release, either due to accounts gone unpaid such as child support and/or new outstanding expenses like court and restitution fees and fines. Regardless of reporting status on the credit report, these are important for returning citizens to address. Whether returning citizens have no credit scores or experience damaged credit and accumulated debt, the challenges posed by these credit profiles can be overwhelming. This is particularly relevant where access to affordable credit is an essential building block for those hoping to start or expand a small business.

Of those returning citizens who fall into the no file (credit invisible or unscored) category given the lack of any or recent active trade lines, many may be great candidates for credit building by establishing a new line of credit—if they can afford it and if they can qualify for it. Even if your clients have poor credit scores and face what may be overwhelming debt loads, this does not automatically indicate that they are a bad fit for credit building—it just means they may not be ready—yet.

[27] For information about how incarcerated individuals can request their credit reports by mail, see Chapter 5, "Understanding credit reports and scores" in the CFPB Your Money, Your Goals Focus on Reentry toolkit.

Practitioner Considerations: Accessing and Assessing Returning Citizens' Credit Reports and Scores for Credit Building Readiness

Accessing Credit Reports

Returning citizens who request their own reports online through www.annualcreditreport.com or by mailing a letter to Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281 receive a consumer disclosure report. The Fair Credit Reporting Act (FCRA) requires each consumer credit bureau to make one free consumer disclosure report available to consumers upon request once a year. Consumers are also able to access free credit reports in other scenarios such as if they have been denied credit due to information on their report or if changes are made based on something they disputed. Consumer credit reports are relatively easy to read and include key information about things such as the date a negative item should fall off a credit report and the names of original creditors in cases where an account has gone to collections. This information makes it easier for consumers to monitor and dispute their reports.

Given some of the challenges returning citizens may face—or simply to supplement these reports—practitioners may wish to also access credit reports on behalf of their clients in the format of what is called a business division report. While business division reports do not generally include some of the key information about dates of first delinquency or original creditors, they are particularly helpful to organizations that may wish to pull multiple credit reports over the course of time with the appropriate written authorization from their clients in order to provide credit and financial counseling or coaching. Business division reports can also be accessed by those whose clients may not have social security numbers. This is helpful because such individuals will not be able to access their own consumer disclosure credit reports online without a Social Security Number (SSN), though they can ask for them to be delivered by mail. Two options for accessing business division reports include:

- CBA Access: Soft-pull credit reports through TransUnion and Experian available to eligible CBA Members (visit https://www.creditbuildersalliance.org/access)
- Credco CoreLogic: Tri-merge credit reports available to HUD Certified Credit Counseling Agencies (visit http://www.corelogic.com/default.aspx)

Assessing Credit Reports and Scores for Credit Building Readiness:

Beyond understanding the basics of how credit scores work and what is generally on a credit report, practitioners can use credit reports as a tool to better assess certain underlying financial issues. For example, the credit report may be used to evaluate credit building readiness and to understand which credit building products might best suit the returning citizen's needs at intake and over time. Following the Credit Strength Framework© described on pgs. 15-16 above, it is critical that returning citizens embarking on credit building as part of their entrepreneurial journey learn and understand how the system works and what would most benefit them personally in order to establish and improve their credit profiles and corresponding credit scores.

For organizations seeking to implement credit building programs, this involves providing appropriate and relevant credit education. A properly trained credit practitioner can help a returning citizen entrepreneur use their credit reports and scores to determine the sequencing of credit building steps, which can differ depending on the starting credit profile and then change over time as credit profiles transform.[28] For example, those with no credit history or score, or with very few lines of credit, may benefit greatly from taking out a loan specifically designed to help them build credit—likely resulting in a prime score within six months. Those who already have multiple lines of credit, however, may do better to reduce outstanding revolving debt or bring any active delinquent accounts current in order to improve their credit scores.

ASSESS AND INVENTORY

What is on the credit report?

- **Good Stuff?**
  Potential/Future good stuff?
- **Bad stuff?**
- **Incorrect information?**
- **What is NOT on the credit report?**

When reviewing the credit report with your client, help them understand all of the information that is included. It is often helpful to ask them to bring bills and correspondence from creditors as it can help to match up information with accounts.

After a thorough review of the credit report, you should be able to make an inventory of the all of the information, including items in good standing, accounts that could be brought into good standing, derogatory information such as collections accounts, and incorrect information that may need to be disputed. You also will want to help your clients understand accounts that do not usually appear on the credit report (i.e. rental or utility payments in good standing). See the next page for a quick reference for assessing credit building readiness.

[28] Around the country, there have been tests of one size fits-all credit building strategies, with mixed results – not because the strategy was weak, but because it was applied to everyone, and was only right for some. For instance, early on in their credit building work, Self-Help conducted a study of their Fresh Start Loan and found that while 70% of borrowers increased their credit score after taking out the loan that it was most impactful for those with starting scores below 640 or for those lacking a score. (www.self-help.org/who-we-are/resources/media-center/media-release/study-fresh-start-loan-improves-credit-scores) For borrowers with initial *high* credit scores (750 and above), 71% experienced a *decline* in credit score. Another strategy involves assessing credit builder loan necessity *prior* to making product recommendations, which is what nonprofit CBA member, Working Credit NFP does. To date, 88% of all participant who take a credit builder loan complete the product and 71% improve their score. Clients with higher credit scores are not deemed appropriate candidates for this product and are recommended other strategies and/or products.

	Ready for Credit Building!	May be Ready for Credit Building	Not Ready for Credit Building – Yet
Credit Profile Indicators	Credit Invisible: no credit history, report or score	■ Thin File Credit Report (fewer than 3 open trade lines) ■ No Score or Low Score	N/A
Credit Report/ Score Indicators	No positive or negative payment information	■ No delinquencies within the last 6 months and any older than that are few and far between ■ Outstanding debt balance below 30% of total revolving credit limit ■ No collections accounts added within last 6 months and/or paid ■ Has no MIX of trade lines	■ Delinquencies within the last 6 months and frequently if older than that ■ Outstanding debt balance greater than 30% of total revolving credit limit ■ Unpaid collections accounts added within last 6 months ■ Already has a MIX of trade lines
Other Financial Indicators	■ Sufficient income to meet expenses and basic needs ■ Pays all bills, including credit accounts and non-credit accounts on time ■ Can pay at least minimum amount due on any credit accounts ■ Have a bank account in good standing	■ Sufficient income to meet expenses and basic needs ■ Occasionally pays rent late or bills late ■ Can pay at least minimum amount due on any credit accounts ■ If client has debts in collection, the debts are old or small ■ Can open or working towards opening a bank account	■ In crisis mode ■ Strong tendency to miss rent & other bill payments ■ Struggling to make ends meet every month ■ Cannot open a bank account due to ChexSystems report[29] or related issues
Other Factors to Consider	■ Have all ID necessary[30] ■ Has organized, financial management/ monitoring system in place	■ Can get all ID issues resolved ■ Committed to implementing an organized financial management/ monitoring system	■ Struggling with ID issues ■ Unable to focus on organization necessary to manage/monitor finances ■ Client is experiencing identity theft and/or subject to external pressures that negatively impact ability to manage finances

[29] ChexSystems is a nationwide credit reporting agency and check verification service that keeps track of people who have misused a checking or savings account (i.e. bounced check. failure to pay a fee, etc.). Financial institutions (FIs) share information regarding consumer history and ChexSystems collects this information and creates risk scores and reports for FIs to evaluate potential customers. A negative ChexSystems notation does not automatically disqualify a consumer, but it is often necessary to address ChexSystem debts prior to gaining access to new credit. ChexSystem reports are free to pull. For more information, visit www.chexsystems.com.

[30] See "Documents and identification checklist" tool in the CFPB's YMYG Focus on Reentry guide. https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201703_YMYG_Focus-on-Reentry.pdf, pgs. 24-25.

Using Credit Reports and Scores for Credit Building Coaching and/or Counseling:

Knowledge about the credit system and clients' needs, along with access to the right credit products, are prerequisites to successful credit building. However, taking sound financial actions to sustain a good credit profile is contingent on a number of variables including 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 different experiences with credit specifically and finances and money generally. How returning citizens interact with credit may be shaped by what their parents or community modeled, emotional triggers that can influence behavior, and/or external circumstances such as incarceration.

In spite of some of these challenges faced by many returning citizens in building credit—indeed because of them—reviewing credit reports early on with clients can help them prepare and plan for their goals. This is particularly important because the timing when a credit report and score is pulled for an application review is critical. As returning citizens begin to build credit, credit reports reviewed at regular intervals offer a series of teachable moments that can motivate individuals to continue to improve financial behavior and achieve asset building goals.

Step Two Tools

Consider incorporating these helpful tools into helping clients access and review credit reports.

- CBA Credit Strength Roadmap© Know the Score Worksheet (*next page*- also available to download at www.cbatraininginstitute.org).
- Access free consumer credit reports at www.annualcreditreport.com.
- "Reviewing your credit report" worksheet from CFPB's Your Money Your Goals Toolkit: Focus on Reentry Companion Guide. Available at www.consumerfinance.gov/practitioner-resources/your-money-your-goals/companion-guides/

CBA Credit Strength Roadmap© Step 2: Know the Score

CREDIT REPORT SUMMARY		Next Steps	Notes
Score (& Type) *(e.g. FICO Classic '08, VantageScore 3.0)*			
Types of ACTIVE Trade Lines *(installment & revolving)*			
# of ACTIVE Trade Lines			
# of Delinquencies on Active Trade Lines in last 24 months? *(notably those in last 6 months)*			
Total Amount of Outstanding Debt on Active Trade Lines *(installment & revolving)*			
% Credit Available *(Credit Utilization Rate %)*			
# of Accounts in Collections *(including public records)*			
Total Amount of all other Outstanding Debt *(on non-Active accounts)*			
# of Inquiries in last 24 months			
Oldest Open Account (DATE)			

Assess the Credit Report:

Do any of the following appear on your credit report?

☐ 3 or more open, active credit accounts

☐ Recent late payments on current debt (last 3- 6 months)

☐ High Credit Utilization Ratio (over 30%)

☐ Recent (last 3 – months) accounts in collections that may lead to judgments or garnishments

☐ Public records reflecting money judgments or garnishments

Yes, I checked one or more boxes.

Go to Step Four: Deal with Debt.

Make sure that you are ready for credit building by taking a closer look at your outstanding current and derogatory debt. Once you have assessed your budget and debt situation, ***revisit Step Three: Get the Good Stuff Going***.

Consider whether there are credit building products that can help you better pay debt down/off or help you regain your financial/budget footing. Credit Building may make sense to proceed before or in tandem with dealing with debt, or in rare cases it may need to wait until after dealing with debt

Having assessed your debt situation more closely, you may be a good candidate for Credit Building now or in the near future!

No, none of these apply.

You have no credit or a "thin" file.
A thin file means that your credit report might not contain enough information to generate a credit score. A lender may decide that your lack of experience with credit means you are a risky borrower, similar to the way that an employer might be nervous about hiring someone without much experience in the work place.

Pros of having a thin file:
It is easier to build new credit than repair bad credit.

Cons of having a thin file:
It takes time to build a credit history.

Go to Step Three: Getting the Good Stuff Going.

You are a good candidate for Credit Building now!

Step 3: Get the Good Stuff Going

Overview

In this section, focus is on the "Access" element of credit building: helping your clients connect to appropriate credit building products. Remember, on-time payments regularly reported to a major credit bureau builds credit. At its core, credit building is financial capability in action: putting financial knowledge and skills to work by successfully opening and managing active lines of credit over time. Just like a matched savings product deposit, *every on-time monthly payment on a credit account reinforces positive financial habits!*

While not everyone needs to add a new credit product to improve their credit scores if they already have open trade lines reporting on their credit reports, sustained access to safe and affordable credit products is a key pillar of long-term credit building success. For those who have no credit histories or scores, it is essential to establishing those histories and scores. For those who have access to credit products now, it is critical that those products are safe, affordable and sustain their credit building success over time.

Unfortunately, access to good credit building products may be one of the single greatest challenges for returning citizens *and* entrepreneurs—having no or a poor credit score often precludes such access. As a result, many may turn to predatory products, leading to higher borrowing costs and perpetuating a cycle of over indebtedness that can dramatically decrease business success rates.

Non-traditional Strategies for Credit Building

Fortunately, building credit is no longer limited to the loans and credit cards available through mainstream financial institutions. Nonprofit lenders small and large are now innovating to create products designed for and available to people and small businesses that have been traditionally underserved.

Credit building products can serve many different people and purposes. In addition to building credit, they can help clients:

- ✓ eliminate dependence on predatory products;

DEFINITIONS:

SECURED CREDIT CARDS:
A secured card is a bank credit card backed by money that you deposit and keep in a bank account. That account serves as security for the card. If you do not pay your bill, your deposit is usually applied to cover that debt.

CREDIT-BUILDER LOAN:
Credit-builder loans are installment loans most commonly offered by credit unions and nonprofit financial institutions with the sole purpose of helping people build credit. These are usually small loans with 6 to 12 month terms. Instead of receiving money at the time the loan is made, borrower's loan funds are typically held in a savings account until the loan is repaid. Borrowers' payments are reported to at least one credit bureau.

RENT REPORTING FOR CREDIT BUILDING
Regular monthly reporting of tenant rent payments to at least one of the major consumer credit bureaus for inclusion on consumer credit reports. Ideally, rent reporting is paired with credit/financial coaching and/or asset building programs for the purpose of supporting renters in leveraging improved credit to achieve financial goals.

- ✓ manage monthly or unexpected expenses;
- ✓ reduce expensive debt;
- ✓ build savings and assets; or
- ✓ make a special purchase—like those needed to start or grow a small business!

Ideally, for returning citizen entrepreneurs their credit building and business credit opportunities align and they have access to a small business loan that reports to the credit bureaus. Unfortunately, this is not always possible for those whose credit profiles may need a jump-start. In such cases returning citizens might begin their credit building journeys by turning to non-traditional credit building products that include, but are not limited to:

- Credit Builder Loans
- Secured Credit Cards
- Social Loans
- Rent Reporting for Credit Building

Product Access and Entrepreneurship

For entrepreneurs generally, accessing credit to start and grow their small businesses is key to their ability to achieve scale and efficiencies, resulting in both improved profitability and growth in the value of the business asset and ultimately their own wealth creation. For those who are low-income, underserved, and oftentimes overlooked by the mainstream financial system, as many returning citizens are, access to such financing is a major hurtle. According to the Association for Enterprise Opportunity (AEO), major U.S. commercial banks turn down roughly one million applications for small business financing per year and 16 percent of these businesses do not even apply for credit for fear of denial.[31] Thankfully, there are non-profit microenterprise and small business lenders. These lenders typically focus on underserved entrepreneurs in their communities and generally offer more flexible underwriting to accommodate those with greater socio-economic challenges such as no or poor credit. While some make larger loans up to or around $250,000 and possibly more, many concentrate resources on smaller loans of under $50,000. Others still, seeing the need to help entrepreneurs become eligible for even small loans, offer some sort of "step up" product—often under $5,000—that allows the entrepreneur to build credit while working with the lender to develop other markers of business success.

Program Example: Business Center for New Americans (BCNA)'s Credit Enhancement Loan

BCNA, a CDFI and SBA Microlender based in New York helps create a pathway to self-sufficiency for immigrants, refugees, women, and others by providing loans, specialized training, technical assistance and personalized coaching. They offer a $500 Credit Enhancement Loan to their customers. The product is often a stepping-stone to accessing larger dollar small business loans and is often offered with an IDA. By pairing financial coaching with the credit builder product, clients learn to budget, manage monthly payments and save through the process.

[31] Association for Enterprise Opportunity. (February 2017). "The Tapestry of Black Business Ownership in America: Untapped Opportunities for Success." https://aeoworks.org/images/uploads/fact_sheets/AEO_Black_Owned_Business_Report_02_16_17_FOR_WEB.pdf.

Many, though not all, of these lenders are also Community Development Financial Institutions (CDFIs), certified by the U.S. Department of Treasury if they meet certain standards, including making credit available in underserved communities.

In an effort to connect more entrepreneurs, otherwise turned down by traditional financial institutions, to viable credit sources like CDFIs, AEO recently launched Project CUE (Connecting Underserved Entrepreneurs). This referral marketplace connects small businesses (that banks have turned down) with credit options and “path to capital” services.[32] This scalable, compliant referral marketplace enables financial institutions to serve customers in spite of a decline.

Other models for nonprofit lending include peer-lending circles, which have long been an informal way for family, friends and neighbors—particularly in immigrant communities—to help each other gain access to capital they otherwise could not get from traditional financial sources. Based in San Francisco, Mission Asset Fund (MAF) is a leader in the country in offering credit building lending circles to its own borrowers and providing back-end loan origination, servicing and technical support to over 50 nonprofit partners offering lending circles to their clients across the country.

Another example is Kiva Zip who offers crowdfunded loans up to $5,000 to businesses making a positive social impact in their communities. Kiva’s US-chapter has been around since 2011 and, like most non-profit lenders, tries to apply a more flexible criteria in determining a borrower’s creditworthiness. While Kiva Zip does report borrowers’ loans to a business credit bureau, it does not yet report to the consumer credit bureaus to be able to help the entrepreneur build his or her personal credit history and scores. As one group CBA interviewed noted, “An unintended consequence of programs that support returning citizens through entrepreneurship is that the importance of credit may not surface right away or masks poor credit as a barrier.” For example, entrepreneurs may seek capital from sources that do not consider credit in the underwriting process or that do not report loan repayments to the consumer credit bureaus, such as Kiva. As a result, those who use this type of resource only to establish and/or grow their small business, may not realize how the lack of credit will impact their ability to secure business financing long-term, until they are trying to secure larger amounts of capital, or capital from more traditional sources.

Federal agencies, such as the Small Business Administration (SBA), also offer loan programs, including a microloan program that offers up to $50,000 for small businesses, for which formerly incarcerated entrepreneurs are eligible.

Product Access for Returning Citizens

Returning citizen entrepreneurs may indeed qualify for some, if not many, of the loan types and programs available to other underserved cohorts. However, many may not qualify. Barriers to opening a bank account, including lack of accepted identification and negative information on specialty credit reports used by financial institutions can preclude credit options until they are resolved. For example, soon-to-be or just-released individuals may need help with getting or renewing identification documents.[33] Furthermore, specialty banking credit reports such as

[32] Association for Enterprise Opportunity. https://aeoworks.org/innovations/cue.

[33] The CFPB’s YMYG Focus on Reentry Guide offers a Reentry Tool: Documents and identification checklist to help your client identify sources for identification and potential issues they may have in securing them.

ChexSystems may also use public records, including criminal records, in developing reports for financial institutions.

Those with criminal records interested in opening a bank or credit union account should check and see if one or more of these checking account screening companies has compiled a report on them, and if their information is accurate.[34] Similar to background screening and credit reports, a consumer can review the report and file a dispute if they find mistakes. The CFPB has compiled a list of checking account screening companies that is available for download.[35]

In light of the particular challenges returning citizen entrepreneurs face, in 2016 the SBA expanded its microloan program to include small-business owners who are on probation or parole. Through a public-private partnership, the SBA and the W.K. Kellogg Foundation launched a $1.2 million three-year pilot called the Aspire Entrepreneurship Initiative (AEI) with St. Louis based non-profit, Justine PETERSEN in Chicago, Detroit and St. Louis. The pilot is built on the premise that by helping formerly incarcerated individuals start businesses and get entrepreneurship training and financing, returning citizens can improve their credit and reduce their risk of recidivism.

Anticipate Barriers for Specific Opportunities

Prior to recommending financial products to returning citizens, identify whether there are probation or parole conditions in place that forbid the opening of credit accounts. While uncommon, this may be a factor in particular with returning citizens who have committed white-collar crime.

Next, identify whether there are lender restrictions as it relates to criminal history. For instance, the SBA 912 form requires the disclosure of any current or past criminal history. The status and nature of the crime may lead to denial. If a lender offers SBA loans, you will need to understand requirements imposed by both parties. The SBA has a policy that it will not extend funding to those individuals or businesses with an owner or an associate convicted of crimes of “moral turpitude,” generally a violent felony or a crime involving dishonesty, such as embezzlement.

Finally, keeping in mind that lending stipulations will vary by financial intuition; some banks and/or credit unions may be more lenient. In the case of lenders who offer SBA loans, qualifications from both parties apply.

[34] Similar to background screening and credit reports, a consumer can review the report and file a dispute if they find mistakes. The CFPB has compiled a list of checking account screening companies at files.consumerfinance.gov/f/201604_cfpb_list-of-consumer-reporting-companies.pdf.
[35] Visit the CFPB’s report “List of consumer reporting companies” at files.consumerfinance.gov/f/201604_cfpb_list-of-consumer-reporting-companies.pdf.

Program Example: Justine PETERSEN's Aspire Program

While Justine PETERSEN had served returning citizens informally prior to Aspire, this partnership provided the opportunity to have a more intentional approach to the credit building and small business development work with returning citizens.

All participants in JP's Aspire Program partake in a combination of individual and group counseling and training. The program begins with an introductory session on credit and those interested proceed to meet one-on-one with a credit building counselor.

Participation in the competitive Aspire Program is relatively self-selective. There are rigorous guidelines and participation requires at least a 14-week commitment. Justine PETERSEN uses the "Ice House Entrepreneurship" curriculum, which helps to facilitate the entrepreneurship mindset.

Upon program completion, the program offers the opportunity to access *up to $50,000* in small business financing. However, most start with a much smaller amount, with credit building products—often a Save2Build loan or Life Loan, and/or a secured credit card. As many anticipate borrowing much more initially, it is necessary to explain the importance of first building the creditor/ borrower relationship—even if access to larger funds requires more time.

The success of the program is that it provides product access with education. Participants receive individual (credit) counseling as well as partake in group workshops and trainings. And the importance of credit is laid out at onset.

Practitioner Considerations: Identifying the Best Credit Strategy to Help Returning Citizens Connect with the Right Credit Products

For nonprofits offering loans to returning citizens or working with them to identify safe, affordable products in the community, CBA has developed a Credit Building Strategy and Product Rubric (and accompanying Companion Guide). This Rubric considers the diversity of organizations serving clients and offers placeholders for different credit building strategies and products with the ultimate objective of helping organizations make the best choices for connecting their clients to responsible products.

The Rubric is separated into sections based on strategy type. As each section is assessed for viability, CBA encourages practitioners to be cognizant of your organization's timeline for implementing a program to support returning citizen entrepreneurs with access to capital. Towards the end of the rubric, you can identify whether the product/strategy is a good fit now, later or not at all. See Appendices 6 and 7 for the full rubric and companion guide.

Product/Strategy Implementation Options			
Add to current portfolio	**Refer to a community lender**	**Partner with a back-end service provider**	**Partner with housing provider**
▪ Already offer lending products ▪ Manage rental properties	▪ Financial institutions in community already offer desired product options or willing to tweak a little to meet need ▪ Have or can establish referral process	▪ Desire to hold relationship with clients ▪ Ability to collaborate on product development/criteria ▪ Funds to cover service provision	▪ Majority of clients are renters from a particular property/landlord ▪ Collaborative relationship with property/landlord

No matter what the decision, CBA defines responsible products as those that are:

- Relevant and accessible to your clients;
- Flexible and affordable; and
- Offer potential for graduation.

For those not offering and reporting loans directly, consider the following options for returning citizen entrepreneur clients:

Banks/Credit Unions, particularly those that are CDFIs may offer small-dollar secured and unsecured products. If your client already has a relationship with a financial institution, this may be a good place to start.

Non-profit/community lenders (including CBA members and CDFIs) in your area may have programs specifically designed for underserved communities or those with challenged credit.

Licensed & reputable online lenders are becoming more prolific and may offer options at reasonable rates and with more responsible policies and procedures than online payday lenders.

The importance of a graduation product

Last but not least, it is critical to remember that credit building does not end with the last payment of the first loan. Without continuing to build active credit, an established or improved credit score may eventually disappear. Paying off an installment loan for example should be celebrated with the addition of a new active line and continued support to ensure that clients are successful with their ongoing credit building ventures. Graduation product options could include:

- Larger, longer-term Installment Loans
- Lines of Credit
- Revolving Credit Cards - Secured or Unsecured

Not only will a graduation product maintain a credit score, it may also facilitate a decrease in monthly expenses. People with no or poor credit pay higher interest and fees on mortgages, home insurance, car loans, and college financing, causing the flip side of income inequality—"expense inequality," which is the sustained over-payment of interest and fees on financial products. Expense inequality inhibits economic mobility and contributes to the growing wealth divide in the United States today, with particular implications for people of color. By fostering the importance of continued strong credit, expense inequality can be reduced.

Organizational Considerations:

Understand the role your organization is perceived to have in the community. Recognize that if you become a lender, there will be a shift in the power dynamic between you and the client. Be prepared to manage client expectations accordingly, especially as it relates to funding.

There is a debate within the industry and among consumer advocates in particular, about the potential consequences of some non-traditional business loans available in the market for entrepreneurs today, including many online options that promise quick turnaround for those with no or poor credit, but come with hefty fees, interest and terms. To that end, two industry initiatives, both entirely voluntary, have emerged to help protect entrepreneurs seeking small business financing. The first is a network of for-profit and nonprofit lenders, brokers and small business advocates who formed the Responsible Business Lending Coalition (RBLC), which created The Small Business Borrowers' Bill of Rights (SBBR). The SBBR identifies six fundamental rights that all small business owners seeking financing deserve along with the specific practices that responsible lenders and brokers must abide by in order to uphold and protect those rights.

The second is SMART Box™, which stands for "Straightforward Metrics Around Rate and Total Cost". Developed by three large online small business lending platforms and a national non-profit microfinance trade association, the Smart Box™ is a comparison tool intended to foster common verbiage and enhanced small business credit disclosure standards, including clear and consistent pricing metrics, metric calculations, and metric explanations to help small businesses understand and assess the costs of their small business finance options.

Encouraging entrepreneurs to be discerning about their options is critical. Consider introducing the SMART Box™ Capital Comparison Tool at the onset of any conversations regarding credit as well as sharing a copy of the Small Business Borrowers' Bill of Rights with the clients for their individual review or hold a workshop to discuss in a group setting.

Step Three Tool

While the Rubric for practitioners described in detail in Appendix 7 is designed for nonprofits to help identify good credit building product and strategy options to employ with their clients, the following tool is meant to help an individual assess, compare and contrast his or her actual options.

CBA Credit Strength Roadmap© Get the Good Stuff Going Worksheet
(*next page* - also available to download at www.cbatraininginstitute.org).

CBA Credit Strength Roadmap©
Step 3: Get the Good Stuff Going

Review your goals, credit report assessment, and budget to determine what type of credit product(s) you could benefit from and why:

1. **My goal is to:**

____

____

2. **My credit profile is:**

☐ Credit Invisible
☐ Thin File
☐ Thick(er) File

It may be helpful to consider:

☐ Do I have less than 3 ACTIVE trades?
☐ Are there any current delinquencies & how quickly can they be resolved?
☐ Are there collections accounts/public records, what are their statuses, how old are they and if unpaid, how likely can I settle them in the near future?
☐ Is there a MIX of trade lines; &
☐ What is the client's revolving credit utilization ratio?
☐ Have I been applying for a lot of credit recently?
☐ How old is my oldest OPEN account?

3. **I would most benefit from the following credit product(s) (check all that apply):**

☐ Installment

❑ Pure Credit Builder Loan
❑ Personal or Signature Loan
❑ Consolidation Loan
❑ Other:__________________

☐ Revolving

❑ Secured Credit Card
❑ Unsecured Credit Card

It may be helpful to consider:

❑ Opportunity to report rental payments
❑ A maximum credit limit
❑ A maximum interest rate/APR
❑ A maximum monthly payment amount
❑ Other:__________________________
❑ Other:__________________________

4. **This will help me because:**

____

Example: With a signature or consolidation loan I can afford to pay off all my active credit card debt and use the monthly consolidation loan payments to build credit and save for a secured credit card deposit.

5. **The maximum amount I can afford to pay on credit monthly is:** ___________________

6. **Compare products using the chart on the next page**. Unfortunately, some of this information may not be easily available online so you may wish to help your client contact creditors directly if necessary in order to get the information they need to help their clients make good product selection decisions.

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Questions to Consider*	Product #1	Product #2	Product #3
Basic Information			
Creditor Name			
Name of Product			
Type of Product (e.g. installment/revolving)			
Eligibility Requirements			
ID Requirements			
$$ Deposit required			
Minimum credit score required			
Accessibility			
Do the employees speak my language?			
Can I transact online?			
Is there a grace period?			
Affordability & Other Terms/Requirements			
Interest rate (variable, fixed?)			
Account opening fees			
Annual fees			
Estimated monthly payment			
Late fees			
Term (6 mo., 1 yr, revolving)			
Minimum/max credit limit			
Prepayment penalties			
Flexibility			
Payment due date			
Statement options (email, text, mail, etc.)			
Graduation Options			
Are there other features that can help me graduate to another product?			
Does this creditor have other products I can use that will be of value to me?			
Other			

**These are just sample questions. Some may or may not apply depending on the product. You may have additional questions!*

Step 4: Deal with Debt

Overview

It is impossible to talk about credit without mentioning debt. In many cases debt management is a critical piece of the financial puzzle, and credit building can often incentivize debt reduction, if not elimination.

While important and essential to financial stability, debt management ALONE is not a credit building strategy.

The intersection of debt management and credit building

Even when a returning citizen is not actively working on building credit, he or she can still consider how decisions regarding outstanding debt might affect future credit building goals, and try to make decisions that will set him or her up to be ready to build credit one day.

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

- **Tackle low-hanging fruit:** Dispute errors and bring recently delinquent accounts current. Pay off small collection accounts if possible.
- **Prioritize debt payments based on credit and financial stability:** Consider the financial and other consequences of outstanding debt in line with household budget priorities. Understand how different debts and collections are impacting the credit report.
- **Weigh the costs and benefits of paying debt and collections:** Consider amounts of debt, interest rates, and collection practices of creditors.
- **Navigate Competing Priorities:** Balance short-terms and long-term credit goals, alongside immediate financial needs.

Dealing with Debt and Entrepreneurship

Entrepreneurs seeking financing often face a stark choice in seeking capital to start or grow their small businesses. The problem is taking on debt—especially if it requires that they leverage personal credit products such as credit cards—can be a dangerous albatross for both the business and the entrepreneur personally, particularly if the principal and interest payments exceed the business' cash flow. Affordable debt well managed, however, can benefit a small business. For example, it can be used as a cash flow backup in the form of a revolving line of credit. Additionally, at this time, interest payments are considered deductible business expenses.

Dealing with Debt with Returning Citizens

Depending on the stage of re-entry (i.e. how recent the returning citizen was released), clients may be struggling with different types of debt issues requiring a personalized approach to manage. In addition to any debts (i.e. credit card, collections, housing, etc.) accrued pre-incarceration, returning citizens may also owe court-ordered debts (i.e. fees, fines, and/or restitution upon release related to arrest, sentencing, incarceration, or supervision) which may or may not appear on the credit report. Accessing the immediate impact of nonpayment on all accounts will be critical when developing a repayment plan.

Of the groups interviewed for this toolkit, the most commonly cited debts faced included medical collections, telecom bills, and child support.

Court-Ordered Debt Loads

Court-ordered debts, or criminal justice debts, are common among recently released returning citizens. They are typically grouped into three categories—fees, fines and restitution that arise as a result of arrest, conviction, and incarceration. Repayment (or lack thereof) on restitution or supervisory debts can affect the term of the supervision and/or whether an individual is re-incarcerated. Court-ordered debts vary by state and may include any of the following:

- Pre-conviction fees: Jury fees, jail fee for pretrial incarceration
- Sentencing fees: Fines, restitution, court administrative costs
- Incarceration fees: Housing fees for room and board while in prison
- Probation and parole supervision fees: Drug testing fees
- Mandatory treatment fees: Drug therapy fees

There have been cases of individuals having an initial $33,000 in legal financial obligations to pay, but after 13 years in prison, interest has brought the debt to over $72,000. Alexes Harris, author of *A Pound of Flesh: Monetary Sanctions for the Poor*, has found, for example, that some formerly incarcerated individuals may never be able to pay off their court-order debts.[36]

Chapter four of the CFPB's *Your Money Your Goals Focus on Reentry Companion Guide*, *Dealing with Debt*, illustrates the range of debts in more detail. To learn about outstanding court-ordered debt, the returning citizen should contact the court(s) where convicted, their attorney, probation officer and/or other supervision personnel. The court can provide details about the current owner of the debt.

Debt that does not arise out of cases where the government seeks to collect its own debt or where the debt is restitutionary or punitive in nature, such as where private collectors seek to collect user fees on behalf of the government, may fall under the protection of the Fair Debt Collections Practices Act (FDCPA). Practitioners may wish to consider whether their clients may benefit from

[36] Semuels, A. (July 5, 2016). "The Fines and Fees That Keep Former Prisoners Poor." The Atlantic. Retrieved August 16, 2017. https://www.theatlantic.com/business/archive/2016/07/the-cost-of-monetary-sanctions-for-prisoners/489026/.

the FDCPA. This could provide returning citizens with important protections against harassment or deceptive practices used by unscrupulous debt collectors.[37]

Child Support

Studies find that incarcerated parents leave prison with an average of $20,000 or more in unpaid child support, with no means to pay upon release.[38] Incarceration can result in the accumulation of high levels of child support debt because parents have little to no ability to earn income while they are incarcerated and reduced ability to pay off the debt when released. This accumulated child support debt is rarely paid. Research finds that uncollectible debt substantially reduces noncustodial parent earnings, which in turn reduces child support payments to their families. On the other hand, reducing uncollectible debt can increase payments.[39]

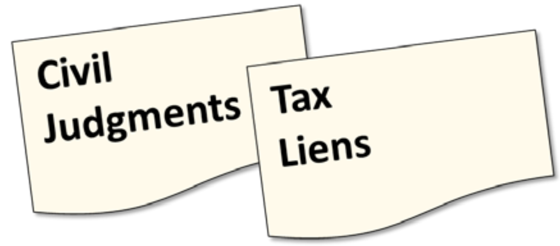
Incarcerated individuals may be eligible for a modification of their child support order.[40] Clients may wish to seek help from Legal Aid to navigate these issues, which are mostly controlled by state, rather than federal law.[41]

NEW UPDATES: National Consumer Assistance Plan (NCAP)

In order to further the goal of protecting consumers, TransUnion, Experian and Equifax have embarked on a number of updates that may directly impact the credit profiles of returning citizens.

[37] National Consumer Law Center. (September 2016) "Confronting Criminal Justice Debt: A Guide for Litigation, National Consumer Law Center." http:// cjpp.law.harvard.edu/assets/CJD-LitigationGuide.pdf.
[38] For more see, U.S. Department of Health and Human Services, Office of Child Support Enforcement (2006). "Incarceration, Reentry, and Child Support Issues: National and State Research Overview".; Ovwigho, P. C., Saunders, C. and Born, C. (July 2005). "The Intersection of Incarceration and Child Support: A Snapshot of Maryland's Caseload".; Griswold, E. and Pearson, J. (June 2003). "Twelve Reasons for Collaboration between Departments of Correction and Child Support Enforcement Agencies". Corrections Today.
[39] For further information on debt, see Heinrich, C.J., Burkhardt, B. B., and Shager, H. M. (March 2010). "Reducing Child Support Debt and Its Consequences: Can Forgiveness Benefit All?" available at: http://www.irp.wisc.edu/research/childsup/cspolicy/pdfs/2007-09/FamiliesForward_3_19_10.pdf; Cancian, M., Heinrich, C., and Chung, Y. (July 2009). "Does Debt Discourage Employment and Payment of Child Support?" available at: https://www.irp.wisc.edu/publications/dps/pdfs/dp136609.pdf; and Holzer, H., Offner, P., and Sorensen, E. (April 2004). "Declining Employment Among Young Black Less-Educated Men: The Role of Incarceration and Child Support" available at: https://www.urban.org/research/publication/declining-employment-among-young-black-less-educated-men.
[40] See the Department of Health and Human Services' (HHS) Changing a Child Support Order guide acf.hhs.gov/sites/default/files/programs/css/changing_a_child_support_order.pdf for more information about child support, incarceration, and policies on modifying a child support order, including state specific information. Also, see HHS's Office of Child Support Enforcement (OCSE) website for information, including rules related to federal tax refund offset for child support.
[41] From YMYG Reentry. To find a legal aid organization near you, visit consumerfinance.gov/askcfpb/1549 and lsc.gov/what-legal-aid/find-legal-aid.

The most relevant NCAP updates include:



- Beginning July 1, 2017, the reporting of civil judgments and tax liens can no longer appear on consumer's credit reports if the following standards remain unmet:
  - Courthouse records are updated to include new records or changes with a frequency of 90 days.
  - Accounts include minimum consumer personal identifying information (PII), such as name, address, and date of birth or social security number.[42]

  While the impact from these updates remains unseen, consumers will likely need to identify other opportunities for satisfying public record debts long term, as they may still carry impact such as wage garnishment and/or limit access to housing. It will be necessary to identify public record search engines at a local level (county or state specific) to ensure that all debts are identified and paid off, as appropriate.
- The credit bureaus must institute a 180-day waiting period before they report medical collections to give consumers time to deal with any missed/late payments and insurers the time to catch up on payments. In addition, debt collectors are required to report a deletion for medical accounts that have been or are being paid through insurance. This is one area where the recommendations appear to also count retroactively. With nearly one in five credit reports containing at least one medical debt collection item, these data often provide little insight into a consumer's actual creditworthiness. Medical debt differs from other types of consumer debt in two major ways:
  - First, it often arises from services that are involuntary, unplanned, unpredictable, and for which prices are rarely provided.
  - Second, it can result from disputes or delays in payment related to inefficient insurance-claims systems. In spite of this, unfortunately, medical debt is currently attached to credit reports as soon as medical providers forward the bill to collection agencies.
- Debt collectors can no longer report debt that did not result from a contract or agreement to pay—in other words library fines, parking tickets, etc.—as long as they do not result in a civil judgment. We do not have any confirmation that this will be retroactive, so it may not remove any previously reported non-contractual debt, but it will prevent anything new from appearing.
- Consumers who dispute items on their credit report successfully are now also entitled to an additional free credit report in order to make sure that the inaccuracy was fixed.
- Third-party debt collectors now must report the name of the original creditor (which can be vital information for consumers in order to identify debts and/or dispute them).

[42] For more information see http://s3.amazonaws.com/rdcms-cdia/files/production/public/PDFs/FNL.3.13.CDIA_Media_Statement_Liens.pdf.

Practitioner Considerations: Helping Returning Citizens Deal with Debt with a Credit Building Lens

One important consideration before addressing debt through a credit building lens is to understand how long debt will stay on credit reports. Most negative accounts may report on credit reports up to seven (7) years and 180 days from the date of first delinquency. The date of first delinquency is defined as the date the account was first thirty (30) days or more past due leading to the current derogatory status. It is distinct from the statute of limitations, the date of last activity and the date that the account is turned over to a collection agency.

Collections accounts often do not appear on the credit report until six months after they become delinquent (if it is not an account that is already being reported). Delinquent and charged-off accounts have the greatest impact on a credit score within the first 24 months after they appear on the credit report.

Open Accounts in Good Standing	Indefinitely
Closed Accounts in Good Standing	10 yrs from date of closure
Late or missed payments	7 yrs from date of 1st delinquency
Charge Off/Collections	7 yrs from date of 1st delinquency
Bankruptcy	10 (Ch. 7) or 7 (Ch. 13) yrs from date of entry for relief
Civil Judgment	7 yrs from date of entry
Foreclosure	7 yrs
Tax Liens	7 yrs from paid date or no limit if unpaid
Inquiries	2 yrs

Strategy: Tackle Low-Hanging Fruit

Addressing the low-hanging fruit is often a good approach to addressing debt issues, while working in concert with credit building goals:

- Dispute errors and inaccuracies.

  (1 in 4 reports contain errors!)
- Get 30 or 60-day delinquent accounts back on track.
- Consider student loan rehabilitation programs or income-driven repayment.
- Pay down/off active revolving debt but keep accounts open and active.

Strategy: Prioritize Debt Obligations

When a returning citizen has a lot of outstanding debts and derogatory accounts and limited resources, it can be difficult to make decisions about which debts should be prioritized. For example, when debt collectors are putting pressure on the consumer with phone calls and collection notices, it is tempting to prioritize those particular debts. You can help your clients to take a step back and think about how to set these priorities with financial stability and credit building goals at the forefront. Consider the following strategies:

- Keep current account current and prevent active delinquent accounts from turning into collections or judgments.
- Consider the original delinquency date for derogatory accounts, and when it will come off of the report.
- Take into account the size of debts and interest rate percentages.

Strategy: Cost/Benefit Analysis

Factor in the potential consequences of addressing debt and how it will affect the credit report/score:

- Weigh the difference between settling collections accounts (saving $$) and paying them in full (better for some credit scores).
- New activity on old debts can alert dormant creditors that consumer is now paying debts.
- Benefit: paying down revolving debt will positively impact credit utilization ratios.

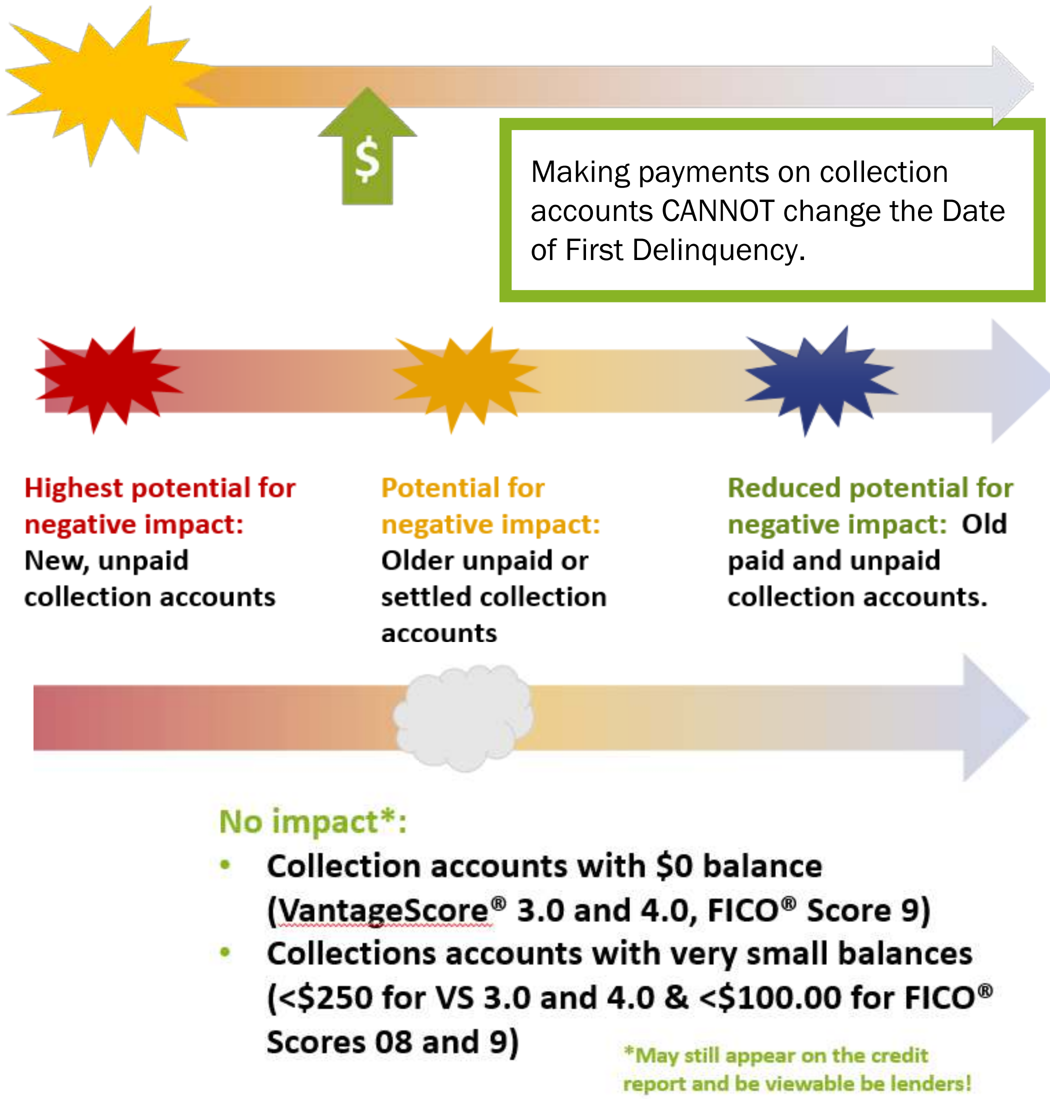
Strategy: Navigate Competing Priorities

- Do not open new credit accounts, if you can bring older accounts current instead.
- Do not close older open revolving accounts, if possible.
- Do not ignore collection accounts to focus only on credit building. If the statute of limitations has not expired, they can still attempt to collect from you. It is important to remember that beyond credit building implications, the lingering effects of not paying collections accounts can be harmful to an entrepreneur's ability to start or grow a small business. As part of underwriting, lenders often look at more than credit scores, for example, the impact of outstanding debt on cash flow may also be reviewed.

Collections and Credit Building

It is important to understand the ways that collection accounts do (and do not) affect credit reports and credit scores. First, collections have the most significant negative impact on a score when first reported—then they age, and eventually fall off.

Impact of Collection Accounts on the Credit Score



Step Four Tools

Consider using the following tools to support your clients in addressing debt issues.

- CBA Credit Strength Roadmap© Deal with Debt Worksheet (*next page*- also available to download at www.cbatraininginstitute.org).
- "Tracking your debt worksheet" and "Ways to help with your debt checklist" from CFPB's Your Money Your Goals Toolkit: Focus on Reentry Companion Guide. Available at www.consumerfinance.gov/practitioner-resources/your-money-your-goals/companion-guides/

CBA Credit Strength Roadmap©

Step 4: Deal with Debt

1. Dispute: Address Errors and Identity Theft

Name of account/creditor	Bureau	Reason for Dispute	Date of letter	Date to check back

2. Budget and Save to Reduce or Pay Off Debt

How much can I afford to pay today towards debt? ____________________

How much can I begin to save each month towards debt? ______________

Are there other sources of funds available or coming to apply to debt (e.g. EITC)?

Source of funds	Anticipated amount	Amount to be allocated toward debt	Anticipated timing

3. Prioritize Current Debt Payments

☐ Pay highest interest accounts first or

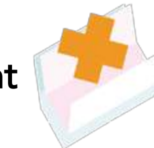
☐ Pay smallest balance accounts first.

☐ Consider keeping older paid off accounts open if possible to maintain credit history longevity.

☐ Other____

Name of account/creditor	Goal: Amount to reduce/eliminate	Amount to allocate (monthly or lump sum(s))	Estimated Date(s)

4. Reduce or Pay Off Accounts in Collections (prioritize accounts with high risk of judgment or garnishment first)



Debt/Creditor:	Amount to Settle For:	Settlement Agreement Received	Date Paid	Confirmation received of debt paid
1.	$			
2.	$			
3.	$			
4.	$			
5.	$			

Notes

Step 5: Make Credit Building Count

Overview

Credit building does not happen overnight; it takes time and dedication. And, most importantly, it is not an end in and of itself. Credit building is important because it helps individuals and families achieve their financial and other goals. With the wide range of external factors affecting returning citizens' goals, it is likely that your program will face variance in impact unless participants are required to meet minimum eligibility requirements at the onset.

Credit scores are highly useful, objective and simple metrics used by lenders and businesses to offer mainstream credit. But, they are not the only metric and perhaps more importantly, credit score change alone does not equate to financial access or stability unless it is leveraged to help clients to:

- Obtain affordable financial products
- Reduce (refinance) interest and fees
- Lower insurance premiums
- Eliminate/reduce security deposits
- Obtain desired rental housing
- Start or grow a small business

More and more nonprofits recognize that their clients are more than just credit scores, and that focusing on scores alone—particularly in the reentry context when returning citizens may be dealing with monumental external factors—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.

Recommended Indicators of Credit Strength

Because credit strength can mean different things to different people, comparing credit scores or even average change in credit scores may not be sufficient for tracking how returning citizens are able to use their credit history to move forward in their journey towards small business development. To bring some consistent credit building metrics to the field, CBA's Credit Strength Framework© (as described on Page 15) is a good template to follow. In order to measure clients' progress, you are prompted to consider answering the following questions at intake and at 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 also recognizes that the questions for each element in the chart on the next page may not meet the larger objectives of any given particular program. They are not meant to be exclusive or exhaustive. However, most suggestions are considered important to the extent that they reflect the ability of clients to establish and sustain a good credit profile over time and they enhance client and organizational outcomes.

Indicators of Credit Strength

	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?

Measuring Credit Strength and Entrepreneurship

Why is credit building important to entrepreneurs? The Asset Building through Credit pilot (a collaborative program facilitated by FIELD at the Aspen Institute with six microenterprise organizations, a financial institution and the Citi Foundation) was designed to assess whether a secured credit card teamed with financial coaching could create positive credit building behaviors and be a useful tool for assisting clients toward their business development goals. Through the pilot FIELD found that the personal and business finances of entrepreneurs are often linked closely, with many small businesses leveraging their owners' consumer credit profiles to survive.[43] Promoting the use of secured credit cards combined with counseling on how to manage the card well, resulted in 42 percent of participants moving from a subprime to a prime credit score within 12 months.[44]

It may be difficult to differentiate consumer credit issues from business credit ones when for many entrepreneurs the two intersect and are both important to the trajectory of an entrepreneur's path to sustainable business ownership. However, as the business grows and becomes more established, it is expected that those loans would be underwritten based on the business' credit history instead of the individual entrepreneur's.

Exposure to the criminal justice system can cause financial and emotional strain for the individual and their family.

Families of returning citizens often bear the costs of their incarceration and reentry. Many families not only lose an income due to an individual's incarceration, but also support the individual while they are behind bars. The costs of phone calls and commissary packages are often inflated, and visits may be costly (especially if the prison is far away). The loss of income and increased expenses can make it difficult for family members to meet basic needs. When an individual is released from prison, they often depend on family for support. A study found that over a quarter of formerly incarcerated individuals cited family as the most important factor preventing recidivism.[45] Additionally, dealing with the criminal justice system can cause trauma. A survey of formerly incarcerated individuals and their families found that all family members frequently reported Post-Traumatic Stress Disorder, nightmares, hopelessness, depression, and anxiety as a result of their own incarceration or that of a family member's.[46]

[43] Gomez, L. & Alisultanov, I. et al. (2014). "Asset Building through Credit Pilot: Client Gains in Credit Scores and Financial Capability." FIELD at the Aspen Institute.
[44] The Asset Building through Credit Pilot Program was a collaborative program facilitated by FIELD at the Aspen Institute with six microenterprise organizations, a financial institution and the Citi Foundation, designed to assess whether a secured credit card teamed with financial coaching could create positive credit building behaviors and be a useful tool for assisting clients to progress toward their business development goals. See https://assets.aspeninstitute.org/content/uploads/2014/02/FIELD-ABC-ClientGains.pdf.
[45] The Urban Institute. (May 2008). "The Challenges of Reentry: Facts and Figures." LIWF Fact Sheet. https://www.urban.org/research/publication/challenges-prisoner-reentry-facts-and-figures.
[46] DeVuono-Powell et al., 2015.

Measuring Credit Strength with Returning Citizens: A Profile in Action

When Justine PETERSEN's (JP) credit building counselor first sat down with Louis Erby Jr. as the first step of the Aspire Entrepreneurship Initiative (AEI), she reviewed his credit report, discussed what contributed to his low credit score and strategized ways to raise that score to get him closer to his goal of opening a food truck business.

JP made a small consumer loan—a Life Loan—to Erby so he could pay off an old civil judgment and a predatory loan with an extremely high interest rate.

JP's credit building counselor also helped Erby negotiate and settle all of his other debt and open a secured credit card. Not only did the Life Loan and secured credit card create two active trade lines on his credit report, they also yielded a history of on-time payments, resulting in a higher credit score. The extra money Erby was paying each month on the predatory loan is now being saved toward his purchase of a food truck. Coupled with the business fundamentals and entrepreneurial mindset he developed during the 14-week entrepreneurship training, Erby is refining his business plan to offer healthy Asian food in the St. Louis city market.

At JP, they know the power and opportunity that small-business ownership and credit building offer to low-income individuals. And, for those like Erby who have been incarcerated and struggle to access good jobs, small-business ownership can be incredibly important in stabilizing finances and providing opportunities that help keep formerly incarcerated individuals from returning to prison.

Practitioner Considerations: Acknowledging All Successes, Regardless of Size

There is no one metric that can measure credit success because ultimately it can mean many things to many different people depending on what goals they hope to achieve.

While your program may define success in any number of ways, consider including qualitative metrics to allow your clients to self-define what success has meant for them. For example:

- Make sure to help returning citizen clients not only celebrate their successes (no matter how small) but also benefit from that success. Small victories are stepping-stones towards larger ones and are helpful in building momentum towards achieving larger goals.
- Emphasize the importance of credit scores, but encourage clients to understand their credit report more holistically as a component of their personal financial stability and business development.
- Recognize the connection between credit and self-worth is strong. Once the importance of a strong credit score is apparent, many returning citizens will view having a good credit

> Of course every contract has benchmarks and outcomes that have to be hit – but for real, for real, I measure the outcome when people come back smiling. When they finally get their first job after searching for seven months for nothing. Access is bite sized chunks for where their next best step is.
>
> –Mon Valley Initiative

score as a source of pride, as it offers a way for them to represent themselves in a positive way apart from their criminal history. Be mindful that those in the rebuilding stages never feel ashamed by continually acknowledging their progress.
- Continually help clients translate credit score improvements into actionable steps that further their goals, such as refinancing higher-cost debt, securing property for business inventory, or applying for that small business loan.

As JP has done with Erby's story above, highlight these successes so that others (inside and out) of the program can see that they too can succeed.

Step Five Tool

CREDIT BUILDERS TOOLKIT®

Consider using the following tools to support your clients to measure, leverage and celebrate credit building success!

CBA Credit Strength Roadmap© Make Credit Building Count Worksheet (*next page*- also available to download at www.cbatraininginstitute.org).

Step 5: Make Credit Building Count

Baseline and follow up questions

	Do you…	Yes	No
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?		

What areas can you work on to improve your credit strength? What kind of support do you need to do so?

Track Credit Score Progress

Credit Score Improvement	Experian		TransUnion		Equifax	
Score Name						
What was my previous score/range (if any)?						
Date pulled						
What is my current score/range?						
Date pulled						
How much did it change?						

What major steps did I take to improve my credit scores and credit report?

1.
2.
3.

How can I leverage these improvements?

Consider Options/Opportunities*	Next Steps
Ask creditors to lower interest rates on my current credit products	
Ask landlord or utility company refund all or a portion of security deposit?	
Ask car or homeowners insurance company lower my premium	
Apply for a job	
Apply for a bank account	
Apply for another credit product	
Other:	
Other:	
Other:	

What additional steps do I need/want to take to continue to improve my credit scores and credit report?

1.
2.
3.

Conclusion

As we know, incarceration affects the individual, the family unit, and the community. Often hurting those families with dire financial situations the most— the poorest of the poor. Mass incarceration is not the solution to the "drug war," to lowering crime, or for building safer communities. Rather, it has been a war on those living in poverty. Over the next decades, if current numbers remain on track at least 650,000 will complete their sentencing terms and reintegrate into society.[47] As a *society,* we have the responsibility to identify better ways to support returning citizens in their assimilation, if we hope to reduce the high risk of recidivism that currently exists.

In order for this transition to be successful, there must be a shift, a narrative change and as Glenn Martin, founder of the group JustLeadershipUSA put it, "Those closest to the problem, are closest to the solution." We need to incorporate the voices of those formerly incarcerated, advocate for them, and give them a voice, if we hope to make any change. The mass incarceration era is ending and there are already movements, such as "decarceration" that have gained traction. Some academics have suggested "smart decarceration," an initiative that aims to build social capacity to reduce incarceration rates in ways that are effective, sustainable, and socially just as a solution.[48] There is room at the table for all disciplines to get involved in supporting solutions.

The need for credit and entrepreneurship education and opportunities for returning citizens has been reiterated over and over by those interviewed in this toolkit. While we recognize that supporting returning citizens with credit education and entrepreneurship post-release is only one piece of a larger puzzle, we must come together to provide opportunities to returning citizens if we hope to reform the system. We hope that this toolkit has at least planted a seed, in the mind of those who had read it, on the importance of integrating financial-based counseling into the reentry process. As the writer and social critic, James Baldwin, once wrote, "Not everything that is faced can be changed, but nothing can be changed until it is faced." Structure alone cannot change, but rather there must be an ethos to do justice. So, the ball is in our court!

[47] United States Department of Justice. https://www.justice.gov/archive/fbci/progmenu_reentry.html.
[48] Smart Decarceration Initiative defines the following as outcomes to achieve smart decarceration: 1) substantially reducing the incarcerated population in jails and prisons, 2) redressing the existing social disparities among the incarcerated, and 3) maximizing public safety and well-being.

Appendix

Appendix 1: Who is Credit Builders Alliance?

Credit Builders Alliance (CBA) serves as a unique and vital bridge between our member organizations and the major credit reporting agencies (CRAs). Through this support, CBA helps people and small businesses who are outside the financial mainstream build credit to achieve their goals and enjoy financial security. Our core services, CBA Reporter and CBA Access, provide mission driven organizations with both the ability and critical technical assistance to report loan data to the CRAs and to pull low-cost client credit reports for the purposes of financial education, outcome tracking and underwriting. In addition to these core services—which are essential to helping individuals and families build credit histories and scores—CBA offers practitioners hands-on credit building training and consulting services, innovative tools, and forums for sharing with and learning from each other.

Our mission:

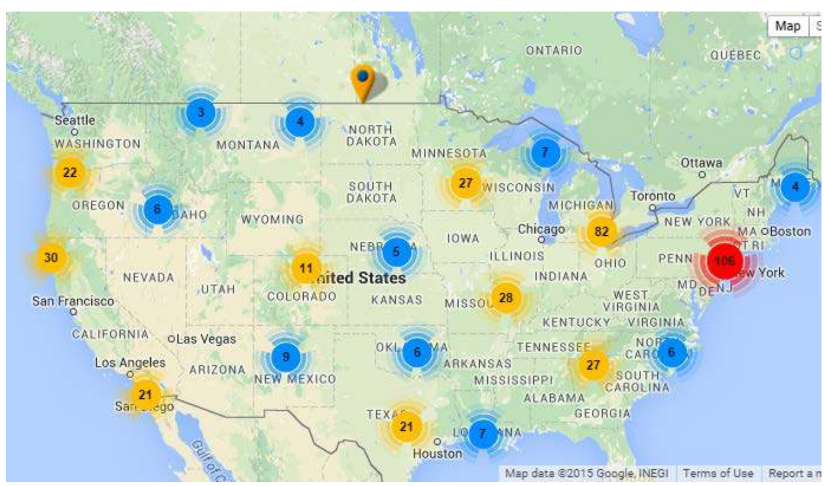
To help organizations move people from poverty to prosperity through Credit Building.

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.

CBA Credit Builder Community



Our membership is comprised of nonprofit Community Development Financial Institution (CDFI) loan funds, microenterprise development organizations (MDOs), and small credit unions as well as multiservice/integrated services organizations such as community action agencies, affordable housing organizations, Local Initiatives Support Corporation (LISC) Economic Opportunity Centers, and local Catholic Charities and United Way affiliates, among many others. Through our members, CBA services touch hundreds of thousands of clients in urban, suburban, rural, and tribal areas through programming tailored to the specific needs and assets of different populations in their local communities. In order to ensure its efforts remain grounded in the work members do every day, 50 percent of CBA's Board seats are held by practitioners in the credit building field.

Appendix 2: Special Thanks to Defy Ventures

Credit Builders Alliance would like to extend a special thanks to Defy Ventures for their work in supporting the development of this Toolkit. Defy Ventures transforms the lives of business leaders and people with criminal histories through their collaboration through their collaboration along the entrepreneurial journey. Defy Ventures staff and clients were instrumental in providing context and incorporating the voice of the returning citizen. We thank all who were interviewed for their time and insights.

For more information about Defy Ventures visit: https://defyventures.org/

Defy Ventures

5 Penn Plaza, 19th Floor

New York, NY 10001

Appendix 3: List of Organizations Supporting Credit Building Activities with Formerly Incarcerated Communities (for Peer Sharing)

As part of the toolkit development, CBA surveyed and interviewed CBA member organizations from twelve states that work with returning citizens. Respondents varied from practitioners to program managers and directors to CEOs of the organizations.

We are grateful to all of the organizations who provided interviews and reviewed the content of this toolkit for their time and insights:

The Fountain Fund

Mission: To improve the lives of the formerly incarcerated through lending, financial education, and community support.

P.O. Box 2301
Charlottesville, VA 22902

https://www.fountainfund.org/

Goodwill Industries of Central Indiana

Mission: Goodwill changes lives every day by empowering people to increase their independence and reach their potential through education, health and employment.

1635 W. Michigan Street
Indianapolis, IN 46222

https://www.goodwillindy.org/

Guidewell Financial Solutions

Mission: To help stabilize communities by creating hope and promoting economic self-sufficiency to individuals and families through financial education and counseling.

757 Frederick Road
Baltimore, MD 21228

https://www.guidewellfs.org/

Justine PETERSEN

Mission: To connect institutional resources to the needs of low and moderate-income families and individuals in order to build assets and create enduring change.

1023 N. Grand Blvd.

St. Louis, MO 63106

http://www.justinepetersen.org/

Mercy Corps Northwest

Mission: Mercy Corps Northwest works to assist low-income populations improve their lives through their own work and efforts. They assist low-income entrepreneurs, including women, minorities, immigrants and refugees, to start, strengthen or expand small business. They want to alleviate suffering, poverty and oppression by helping people build secure, productive and just communities.

43 SW Naito Parkway

Portland, OR 97204

https://www.mercycorpsnw.org/

Mon Valley Initiative

Mission: Working together to unite the communities and restore the economic vitality of the Mon Valley.

303-305 E. 8th Ave., #305

Homestead, PA 15129

http://monvalleyinitiative.com/

Prison Entrepreneurship Program

Mission: To transform inmates and executives by unlocking human potential through entrepreneurial passion, education and mentoring.

P.O. Box 926274

Houston TX, 77292-6274

http://www.pep.org/

Rising Foundation

Mission: Rising Foundations provides pathways to self-sufficiency for formerly incarcerated people with an aim to stop the cycle of incarceration in low-income communities

2915 Perdido Street

New Orleans, LA 70119

https://www.risingfoundations.org/

Rising Tide Inc.

Mission: Rising Tide Inc. aims to assist struggling entrepreneurs and communities to build strong businesses that transform lives, strengthen families and create vibrant, sustainable neighborhoods.

7312 Crescent Ridge Drive

Chapel Hill, NC 27516

http://risingtideinc.com/

Sunshine Enterprises

Mission: The mission of Sunshine Enterprises is to start and grow 200 businesses in Woodlawn and expand throughout the south and west sides of Chicago.

502 E. 61st Street
Chicago, IL 60637

http://sunshineenterprises.com/

We are grateful to all of the survey participants, which also include the above interviewees for their time and insights:

Carnegie Library of Pittsburgh – Downtown & Business

Mission: The mission of the Carnegie Library of Pittsburgh is to engage the community in literacy and learning.

612 Smithfield Street

Pittsburgh, PA 15222

https://www.carnegielibrary.org/

CitySquare

Mission: The mission of CitySquare is to fight the causes and effects of poverty through service, advocacy and friendship.

511 Akard Street Suite 302

Dallas, TX 75201

https://www.citysquare.org/

The Financial Clinic

Mission: The Financial Clinic's mission is to build working poor people's financial security.

115 W 30th Street

New York, NY 10001

https://thefinancialclinic.org/

Goodwill Industries of Sacramento Valley & Northern Nevada, Inc.

Mission: The mission of the Goodwill Industries of Sacramento Valley & Northern Nevada, Inc. is to utilize Goodwill resources to help people with disadvantages achieve self-sufficiency.

8001 Folsom Blvd. #200

Sacramento, CA 95826

https://www.goodwillsacto.org/

Haven Neighborhood Services

Mission: The mission of Haven Neighborhood Services is to help individuals and families establish and maintain good credit, purchase or save their homes, and manage debt wisely.

14208 Towne Ave.

Los Angeles, CA 90061

http://havenservices.org/

Pathfinders

Mission: As solution-focused therapists, Pathfinders goal is to help individuals uncover their true potential and lead a life that is worth celebrating.

2601 Clover Lane

Fort Worth, TX 76107

http://www.pathfinderstx.com/

University of Minnesota Extension

Mission: University of Minnesota Extension discovers science-based solutions, delivers practical education and engages Minnesotans to

240 Coffey Hall

1420 Eckles Avenue

St. Paul, MN 55108-6068

https://www.extension.umn.edu/

Appendix 4: Additional Resources

Financial Capability/Capacity Building Resources

- **Credit Builders Alliance**

  Credit Builders Alliance serves as a bridge between its 500 nonprofit members and the credit industry. CBA membership and services provide opportunities to support the build out of a strong credit building program. Use the "Find a Member" map feature to search for local CBA members.

  To learn more visit: https://www.creditbuildersalliance.org/ and http://cbatraininginstitute.org/.

- **Change Machine/The Financial Clinic**

  Change Machine is a project of The Financial Clinic, which works to build working people's financial security through an ecosystem of strategies that include direct service, capacity building with other nonprofits and systems-level solutions and social innovations to create lasting change. Change Machine is an online financial coaching platform that enables nonprofit organizations and public agencies to incorporate powerful financial coaching strategies into their programs.

  To learn more visit: https://change-machine.org/ and https://thefinancialclinic.org/.

- **Consumer Financial Protection Bureau**

  The Consumer Financial Protection Bureau is a U.S. government agency that ensures that banks, lenders and other financial companies treat consumers fairly. There are a plethora of consumer tools, practitioner resources and data and resources on consumer financial education topics, including on credit building.

  To learn more visit: https://www.consumerfinance.gov/.

- **JP Training Center**

  The JP Training Center is a project of Justine PETERSEN (JP). The JP Training Center offers practitioners opportunities to practice their credit building skills via case studies. JP's Credit Building Nation website showcases a variety of credit builder products that are accessible in various geographic regions.

  To learn more visit: www.creditbuildingnation.org and jptrainingcenter.org.

- **Prosperity Now**

  Prosperity Now supports and builds partnerships with committed advocates and practitioners seeking to create a clear path to financial stability, wealth and prosperity. Topics include savings, consumer protections, and racial wealth equity, to name a few.

  To learn more visit: https://prosperitynow.org/.

Small Business Resources

Access to capital

- **CDFI Locator**

  The CDFI Locator is a project of the Opportunity Finance Network (OFN), the nation's leading network of community development financial institutions (CDFIs). CDFIs work for financial, social and political justice. The CDFI Locator provides an interactive map for searching for local OFN members.

  To learn more visit: https://ofn.org/cdfi-locator.

- **MicroTracker**

  MicroTracker is the portal to FIELD at the Aspen Institute's nationwide database on the scale, effectiveness, and outcomes of US microenterprise development organizations. Search the database for local lenders and view each organization's outcomes.

  To learn more visit: https://microtracker.org/.

- **SMART Box™**

  SMART Box or "Straightforward Metrics Around Rate and Total Cost" is a comparison tool intended to foster common verbiage and enhanced disclosure standards around a comprehensive set of pricing metrics. It was designed by the Innovative Lending Platform Association (ILPA) in partnership with the Association for Enterprise Opportunity (AEO) to empower small businesses to better assess and compare finance options.

  To learn more visit: http://innovativelending.org/smart-box/.

- **TILT Forward**

  TILT Forward is a project of the Association for Enterprise Opportunity (AEO), the leading voice of innovation in microfinance and microbusiness in the United States. The platform connects entrepreneurs to trusted nonprofit lenders in communities that offer access to capital, trusted guidance, and products and services at below market rates.

  To learn more visit: http://www.tiltforward.com/.

Access to mentoring/coaching

- **MicroMentor**

  MicroMentor is a project of the international nonprofit, Mercy Corps. MicroMentor is free community of entrepreneurs and volunteer business mentors. The platform facilitates relationships between mentors and mentees.

  To learn more visit: https://www.micromentor.org/.

- **SCORE**

  SCORE, a project of the U.S. Small Business Administration (SBA), is the nation's largest network of volunteer business mentors with chapters all over the country

  To learn more visit: https://www.score.org/.

- **Small Business Development Centers/Small Business Technology Development Centers**

  A project of the SBA, Small Business Development Centers (SBDCs) and Small Business Technology Development Centers are hosted by universities and state economic development agencies and provide free business consulting and low-cost training services to small businesses and aspiring entrepreneurs.

  To learn more visit: https://www.sba.gov/tools/local-assistance/sbdc.

Access to small business education

- **Entrepreneurship.org**

  Entrepreneurship.org is a project of the Ewing Marion Kauffman Foundation. The site features information, tools, and resources to help aspiring entrepreneurs start businesses, create wealth, and employ people.

  To learn more visit: https://www.entrepreneurship.org/.

- **FIELD at the Aspen Institute**

  FIELD works to identify, develop and disseminate best practices, and to educate funders, policymakers and other about microenterprise as an anti-poverty strategy. Together with the Asset Funders Network, FIELD released the "Prison to Proprietor: Entrepreneurship as a Re-Entry Strategy" news brief which examines the role of business ownership and entrepreneurship in helping formerly-incarcerated individuals navigate re-entry.

  To learn more visit: http://fieldus.org/index.html.

- **Local university or college's business school websites**

  Many local universities business school programs offer pro-bono consulting services and workshops open to the public.

- **Money Smart for Small Business**

  The Federal Deposit Insurance Corporation (FDIC) provides Money Smart curriculum for entrepreneurs. The curriculum is taught by Money Smart Alliance members. To view the list of member organizations, click here.

  To learn more visit: https://catalog.fdic.gov/money-smart-small-business-english-download-includes-mssb-train-trainer.

- **Small Business Administration**

  The U.S. Small Business Administration (SBA) is an independent agency of the federal government designed to aid, counsel, assist and protect the interests of small businesses. The SBA offers a number of education resources, technical assistance, and funding opportunities, including governmental contracts for entrepreneurs.

  To learn more visit: https://www.sba.gov/.

- **Small Business Majority's Entrepreneurship Program**

  The Small Business Majority is a national small business advocacy organization, founded and run by small business owners to ensure America's entrepreneurs are a key part of an inclusive, equitable and diverse economy. The Entrepreneurship Program delivers the information and resources needed to run a successful small business.

  To learn more visit: http://www.smallbusinessportal.org/.

On business credit

- **Money Smart for Small Business Curriculum**
  (see reference above)

- **SCORE's Guide to Understanding Business Credit**

  In collaboration with OnDeck, an online lender, SCORE has created a short guide with basics about business credit.

  To learn more visit: https://www.score.org/resource/your-guide-understanding-business-credit.

- **Small Business Borrowers' Bill of Rights**

  The Small Business Borrowers' Bill of Rights is a product of the Responsible Business Lending Coalition (RBLC), which is comprised of for-profit and non-profit lenders, brokers and small business advocates. It identifies six fundamental rights that all small business owners seeking financing deserve along with the specific practices that lenders and brokers must abide by in order to uphold and protect those rights.

  To learn more visit: http://www.responsiblebusinesslending.org/.

Returning Citizens Resources

- National Inventory of the Collateral Consequences of Conviction
  The National Inventory of Collateral Consequences of Conviction is a searchable database of the collateral consequences in all U.S. Jurisdictions. Collateral consequences are legal and regulatory sanctions and restrictions that limit or prohibit people with criminal records from accessing employment, occupational licensing, housing, voting, education and other opportunities.
  To learn more visit: http://www.abacollateralconsequences.org
- The National Reentry Resource Center
  The National Reentry Resource Center (NRRC) is the nation's primary source of information and guidance in reentry. The NRRC delivers training and technical assistance, provides information for people returning to communities and for their families and works to facilitate peer networks and information exchange.
  To learn more visit: https://csgjusticecenter.org/nrrc.
- Reentering Your Community: A Handbook
  A product of the Federal Bureau of Prisons, the Reentering Your Community Handbook offers practical steps of resources and action items to take if you are a returning citizen or supporting a returning citizen in reentry.
  To learn more visit:
  https://www.bop.gov/resources/pdfs/reentry_handbook_20170215.pdf.
- Smart Decarceration Initiative
  The Smart Decarceration Initiative is a project of the University of Chicago School of Social Service Administration and Washington University's George Warren Brown School of Social Work. The Smart Decarceration Initiative aims to build social capacity to reduce incarceration rates in ways that are effective, sustainable and socially just.
  To learn more visit:
  https://csd.wustl.edu/OurWork/SocialJustice/Decarceration/Pages/default.aspx.
- Your Money, Your Goals: Focus on Reentry
  A product of the Consumer Financial Protection Bureau (CFPB) the Your Money, Your Goals is a set of financial empowerment materials for organizations that help people meet their financial goals by increasing their knowledge, skills, and resources. The Focus on Reentry guide is a companion guide that provides specific information for those serving a reentry population. The guide is designed to be used at any time – while someone is awaiting trial or sentencing, in jail or prison, or following release.
  To learn more visit:
  www.consumerfinance.gov/practitioner-resources/your-money-your-goals/companion-guides/

Appendix 5: Special Note on Identity Theft

According to the Bureau of Justice Statistics (BJS), an estimated 7 percent (17.6 million) of U.S. residents, aged 16 or older, were victims of at least one incidence of identity theft in 2014, the most recent year that data has been collected.[49] Identity theft is prevalent amongst all populations, affecting even those under the age of 16 years, but thought to impact returning citizens at a higher rate than other specific target groups. In fact, many of the groups surveyed for this Toolkit indicated that identity theft was a concern facing their clientele.

Given the length of time that most justice-exposed citizens have gone without viewing their credit report or receiving mail, returning citizens often are unaware of identity theft victimization. Challenging for any victim, but one that may be more prevalent among justice-exposed populations, is identity theft by family, friends, or another known individual. The Consumer Financial Protection Bureau (CFPB) has reported complaints from both incarcerated and previously incarcerated individuals on this matter.

There are certain credit protections that consumers, whether incarcerated or not, can apply to their credit report. While ideal to apply these protections as early as possible upon incarceration, it is more common for returning citizens to deal with this post incarceration. A description of key credit protection tools is detailed below.

Credit Protection Tools:

Security Freeze: A security freeze prevents lenders from accessing a credit file and opening new credit accounts. Fee charges to place and lift a security freeze vary by state; there is no federal freeze law.[50] A request to place a freeze must be made with each bureau individually.

Ideally, a security freeze is added to the affected credit file prior to incarceration. Upon release, a credit freeze could be a barrier to obtaining products and services. It is not advisable to add a security freeze if access to credit or application for credit is planned for the near future.

Initial Alert: This alert may be a good first step for anyone concerned that their identity has been comprised as it provides notice to lenders about potential fraud activity. A free initial fraud alert is available to anyone who has a “good-faith suspicion” that he or she has been a victim of identity theft or fraud. This alert does not prevent access to the credit file. It is valid for 90 days.

Extended Alert: If a consumer has been a victim of identity theft and has filed a qualifying “identity theft report” with each of the primary credit bureaus (see below) then he/she qualifies for an extended alert. This alerts lenders to contact the consumer prior to approving requests for new credit. It is valid for up to seven years.

[49] https://www.bjs.gov/content/pub/press/vit14pr.cfm

[50] For more on credit freeze laws by state, refer to the National Conference of State Legislatures “Consumer Report Security Freeze State Laws”: http://www.ncsl.org/research/financial-services-and-commerce/consumer-report-security-freeze-state-statutes.aspx. For more on fees, visit creditcards.com for an interactive tool that allows you to search by state: https://www.creditcards.com/credit-card-news/credit-freeze-laws-50-states.php.

Credit Bureau Contact Information:

Equifax (800) 525-6285 Equifax Security Freeze P.O. Box 105788 Atlanta, GA 30348	Experian (888) 397-3742 Experian Security Freeze P.O. Box 9554 Allen, TX 75013	Transunion (800) 680-7289 P.O. Box 2000 Chester, PA 19016

Protection and Requirements	Security Freeze	Initial Alert	Extended Alert
The lender is required to verify the requester's identity before approving new credit		x	x
Completely prevents your report from being shared with third parties unless lifted	x		
Alerts users of your credit report to the possibility of identity theft and requires heightened identify verification procedures		x	x
For when you believe you are or may be the victim of ID theft	x	x	
Requires you to have submit an identity theft report			x
Extra free credit report		x (one)	x (two)
Exclusion from prescreening lists			x (five years)
May have to pay or place or lift the protection	x		
Free in every state		x	x

**adapted from CFPB resource*

To learn more, view the CFPB's Identity theft and fraud protection tips (CFPB)—For Individuals in the Criminal Justice System (https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201604_cfpb_fraud-protection-tool-for-justice-involved-individuals-handout.pdf).

Additional Resources:

Identity theft and fraud protection tips (CFPB) – For Individuals in the Criminal Justice System

Identitytheft.gov – The Federal Trade Commission's site for all things identity theft. It includes a variety of action-oriented checklists

Appendix 6: Rubric Companion Guide

How to use the Rubric Companion Guide

The Rubric is separated into sections based off strategy type. As you review each section, be cognizant of your organization's timeline for implementation. Towards the end of the rubric, identify whether the product/strategy is a good fit now, later or not at all.

Defining the Credit Building Products

An understanding of your client's needs and goals will help to identify which, if any, of the suggested credit building products are a good fit. Trade line accounts vary, and for the purpose of this rubric, the only products considered are installment, or open lines (i.e. rental).

Installment accounts, or loans, are structured in such a way that a minimum payment is required monthly by a specific date to be considered on time. Installment accounts include traditional lines such as vehicle loans, student loans, mortgages, and those we call Credit Builder loans. Credit Builder loans are designed specifically for the purpose of credit building and are still considered relatively alternative. To build credit any installment loan must be reported to at least one of the three major consumer credit bureaus: Experian, TransUnion and Equifax.

Revolving trade lines are typically credit cards and are distinct in that they do not require an outstanding balance and monthly payment to be considered open and active. Credit cards have a credit limit (i.e. the maximum amount that should be charged to the account), ideally are used no fewer than once every six months, and the minimum monthly payment varies depending on the balance. Secured credit cards are an offshoot to unsecured credit cards, and require a security deposit, which secures the line of credit. Secured credit cards are wonderful starter products that can be used in conjunction with an installment account.

Both installment and revolving credit products[51] are almost always offered by traditional mainstream financial institutions like banks and credit unions. Nonprofit, nontraditional lenders generally offer installment loans. In this Companion Guide, we will only discuss three installment account options:

1) Credit Builder Loan: Credit-builder loans are small installment loans with 6-12 month terms, designed with the sole purpose of helping people build credit. Instead of receiving money at the time the loan is made, borrower's loan funds are held in a savings account until the loan is repaid. Borrowers' payments are reported to at least one credit bureau.

   Credit builder loans are starter credit products designed to assist consumers who lack credit (i.e. credit invisible or unscored consumers) and in many (though not all) cases, those who have blemished credit to begin to build or rebuild their credit portfolio. Credit builder loans are an ideal first product for those working to demonstrate on time payment history, grow an emergency savings or as an entry product for new to the lending world.

[51] Visit https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/201612_cfpb_credit_invisible_checklist.PDF for more information about starter products like installment credit builder loans and secured credit cards.

Most of the time, the minimum monthly payment on these accounts is incredibly affordable. Thus, the product is often a good fit for low-income wage-workers as well as for those receiving governmental support (i.e. Social Security awards). Credit Builder loans are low-risk to borrowers and to lenders, though they are also often loss-leader products, meaning at best they cover their costs to lend.

2) Small Dollar Loan (i.e. Debt-consolidation, alt-payday, etc.): Small dollar loans are typically consumer loans (generally under $3,000) for the purpose of debt-consolidation, an alternative to payday products, etc. Repayments usually occur over a repayment period of under 36 months and proceeds are typically disbursed up front. Borrowers' payments are reported to at least one credit bureau.

   Given the nature of the product, small dollar loans are considered higher risk than credit builder loans. Typically, the consumers seeking this product is already in debt and identifying opportunities to support the client and mitigate the risk should be priority when considering the development. From a provider standpoint, ensuring client readiness, preparation and ongoing support/communication is important to successful outcomes.

   Additional considerations may include considering collateral to secure the funds, adding an income threshold directly linked to the amount accessible – and the repayment required, linking the product to a direct deposit from paycheck, and underwriting the transactional history of the consumer's financial statements.

3) Non-traditional credit building through Rent Reporting: Rent reporting is the regular monthly reporting of tenant rent payments to at least one of the major consumer credit bureaus for inclusion on consumer credit reports. Ideally, rent reporting is paired with credit/financial coaching and/or asset building programs for the purpose of supporting renters in leveraging improved credit to achieve financial goals. Rent payments report as an open trade line on consumers' credit reports.

   Rent reporting offers a simple solution for building credit for those that are cash-strapped but pay their rent on time. The benefit of rent reporting is that it does not introduce a new monthly budget line item for the consumer. Rent reporting is most beneficial for those lacking a credit score (unscored) as there is a potential score increase of about a mid-600 after just six months of on-time payments. For consumers with subprime scores, the impact is significant as well – often there is a forty to sixty-point increase.

   Rent reporting is not free of implementation challenges for providers – given the newness, there remains to be one standardized option acceptable to the credit bureaus. Affordable housing providers can consider direct reporting options (only suggested if the infrastructure is built in) or a partnership with a third-party provider, often a payment processor. While the initial process may be viewed as cumbersome, the impact is significant for the resident.

Defining the Strategy Implementation Options

The rubric considers various implementation options based on organization capacity and interest. Below is a description of each method:

1) **Add to current lending portfolio:** In order to offer consumer loans, there are a number of critical considerations to undertake. If, however, you are already a lender that reports to the credit bureaus, adding a product to your portfolio may be a relatively light lift. Consider the following:
   - Does the proposed service align with your current levels of client need and engagement?
   - Do you have the loan capital and/or reserves necessary to offer a new product/strategy?
   - Do we have the risk tolerance to support the product/strategy?
   - Is there any local, state or federal regulation that we need to comply with in order to make consumer loans?
   - Do we have sufficient staff capacity, knowledge and experience to provide this product/strategy?
   - Do we have sufficient technology to provide this product/strategy?

2) **Refer to a community lender:** Identifying a partner with aligned mission and goals can be an easier way to offer products but in-directly. This option is less time consuming and a better fit for organization's that structurally lack capacity to take on timely product undertakings. Effort is required, however, to vet referral partners and the products they offer prior to making any direct recommendations and ensuring that there is a mutually agreed upon and well understood process flow. Consider the following:
   - Does the entity offer the product/strategy as needed by our clients?
   - Are our clients likely eligible for the product/strategy?
   - Does the entity have the capacity to provide this product/strategy to our clients?

3) **Partner with a back-end service provider:** Contracting a back-end service provider is also an option for those that may not want to or cannot take on lending directly. Partnering with a back-end service provider, however, may allow you to white label a product – and better leverage your direct relationship with clients to offer it -- without having to create and sustain the infrastructure of becoming a lender. Consider the following:
   - Is our leadership supportive of being the face of a loan product?
   - What are the short- and long-term costs associated with contracting a back-end service provider and do we have dedicated and sustainable funding to support it?
   - Do we want the back-end service provider to originate and service the loans, or simply service the loans?
   - Is the servicer licensed to lend to residents in our state? If not, what is required for that to meet our state's regulation requirements?

4) **Partner with housing provider:** Rent reporting is unique in that it can be offered by affordable housing providers through partnership with a third-party payment processor. Affordable housing providers can also consider credentialing with the bureaus, but the appropriate technical support must be in place. Direct-to-consumer options are available through some third-party payment processors, but due to the pricing structure, could be too pricey for the consumer to undertake. Affordable housing providers can consider covering the cost (often per transaction) for tenants to participate but should know that there is an opt-in policy required to report to the credit bureaus. Rent reporting is low risk for the client as they can opt-out at any time without a detriment to their credit report.

Decision Time!

Based off the product and strategy implementation suggestions suggested, it's time to make a decision. Does your organization identify with one or more products? How would you offer this product/strategy – would you add it to your own portfolio, explore referral opportunities/partnerships, or explore back-end service provision?

Do you identify with a variety of the strategies suggested? Be sure to check all that apply. Consider ranking the options per product in order of importance.

Next, consider your organization's timeline – while something may not be a good fit today, it may be feasible and of interest in the upcoming 6-12 months. What additional support would be beneficial to enhance the implementation process?

Finally, what additional questions/issues need to be addressed in order to be successful? This section is also the place to indicate any other questions or comments you may have about implementation.

Appendix 7: Strategy and Product Selection Rubric

Your Organization			
Credit Building Product/Strategy	***Credit Builder Loan***	***Small Dollar Loan (i.e. Debt-consolidation, alternative payday, etc.)***	***Non-traditional credit building through Rent Reporting***
Does the proposed service align with our current levels of client need and engagement?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
Do we have the loan capital and/or reserves necessary to offer a new product/strategy?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
Do we have the risk tolerance to support the product/strategy?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*

Adapted from Tools for Building Financial Capability: A Planning Guide for *Integrated Services* (c) 2015 by CFED and the Administration for Children & Families under GSA Schedule Contract GS-10-F-0177L/Order No HHSP233201200674G p. 1

Appendix 7: Strategy and Product Selection Rubric

Your Organization			
Credit Building Product/Strategy	***Credit Builder Loan***	***Small Dollar Loan (i.e. Debt-consolidation, alternative payday, etc.)***	***Non-traditional credit building through Rent Reporting***
Do we have sufficient staff capacity, knowledge and experience to provide this product/strategy?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
Do we have sufficient technology to provide this product/strategy?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
Do we have sufficient funding to provide this product/strategy?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*

Appendix 7: Strategy and Product Selection Rubric

	Referral Resource / Partner		
Does the referral resource or partner offer the product/strategy as needed by our clients?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
Does the referral resource or partner have the capacity to provide this product/strategy to our clients?	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
Could our clients access this product/strategy? *E.g., do clients meet underwriting requirements, is it geo-graphically accessible?*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*

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Appendix 7: Strategy and Product Selection Rubric

Back-end Service Provider			
Our leadership is fully supportive of providing it in-house.	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
We have dedicated and sustainable funding to support it.	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*
We have adequate staff with the appropriate training to deliver this service.	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*	☐ Yes ☐ Strong ☐ Moderate ☐ Weak ☐ No ☐ N/A ☐ Unsure *Notes:*

Appendix 7: Strategy and Product Selection Rubric

Product/Strategy Implementation Options			
Add to current portfolio	***Refer to a community lender***	***Partner with a back-end service provider***	***Partner with housing provider***
• Already offer lending products • Manage rental properties	• Financial institutions in community already offer desired product options or willing to tweak a little to meet need • Have or can establish referral process	• Desire to hold relationship with clients • Ability to collaborate on and product development/ criteria • Funds to cover service provision	• Majority of clients are renters from a particular property/landlord • Collaborative relationship with property/landlord
Decision Time!			
How do we want to offer this product/strategy?	☐ Add to our own portfolio ☐ Explore referral opportunities ☐ Explore partnership ☐ Explore back-end service provision ☐ N/A *Notes:*	☐ Add to our own portfolio ☐ Explore referral opportunities ☐ Explore partnership ☐ Explore back-end service provision ☐ N/A *Notes:*	☐ Add to our own portfolio ☐ Explore referral opportunities ☐ Explore partnership ☐ Explore back-end service provision ☐ N/A *Notes:*
What other questions/issues need to be addressed to be successful?			