Achieving Credit Strength

A TOOLKIT FOR SUPPORTING RETURNING CITIZENS

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Introduction

Incarceration affects millions of Americans and at a scale unbeatable on a global level. While the U.S. makes up only 5 percent of the population, globally it leads with 25 percent of the worlds' incarcerated.[1] Nearly one in three people (over 77 million) have a criminal record.[2] According to the Bureau of Justice Statistics, over 4.5 million adults were on probation or parole in 2016 alone. While that number has decreased slightly from years past, it still equates to approximately one in 55 adults under community supervision.[3] Furthermore, per the Prison Policy Initiative, youth in confinement equates to 63,000, many incarcerated for offenses other than a crime.[4]

Exacerbating the issue, the U.S. pours more money into the criminal justice system than it does housing, transportation, and education. Ironically, those who lack access to these foundational needs disproportionately end up incarcerated. One report estimates that 40 percent of all crimes can be directly attributed to poverty, and 80 percent of incarcerated individuals are low-income.[5] The criminal justice system also disproportionately affects people of color—they are more likely to be arrested and face harsher sentences than their white peers. Estimates from the Vera Institute of Justice suggest that people of color make up 30 percent of the U.S. population, but 60 percent of the prison population.[6] If current trends continue, one in three black and one in six Latino males born in 2001 will go to prison during their lifetimes.[7] Mass incarceration perpetuates cycles of poverty and inequity, affecting entire households for generations.

Time behind bars can cause severe economic and emotional stress on the individual and their family. Upon release, returning citizens face many barriers to reentry including limited employment and housing options, health challenges, and social stigma. For many returning citizens, there is also a lack of knowledge about financial topics and sometimes a distrust of the financial system.[8] Unfortunately, support—financial and social—may be hard to come by, as public assistance programs often do not serve people with a criminal record. Many reenter their communities with few to no prospects for economic mobility.

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1 Vera Institute of Justice. https://www.vera.org/about.

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

3 Kaeble, D. (2018, April) Probation and Parole in the United States, 2016. Washington, D.C.: U.S. Department of Justice, Bureau of Justice Statistics. https://www.bjs.gov/content/pub/pdf/ppus16.pdf.

4 Sawyer, W. & Wagner, P. (2019, March 19). Mass Incarceration: The Whole Pie 2019. Prison Policy Initiative. https://www.prisonpolicy.org/reports/pie2019.html.

5 DeVuono-Powell et al, 2015.

6 Vera Institute of Justice. https://www.vera.org/about.

7 Haglar, J. (2015, May 28). 8 Facts You Should Know About the Criminal Justice System. Center for American Progress. https://www.americanprogress.org/issues/race/news/2015/05/28/113436/8-facts-you-should-know-about-the-criminal-justice-system-and-people-of-color/.

8 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.

Credit Realities of Returning Citizens

Although credit building is not always an obvious solution for returning citizens experiencing immediate financial stress, a lack of or poor credit are both the result—and drivers—of financial hardship. Maintaining a credit profile during incarceration is challenging for many reasons, including the inability to maintain positive credit accounts (i.e. credit cards, car loans, etc.). In fact, every year of incarceration can lead to an average credit score drop of 47 points.[9] For those incarcerated for an extended period, credit profiles may become stale, leading to a loss of credit scores altogether.[10] Alternatively, the task of managing credit and other accounts may be left to family members or friends who do not handle them well, causing further financial damage. Incarcerated individuals are also susceptible to identity theft, perpetrated in some cases by those whom they know and in other cases by anonymous scammers.[11] Finally, many face overwhelming debt upon release due to accounts gone unpaid such as child support and/or to new outstanding expenses such as court, 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. Recent research even indicates that returning citizens are six to 11 percentage points more likely to recidivate following a decrease in credit that is caused by incarceration.[12]

Yet, a good credit profile is critical to short-term financial health and sustained wealth creation. 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 achieve financial well-being. For example, without good credit, it is tough to access housing, affordable financial products, and meet other critical needs.[13] An impaired credit history exacerbates susceptibility to the ubiquitous and predatory marketing practices of payday lenders and other fringe creditors. This only perpetuates cycles of debt and further instability. In addition to the implications for returning citizens individually struggling due to no or poor credit, the health and safety of our society depends ultimately on the financial health of all of its residents.

Nonprofit practitioners across the country offer support to returning citizens seeking to build financial resiliency as they reenter their communities. This toolkit is designed to complement and augment these many ongoing efforts by more intentionally integrating credit building into such services for the benefit of these clients.

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[9] Anejay, A. P. & Avenancio-Leon, C. F. (2019, February). No Credit For Time Served? Incarceration and Credit-Driven Crime Cycles.

[10] Over 71 percent of those who responded to a 2017 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.

[11] Haralso, L. E. The Old, the Young and 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.

[12] Anejay, A. P. et al, 2019.

[13] In a survey conducted in 2017 by CBA, most respondents 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.

What is Credit Building?

A good credit history is crucial in today's 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.

Good Credit is the Passport to the New Economy

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.[14] 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.

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. Recognizing that many of the challenges faced by returning citizens extend well past the early days of reentry (when the most comprehensive support often is provided), we welcome all stakeholders to use this toolkit at any point throughout returning citizens' journeys. We also hope that this toolkit will be useful to groups supporting those justice-exposed in any capacity, even before they leave incarceration, to plant the importance of credit building in the process of building financial health and overall stability post-release. In this case, it may be useful to sparse out those relevant components.

While conducting interviews for the development of this toolkit, practitioners emphasized the myriad pressures that exist for returning citizens immediately upon 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

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[14] "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 tradeline on an individual's credit report regardless of whether a consumer recognizes the debt as his or her own. CBA encourages nonprofit and other socially responsible entities working to help individuals resolve legitimate errors, manage debt and deal with collections, to avoid using the term "credit repair" altogether. Debt management or credit remediation are more appropriate terms.

financial stress. In some cases, however, a more intentional credit building process, especially in combination with longer-term goals, may need to wait until basic needs are met.

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. A limitation of the toolkit, however, is that it has to be applicable to a broad base of organizations with many different approaches to their work.[15] These groups 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 affect 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 create one-size solutions that fit all programs and contexts.

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 or practitioner's needs.

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 used on a regular basis.

ACTIVE INSTALLMENT LOAN

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

ACTIVE REVOLVING ACCOUNT

- **Does not need to carry 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**

[15] 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:

- understand and document the credit and other challenges faced by returning citizens;
- provide a framework for guiding returning citizens in building their credit; and
- identify promising practices and strategies used by practitioners working with this population to help them build and leverage improved credit for these purposes.

This edition of the toolkit is an amendment to the original toolkit released in 2018 with the support of the U.S. Small Business Administration. "Achieving Credit Strength: A Toolkit for Supporting Returning Citizen Entrepreneurs" was designed to hone in on entrepreneurship.

In addition to conducting secondary research, CBA collected qualitative primary information from practitioners and other stakeholders—including returning citizens 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 number of practitioners have subsequently 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. 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 sensible to their respective programs and client populations.

Credit Building Call to Action

While this toolkit focuses on credit building specifically as an economic mobility strategy for returning citizens, the work to serve this community is embedded in a larger eco-system of financial capability, community development, reentry programming, and legal justice. Thus, there are opportunities for a larger group of stakeholders to come together to leverage the toolkit. Together we can work to increase and improve opportunities to collaborate on local strategies that promote successful reintegration for returning citizens along the spectrum, from meeting urgent needs to asset building. 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 can support credit building by reporting their loan portfolios to the major credit bureaus.
- Funders and other stakeholders can advocate and support the importance of credit building as a strategy that helps returning citizens to build credit and assets, as well as the future transfer of intergenerational wealth.

Key Takeaways

There are a number of key takeaways gathered from this work, presented here in the toolkit.

- **Integrate credit education as early as possible.** As remarked upon by many returning citizens interviewed for this toolkit, in prison there is nothing but time. Groups on the ground can embrace this opportunity to work with those justice-exposed by providing or partnering with others to offer credit and financial education while folks are still incarcerated. Instituting credit education early on could decrease the prevalence of identity theft, minimize debt accrual, and allow for a smoother transition back into society.
- **Support returning citizens in formulating a financial plan, with tangible actionable steps.** Consider following the mantra "the simpler the better." Be sure to identify opportunities to create meaningful connections to credit access and goals. Beginning these steps as early as feasible may provide the necessary hope—and pathway to pursue upon release—for a better future, for themselves and their families.
- **Don't underestimate the power of credit building.** Credit building offers more than access, ***it offers an opportunity for returning citizens to improve their self-worth.*** This finding consistently stood out in the interviews conducted. As for any individual, justice-exposed or not, a good credit score can be a source of pride, especially resonant if and when an individual may have a harder time pinpointing other examples. 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]."*** Recognizing and building upon this key finding may support the bigger picture trajectory of financial stability sought by all.

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.

KNOWLEDGE

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. Programs that provide an educational component about credit, amid other financial education/money management topics are essential to beginning to level the knowledge playing field. However, knowledge alone is insufficient if people cannot act on it.

For many returning citizens knowledge can be a challenge if previous exposure to relevant and timely financial education has been limited or full of systemic barriers to accessing the financial mainstream.

ACCESS

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. Unfortunately, access to affordable financial products can be a great challenge for returning citizens, many of whom are credit invisible, unscored, and/or with low credit scores.

Organizations that lend or connect returning citizens to viable options open doors for access to credit 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.

ACTIONS

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

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. This Credit Strength Framework© is the first-ever attempt in the credit building subfield to support these nonprofits in their quests to comprehensively design, enhance, and measure the success of their clients' credit building progress and their own credit building programs. Programs that integrate credit building intentionally can help their returning clients achieve financial wellbeing, in addition to asset-building goals such as post-secondary education, small business development and home ownership.

Program Integration

Nonprofits of all types can use the Credit Strength Framework© to design new or enhance existing programs as well as to measure them. Fundamental to the Framework's success is understanding your clients' goals within the context of your organizations' missions.

The Framework itself is agnostic as to what those goals are, which can include but are not limited to renting an apartment, getting a job, reducing debt, starting a business, purchasing a home, or going back to school.

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 Builder 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.
- Consider offering small dollar consumer loans like a Reentry Opportunity Loan to help returning citizens manage the challenges both of building credit and meeting immediate needs soon after release.

Non-lending programs can:

- Prioritize knowledge about credit, starting credit profiles, 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 responsible 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.

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 the short- or long-term goal (financial and otherwise), identifying the credit building connection can support the creation of concrete action plans moving forward.

The SMART framework can help clients identify short, mid- and longer-term financial goals and the necessary steps to achieve each of these respectively. Using this framework can guide the creation of realistic and actionable steps, which may be particularly useful in providing a structure that is attainable. 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 achieve goals like moving into housing and getting a job 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 rent an apartment.

Sample goal *(SMART):*

I need to find a place to live by x date.

Making the connection to credit building:

Improving my credit score will improve my chances of being approved for rental housing as many landlords check credit scores as part of the application process. A good credit score may also reduce the amount I may be charged for a security deposit on the rental and on the utility accounts I need to set up.

Goal Setting with Returning Citizens

Most importantly, returning citizens should drive the activity of goal setting. As practitioners, we serve as a guide that provides support and a framework as needed. Practitioners may be particularly useful in working with returning citizens to create realistic goals—and credit building expectations.

Helping returning citizens connect a good credit profile to their goals, which may range from basic financial stability to larger asset-building goals, should happen in the context of where they are on their individual journeys. This should only be in the context of where they are on their journey. Credit building may not be the immediate first step for many, and that is okay.

Addressing immediate needs should always come first, to ensure that there is bandwidth for future engagement with credit products, or paying down past debt in an effective manner.

In early conversations unpacking credit, consider acknowledging that credit building is simple in structure, but implementation is not always as straightforward because "life happens." We are all on a journey and experience roadblocks hindering credit progress in the future. The connection to larger goals can serve as anchors, reminding us why we should continue to move forward with the at times frustrating credit steps that may need to be addressed.

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.

—The Fountain Fund

Acknowledging Barriers in the Context of Credit Building

Returning citizens face a myriad of barriers to reestablishing themselves upon release. Many of these challenges can be addressed in the context of credit building. We hope to shed light on a few here as well as emphasize the prioritization of managing one's hierarchy of needs, which may eventually lend itself to a focus on credit building.

Identification

Upon release, many returning citizens lack a valid state-issued identification (ID) card or driver's license. A prison-issued identification card is often unrecognized as an official form of ID, as well as an inappropriate one to share with most parties, given its highly personal nature. To complicate matters, in some states, obtaining a state ID or driver's license is impossible if outstanding criminal debt is owed, thereby limiting access for many.[1]

Without an ID, however, access to vital resources such as social services, housing and transportation, employment, training and educational programs, and healthcare can be a challenge. Organizations that support the reentry efforts of returning citizens may seek to advocate for solutions pre-release or immediately following release. This may involve conversations and partnerships with local department of corrections, the bureau of prisons, and local entities that issue forms of identification. Obtaining proper identification is an example of a SMART goal that should precede most other goals.

Employment

Upon reentry, returning citizens face barriers to obtaining employment. Sixty percent of formerly incarcerated individuals are unemployed one year after release. Returning citizens are banned from certain professions and their job applications are often scrutinized not only for signs of a criminal conviction, but also for gaps in work history. Despite recent efforts to "ban the box,"

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[1] Your Money, Your Goals: Focus on Reentry. CFPB.

which involves efforts to eliminate or mitigate the impact of criminal background checks, 87 percent of employers still conduct background checks, and a criminal record is often a barrier to accessing employment.[2]

Often the only jobs available to returning citizens are low paying and unstable jobs with no opportunities for growth. One study found that prison time, on average, reduces an individual's wages by 20 percent. For this reason (among others), returning citizens often turn to entrepreneurship as a source of income. Establishing or growing a business may be an easier and more rewarding feat than experiencing ongoing denial from potential employers.

> **"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**

Housing

Many practitioners identified stable housing as a critical factor in a returning citizen's ability to focus on credit building and successfully achieve longer-term goals. 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 ineligible 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.[4]

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 other issues 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

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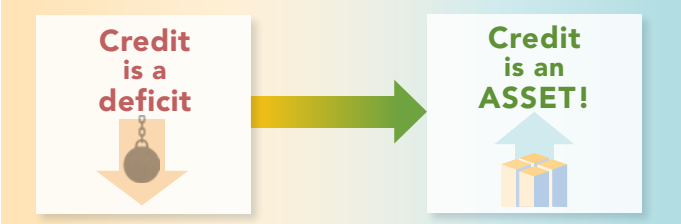
[2] The Sentencing Project. (2015, November). Americans with Criminal Records.

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

[4] DeVuono-Powell et al, 2015.

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. Nearly all (83 percent) of the practitioners surveyed in 2017 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. 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 financial problems.



Instead, credit is and should be at the forefront of financial planning. Separating the concept of credit from the burden of debt can help transform someone's paradigm from a negative association with credit to one, instead, of empowerment.

Practitioner tip: *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.*

In Their Words: Perspectives and recommendations from returning citizens on how to talk about credit

- ***"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."***
- ***"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."***

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, Oregon. 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/.

Step 1 Tools

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

- CBA Credit Strength Roadmap© Consider the Goal Worksheet

  (next page—available for 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

Goal setting informs our credit journeys. Consider what you are striving to achieve financially, and identify how credit might help you to achieve this.

What are my goals? What do I want my life to look like?	
Short-Term (< 6 months)	Longer-Term (> 6 months)

How can building my credit help me achieve my goals?

What concrete steps can I take to achieve my goals?	Due Date

What resources or support would help me to achieve my goals?		
What do I need help with?	Who can I ask for help?	Due Date

What are my immediate needs, if any, for loans/credit?		
Amount/Product Needed	Purpose	Due Date

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, a 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. A credit report may or may not be paired with a score. We will begin by dissecting the credit report separate from the credit score.

While each credit report may display information differently and/or not display certain information at all (for example, credit reports sold to employers will not have credit scores or 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:

According to the Consumer Financial Protection Bureau, approximately 94% of employers conduct some sort of criminal history check of job applicants, and per a TransUnion survey, 90% of landlords run background checks on prospective tenants. The National Consumer Law Center calls out various imperfections of many of the criminal background screening reports, including a lack of standardized reporting format, and limited details about how reports may be generated and who generates them. Information on the reports may also be incomplete or inaccurate, as they draw from records that are poorly maintained by the courts, for example, or that are mismatched—an issue also seen with credit reporting in general.

Personal Identifying Information

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.

Includes: Full (formal) name, Date of birth, Social Security Number (if applicable), Current and past employers.

CONSIDERATIONS FOR RETURNING CITIZENS

Consumers residing in a correctional facility and/or temporary housing must provide at least one form of identification (prison ID, driver's license, etc.) when ordering a copy of their credit report. In addition, the return address listed on the envelope must include the name and address of the correctional facility or temporary housing, as well as their prison ID number, if applicable.[1]

Because it may be difficult for incarcerated individuals to request a credit report online or by telephone, they may do so by mail. Requests for a free credit report should be honored if the return address on the envelope comes from a prison.

Some financial and credit counseling programs may offer credit report access and review services pre-release, inside prisons. Early access to reports may support early identification of identity theft issues and can include some pre-planning of how to tackle any debts reported. 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 may be a concern for some individuals.

[1] Your Money, Your Goals: Focus on Reentry. CFPB. 2017.

Credit History

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

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

CONSIDERATIONS FOR RETURNING CITIZENS

Although traditional credit reports do not include arrests or criminal convictions, returning citizens may have unpaid consumer debts and obligations upon release. This may include delinquent mortgage or car notes, credit cards, student loans, child support, telecom and utility services. Some may be visible, others not. Age and the nature of the debt are factors affecting the reporting of these accounts.

Inactivity or misuse of active credit by others during incarceration can result in unscored or poor credit status upon release.[2] When possible, identify opportunities to manage credit prior to incarceration. Take preemptive actions such as alerting creditors, requesting modifications, and freezing 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 4 for a special note on ID theft).

Public Records

These records can only affect the credit report negatively and some items may stay on the report longer than 7 years.

Includes: Bankruptcies.

[2] 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.

CONSIDERATIONS FOR RETURNING CITIZENS

Civil judgments and tax liens no longer show up on credit reports because of the implementation of the National Consumer Assistance Plan, which was fully effectual by 2018.[3] In addition, limitations to what can report extends to debts that do not arise from a contract to pay. Thus, court and restitution fees and fines may not appear on a credit report. However, lack of visibility of a debt on a report does not equate to extinguishment of debt.

In fact, understanding a client's public record status is as critical as ever, especially for those with criminal records who may seek credit necessary to achieve goals like homeownership and small business development, among others. Beyond verbally inquiring about the existence of known judgments and liens, 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, but may present a legitimate issue. For instance, some municipalities may have a public records database easily available.[4] Another option that may be less time burdensome is available through LexisNexis RiskView™.[5] The RiskView™ report compiles a variety of information not typically found on a credit report, including public records and multiple proprietary data sources. The RiskView™ may serve as a complement to the traditional credit report already pulled.

Inquiries

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

Includes: Soft and hard inquiries. Soft inquiries are a result of an educational or informational request, not an application for credit, which is characteristic of hard inquiries. Soft inquiries have no credit score impact.

CONSIDERATIONS FOR RETURNING CITIZENS

Only hard inquiries affect credit scores, and often minimally. During incarceration, one generally cannot apply for credit, so there should be no hard inquiries (unless a specific program permits this, as for reentry stabilization) made during that time. Any such inquiries may indicate error or identity theft and therefore may need to be disputed as soon as possible. Credit report requests for a consumer disclosure report, such as from www.annualcreditreport.com are considered soft inquiries and thus will not affect the credit score.

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[3] Clarkberg, J. (2019) A new retrospective on the removal of public records. Consumer Financial Protection Bureau. https://www.consumerfinance.gov/about-us/blog/new-retrospective-on-removing-public-records/.

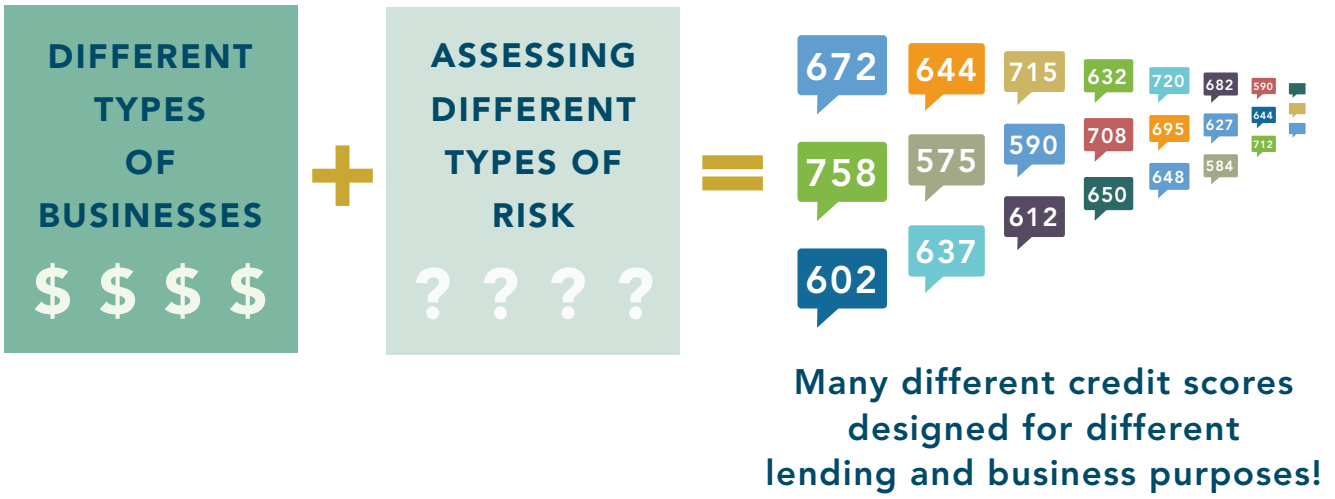
[4] A challenge with this method is there is no standardization across municipalities in the access to these records. If accessible, this review may result in limited and not comprehensive data on a consumer.

[5] CBA has collaborated with LexisNexis to offer RiskView™ Report access at a discount to CBA Members. For more, check out https://creditbuildersalliance.org/cba-services/cba-access/lexisnexis/.

Credit Scores

Depending on the nature of the account that is being sought (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 a credit-monitoring platform (i.e. Credit Karma) may be distinct from the actual score used by the lender. Organizations with a permissible purpose to educate and track outcomes may choose to purchase business division credit reports along with credit scores from consumer credit bureaus or data resellers. Although it is important for practitioners and consumers to understand the reality, it is often better to avoid getting caught up in the nuances.

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.



Many different credit scores designed for different lending and business purposes!

CONSIDERATIONS FOR RETURNING CITIZENS

Whether your client has no score or a poor score, it is best 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 all models. Regardless of the score model used, a helpful chart is included on the next page for identifying both red flags and healthy credit actions.

Scoring Factors

	EMERGING/REBUILDING CREDIT PROFILE	STRONG CREDIT PROFILE
Payment History	Delinquencies within most recent 6 months	All payments on time
	Previous serious delinquency (90 days)	No serious delinquencies in history
	Numerous late pays (30 or 60 days)	Consistently uses existing credit accounts
Outstanding Debt	Maxing out multiple revolving credit—crisis mode	Uses under 10% of revolving credit
	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 accounts keep balances very low
Length of Credit History	Very little or very short length of credit history	Long history on file—experienced credit user
Inquiries	Many inquiries throughout the past year	Only apply for credit as needed
	Possibly taking on too much debt	Shopping around for the best rates for auto loan or mortgage, within a two 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

Accessing Credit Reports

Pulling Your Own Report: Consumer Options

All consumers are encouraged to pull their credit reports annually through the federally authorized site, www.annualcreditreport.com. The Fair Credit Reporting Act (FCRA) requires each consumer credit bureau to offer one FREE consumer disclosure report 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. The report generated through this mechanism is considered more complete than that pulled through the myriad of free online credit-monitoring sites.

The Equifax data breach settlement[6] has yielded a new avenue for accessing multiple credit reports. All consumers are now eligible to receive six free credit reports (in addition to the one on www.annualcreditreport.com) from Equifax per year through 2026. Access is available at https://www.equifax.com/personal/credit-report-services/free-credit-reports/ or by calling 1-866-349-5191.

ADVANTAGES OF CONSUMER DISCLOSURE REPORTS

- Easy to read.
- Include information about the "Date of First Delinquency," (see Deal with Debt section).
- Lists the names of original creditors (especially medical creditors) if an account has been sold to one or more collection agencies, providing a pathway to dispute errors.
- Include instructions on how to dispute errors.
- Allow consumers to monitor and manage their own credit reports.

Returning citizens may consider the following avenues for requesting their own reports:

- Request online:

  www.annualcreditreport.com
  Individuals with an ITIN may not request their reports via the online option; a Social Security Number (SSN) is a required field. Security challenges may prove challenging for anyone, but in particular for consumers with recent address changes.

- Request via mail:

  Annual Credit Report Request Service
  P.O. Box 105281
  Atlanta, GA 30348-5281

  The Annual Credit Report Request Form is regularly updated. Be sure to access the most up to date version.

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[6] In 2017, Equifax announced that a data breach had exposed the personal information of 147 million people. A settlement agreement is in effect as of January 2020. For more details, visit the Federal Trade Commission at https://www.ftc.gov/enforcement/cases-proceedings/refunds/equifax-data-breach-settlement.

Accessing a Report On Behalf of Another: Programmatic Options

Given some of the challenges facing returning citizens, practitioners may wish to access credit reports on behalf of their clients. In this case, practitioners may pull a business division report.[7]

A business division report generally requires less identifying information than a consumer report. A Social Security Number, for example, is not required, opening up the option of using the report with individuals without one. Business division reports generally do not include some of the key information about dates of first delinquency or original creditors, for which a consumer disclosure report may supplement.

Business division reports are particularly helpful to organizations that may wish to pull multiple credit reports over the course of time. An appropriate written authorization must be obtained from clients in order to provide credit and financial counseling or coaching. Additionally, a credit score often accompanies the report, and can be useful in outcome tracking. Any agency that is pulling credit scores on behalf of their clients for educational and/or outcome tracking purposes will need to ensure that they are complying with the agreements that they have signed with the credit bureaus. For example, in order to share FICO® Scores for educational purposes, agencies must be enrolled in the FICO® Score Open Access for Credit and Financial Counseling program, and use the appropriate consumer disclosures when sharing the scores.[8]

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). Alternative data report options are also available through CBA's relationship with ChexSystems, LexisNexis RiskView™, and Nova Credit.[9]

Credco CoreLogic: Tri-merge credit reports available to HUD Certified Homeownership programs and accredited Credit Counseling Agencies (visit http://www.corelogic.com/default.aspx).

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[7] CBA Members can become credentialed to access business disclosure reports.

[8] For more information visit https://community.fico.com/s/openaccesscfc.

[9] Nova Credit offers an U.S. equivalent international credit report option. For recent immigrants to the U.S., likely those "credit invisibles", this option may provide a picture of past credit history. This option is only available for those lenders, considering the usage of a credit score in their underwriting. To learn more or to see the current country availability, visit www.novacredit.com. CBA has partnered with Nova Credit to offer the report at a discounted rate. Organizations serving returning citizens new to the U.S. may wish to consider this report option.

ACCESSING ALTERNATIVE DATA REPORTS

ChexSystems and ChexAdvisor® Educational Reports

ChexSystems, Inc. is a nationwide specialty consumer reporting agency, as defined under the Fair Credit Reporting Act (FCRA)[10] that gathers information about problems individuals have had with bank accounts. ChexSystems reports include, but are not limited to, account misuse, closures, and/or fraudulent activity that has occurred within the past five years.

Companies use the information on a ChexSystems report, sometimes with other credit bureau or alternative data provider information, as a means to evaluate a consumer for a transactional or credit product or service offering. For example, banks and credit unions use ChexSystems reports to assist in their checking and savings account evaluation process. The ChexSystems report may also be used to evaluate an applicant for a new auto loan or lease, a credit card, short-term installation loan, or new utility or phone service.

The information in a ChexSystems report includes consumer event information such as:

- The number of times an application for a checking, savings, or credit account has been made.
- The names of businesses that have requested the consumer's report, as part of a product evaluation.
- The time since the last ChexSystems report was requested.
- The names of and number of accounts closed by banks or credit unions. This information typically remains on the report for a period of five years.
- The number of times that a consumer has applied for a credit decision when ChexSystems was used.
- The number of times checks have been ordered by a consumer and the number of accounts for which checks have been ordered. This information typically remains on the report for a period of five years.
- The number of and timing of bounced checks used by the consumer at retailers.

Like traditional credit reports, ChexSystems does not provide crediting decisions, only information to support the decisions made by other institutions; it also does not serve as a collection agency. Upon request, ChexSystems uses the provided personal information of the consumer to generate a consumer report. One ChexSystems report a year is available to all consumers, including returning citizens, at no cost.

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[10] Early Warning Solutions is a similar product to ChexSystems. Report selection is left to the discretion of each financial institution. In this report, we only highlight information surrounding ChexSystems, given the easy access to the consumer disclosure option.

A ChexSystems score is provided to institutions requesting one with the report. The score is a snapshot of a particular moment in time, and thus may vary by day, by institutions accessing the report for credit decisioning, and even by various ChexSystems products (for example, the ChexSystems score may be different from the ChexAdvisor score). The score range is 100 to 899, where lower scores indicate greater risk and higher scores, lower risk. Key factors affecting the ChexSystems score include but are not limited to:

- Excessive recent credit inquiries
- Insufficient or no credit history
- The quantity and number of accounts checks are ordered from
- The number and dollar amount of returned checks at retailers
- The number of accounts banks have forcibly closed
- The number of times that a consumer has applied for an alternative credit report.

Access the ChexSystems Report: Consumer Option

A ChexSystems Report will be mailed to the consumer within about five business days (digital copies are not available for download). Access to a free disclosure report can be obtained directly by ChexSystems at:

- Online: www.chexsystems.com
- Phone (automated line): 1.800.428.9623
- Phone (live line to speak to an agent): 1.800.513.7125
- Fax: 602.659.2197
- Mail:

  ChexSystems, Inc.
  Attn: Consumer Relations
  7805 Hudson Road, Suite 100
  Woodbury, MN 55125

Access the ChexAdvisor® Educational Report: Organizational Option

For organizations seeking to pull ChexSystems credit reports during a coaching or counseling session, the ChexAdvisor® Educational Report may be a good option. Created for the purposes of consumer education in a coaching setting, the ChexAdvisor® Educational Report is a product of Chex Systems, Inc. (ChexSystems®) which provides consumers insight into what information a company using ChexSystems consumer reports might see.

As a part of the CBA Access Service, this report is accessible by CBA Members and can be used in real-time, hopefully increasing client retention and engagement. The report removes

the barrier of return visits, or follow-up upon arrival of the ChexSystems report via mail. Organizations interested in this report option may contact joinus@creditbuildersalliance.org. If eligibility requirements are met, organizations would complete a credentialing and implementation process which includes e-Learning modules on the product prior to access to the ChexAdvisor Educational Reports.

The information provided in the ChexAdvisor Educational Report is provided for informational purposes only and requires the written request by the consumer to access. The report includes historical debit and credit-related information, but may not be as comprehensive as the information contained in their file at ChexSystems. For example, some of the information may contain a summary of the ChexSystems file, or may be provided by a third party.

Disputing Inaccurate Information in the ChexSystems Report

Information believed by the consumer to be incorrect or incomplete may be disputed. Consumers would visit www.chexsystems.com to obtain the information necessary to initiate a dispute. There is an option to dispute the completeness or accuracy of a record directly with the institution providing the information. Alternatively, ChexSystems can also handle this component.

Investigations are conducted with a resolution expected in about 30 days (21 for residents of Maine). If additional information is provided during an ongoing review, an additional 15 days may be added for the review. Upon completion, ChexSystems will respond in writing with a notice of the result to the address on file.

CONSIDERATIONS FOR RETURNING CITIZENS

Given the challenge around banking faced by many returning citizens, access to the ChexAdvisor Educational Report may support a better understanding of past financial institutional debts with an opportunity for a financial coach or counselor to address a pathway of next steps in real time. With the proper consent and credentialing in place, the report can be accessed instantly.

For returning citizens with significant ChexSystems challenges, second chance accounts may, depending on the criteria, provide an alternative option for opening a bank account.

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 determine which credit building products might best suit a returning citizen's needs at intake and over time. Following the Credit Strength Framework©, it is critical that returning citizens embarking on credit building 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.

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?

For organizations seeking to implement credit building programs, this involves providing appropriate and relevant credit education and credit building readiness assessments. A properly trained credit building practitioner can help a returning citizen use their credit reports and scores (or lack thereof) 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.[11] 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.

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 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. utility payments in good standing). See the next page for a quick reference for assessing credit building readiness.

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[11] 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.

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 qualify for it and can afford the monthly payments. 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.

	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 and other bill payments ■ Struggling to make ends meet every month ■ Cannot open a bank account due to ChexSystems or related issues
Other Factors to Consider	■ Have all necessary IDs ■ 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

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 the additional layers of 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 of 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 (for example at intake, at six months, at twelve months, etc.) offer a series of teachable moments that can motivate individuals to continue to improve financial behavior and achieve asset building goals.

Step 2 Tools

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

- **CBA Credit Strength Roadmap© Know the Score Worksheet (next page—available for download at www.cbatraininginstitute.org).**
- **Access at least one free consumer credit report annually from each bureau 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/.**

Identify what is on your credit report. This will help to inform the next steps you take to build or rebuild your credit.

CREDIT REPORT SUMMARY		Next Steps	Notes
Score Model and Generation			
Number of ACTIVE Installment Tradelines			
Number of ACTIVE Revolving Tradelines			
Percentage *(%)* of Available Revolving Credit			
Number of Delinquencies on ACTIVE Tradelines in Last 12 Months			
Outstanding Balances *($)* on Active Trades *(i.e. open loan and credit card accounts)*			
Date of Oldest Open Account			
Number of Accounts in Collections			
Other Outstanding Debt Balances *($)* Owed *(i.e. charged-off accounts and collections)*			
Number of Inquiries in Last 12 Months			

*ACTIVE refers to open tradelines (loans/credit cards) that are currently (in the last 6 months or so) are being used.

Assess the Credit Report:

DO ANY OF THE FOLLOWING APPLY?

- ☐ 3 or more open, active credit accounts
- ☐ Recent late payments on current debt (last 3 - 6 months)
- ☐ High credit utilization ratio
- ☐ Recent (last 6 months) charge-off or collection accounts
- ☐ Other debts and/or public records that may or may not appear on the credit report

Yes, I checked one or more boxes.

Make sure that you are ready for credit building by taking a closer look at your outstanding current and derogatory debt.

Consider if there are opportunities to pay down current debt with existing resources or whether there are credit building products that can help you regain your financial footing.

Credit building may make sense before or in tandem with debt management; or in other cases, it may need to wait until after dealing with debt.

Go to Step Four: Deal with Debt.

Make a plan to address and/or pay down on current debt, as needed. After assessing your debt situation more closely, you may be a good candidate for credit building in the near future!

No, none of these apply.

You have no credit or have a "thin" file. A thin file indicates insufficient information to generate a credit score. A lender may decide that your lack of experience with credit means that you are a risky borrower, similar to the way that an employer might be nervous about hiring someone without much experience in the workplace.

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: Get 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 —having no or a poor credit score often precludes such access. Additionally, distrust in financial institutions is a barrier. As a result, many may turn to predatory products, leading to higher borrowing costs and perpetuating a cycle of over-indebtedness.

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 who 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;
- manage monthly or unexpected expenses;
- reduce expensive debt;
- build savings and assets; or
- make a special purchase

Ideally, returning citizens have access to responsible credit products that report 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
- Special Purpose Small Dollar Loans, such as a Reentry Loan

DEFINITIONS

SECURED CREDIT CARDS

A secured card is a bank credit card backed by money, sometimes dollar for dollar to the limit, that you deposit and is kept in a bank account. That account serves as security for the card. If you don't pay your bill, your deposit may be used to cover that debt. Typically, secured credit cards report to all three major credit bureaus.

CREDIT BUILDER LOANS

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 terms of less than 24 months. Instead of receiving money at the time the loan is made, borrower's loan funds are held in a savings account until they repay the loan. 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.

Product Access for Returning Citizens

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.

Returning citizens 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 banking credit reports used by financial institutions, like ChexSystems, can preclude access to good credit options until they are resolved. For example, soon-to-be or just-released individuals may need help with getting or renewing identification documents.[1]

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

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.

A variety of credit products already in existence may serve many different people and purposes. Credit builder-specific products are designed to support those new to credit. Generally, these products share common key characteristics, including:

- **Affordable monthly payment.** A small dollar credit product will have the same impact as a larger one, as long as the payment history is consistent and on time.
- **Accessible to individuals with limited and/or inconsistent income.** Ability to repay is of upmost importance. Products that build credit with minimal debt burden, if any at all, are ideal.
- **Low-risk and/or tailored with flexible underwriting.** Supportive features include ability to prepay without penalty, flexible loan modification policies, use of secured savings as collateral, and zero-interest.
- **Product/pathway is paired with timely financial education and coaching.** Product access paired with education and support at natural touchpoints such as the first paycheck, automatic deposits, etc. optimize positive behaviors around credit.

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[1] 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.

Product Spotlight: Reentry Opportunity Loan

In addition to offering a credit building opportunity, small dollar consumer loans (SDLs) can play an important role in addressing credit needs and smoothing cash flow gaps for returning citizens. For many lower income households, jobs are less predictable and income volatility is on the rise. As a result, many have a hard time making ends meet and planning ahead.[2] One study found that even median income households experienced income fluctuations of $500 month to month.[3] Another study revealed that just under half of American families spend more than or all that they earn every month, and they lack a substantial savings cushion to make up for any deficits.[4]

The Rippling Impact of Small Dollar Consumer Loans

When unable to makes ends meet, many rely on credit. An estimated 15 million consumers, at all income levels, access small dollar credit—that does not come from a mainstream financial institution—each year, most commonly to pay utility bills, general living expenses, and rent.[5] Often consumers resort to SDLs when their living expenses are consistently more than their income, a bill or payment comes due before paycheck, and/or due to an unexpected event such as an emergency or an abrupt change in income.[6] For returning citizens, this reality is compounded by their criminal records.

There is a clear need for SDLs, yet a dearth in affordable, safe products. Many mainstream financial institutions have shied away from providing SDLs due to the tensions between affordability and profitability. In addition, many consumers are unbanked or under-banked and seek credit options outside of the mainstream financial sector. Instead, a fringe industry of lenders who provide payday loans, high cost installment loans, and auto title loans have emerged to capitalize off consumer urgency. Payday loans alone cost 12 million Americans $9 billion in fees a year.[7]

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[2] Baker, T. H. (2017, May). FinTech Alternatives to Short-Term Small Dollar Credit: Helping Low-Income Working Families Escape the High-Cost Lending Trap. M-RCBG Associate Working Paper Series, No. 75, Harvard Kennedy School. https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/files/75_final.pdf.

[3] Farrell, D. & Greig, S. (2015). Weathering Volatility: Big Data on the Financial Ups and Downs of U.S. Individuals. JPMorgan Chase Institute.

[4] The Pew Charitable Trust. (2015, January). The Precarious State of Family Balance Sheets. https://www.pewtrusts.org/en/research-and-analysis/reports/2015/01/the-precarious-state-of-family-balance-sheets.

[5] Levy, R. & Sledge, J. (2012). A Complex Portrait: An Examination of Small-Dollar Credit Consumers. Center for Financial Services Innovation.

[6] Levy & Sledge, 2012.

[7] The Pew Charitable Trust. (2016, January 14). Payday Loan Facts and the CFPB's Impact. http://www.pewtrusts.org/en/research-and-analysis/fact-sheets/2016/01/payday-loan-facts-and-the-cfpbs-impact.

This is where alternative lenders come in. Regardless of lender status, consider developing (or partnering with a lender to develop), a small dollar Reentry Opportunity Loan. Organizations seeking to provide reentry opportunity loans have an opportunity to meet an unmet need, yet they must do so in consultation and partnership with community-based organizations and coalitions that specialize in supporting returning citizens. Because returning citizens have a wide spectrum of needs with varying levels of urgency, loans may not be the appropriate tool for all individuals or all needs. For those, however, who a loan may be a good fit, potential uses could address:

- Housing needs, such as money for a security deposit and first and last month's rent, bed/furniture, etc.
- Bail bond debt, and other high cost predatory debt
- Basic needs such as clothing
- Costs associated with getting a driver's license or a vehicle registration
- Fees for certificates, courses and job training

These type of needs have varying costs. For example, the cost of clothing may be $200 or less, whereas a certificate or job training course may cost several thousand dollars. In Washington State, one study found that the average legal financial debt obligation of returning citizens was $1,406, and in Philadelphia the median debt was $4,500.[8] When determining what your loans will be used for, consider:

- What returning citizen's needs can be appropriately supported by a loan?

Returning citizens have diverse needs that crop up as they rebuild their lives within a community. Not all of these needs are best met with a loan. For example, while many returning citizens have high debt loads, unless the debt has a high interest rate, it typically does not make sense to take out debt to pay off debt. Using the loan as a stepping stone to meet smaller needs, such as the cost of getting a driver's license, can be less risky for the organization and for the borrower.

- What supports do your partners provide and how can loan uses connect to this wrap around support?

The more support an individual has along their path to reentry, the more likely they will succeed. If an organization is already supporting an individual with a specific goal, the loan can serve as a natural complement to these ongoing efforts.

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[8] Council of Economic Advisors Issue Brief. (2015, December). Fines, Fess, and Bail: : Payments in the Criminal Justice System That Disproportionately Impact the Poor. https://obamawhitehouse.archives.gov/sites/default/files/page/files/1215_cea_fine_fee_bail_issue_brief.pdf.

Reentry Opportunity Loan

	CBA Member Practices
Purpose	Loans to help returning citizens build credit and stability as they reenter into a community
Restrictions on use of funds	Loans can cover the costs of basic needs such as housing, transportation, high cost debt, job training/certifications, clothes or equipment for a new job
Loan amount range	$300 to no cap (average: $1,577)
Loan terms	6-36 months*
Interest rate	0% to 30% (average: 12%)
Application Fee	$0
Origination Fee	$0 to $100 (or 10% of the loan, whatever is less)
Late Fee	$15 (or 5% of late payment) to $25
Non-sufficient funds fee	$15 to $25
Charge-off rate	0% to 11.9% (average 8%)
Loan loss reserve	12% to 15% (average 14%)
Key Underwriting Considerations	■ Ability to repay ■ Some attention to borrower's credit score, history, and debt-to-income ratio ■ Distinguish between consumer debt and medical debt ■ Alternative measures of stability (i.e. potential job leads or income, family support, concrete future goals, etc.)

* CBA recommends loan terms be a minimum of 12 months to optimize credit building.

Reentry Opportunity Loan *continued*

	CBA Member Practices
Security/Collateral	■ Consider adding a forced savings component or asking for co-signers in applicable situations
Loan servicing and payments	■ Monthly payment reminders ■ Flexible payment options (i.e. online, in-person, via mail)
Collection procedures	■ Notices at 10, 30, 60, and 90 days late ■ Options for loan modifications ■ Contact references to ensure borrower is not sick or hospitalized ■ Send to collections and charge-off at 120 days
Borrower support/ Financial education	■ Review budget and credit report during the application process ■ Offer ongoing financial development opportunities throughout the course of the loan ■ Offer a graduation product once loan has been paid-off
Credit Reporting	■ Report to all three major credit bureaus
Measuring success	Collect information on: ■ Financial wellbeing ■ Credit strength ■ Asset building ■ Success with repayment ■ Overall perceived quality of life ■ Impact of loan on employment, education, housing, or personal life ■ Borrower's program satisfaction

PROFILE OF A NONPROFIT LENDER

The Fountain Fund

Information as of September 2017

OVERVIEW	The Fountain Fund's Reentry Loan
Amount	$300-$4400* *There is no cap on loan amount. This is the range of amounts provided thus far.
Interest Rate	5%
Term	36 months typically
Fees	$25 late fee $25 bounced payment fee
Eligibility & Underwriting Criteria	▪ Ability to repay/Adequate prospective income ▪ Substantiation for use of funds (must be used to help the individual achieve greater self-sufficiency) ▪ Formerly incarcerated
Loan Loss Reserve	N/A
Charge off Rate	0%

Organizational Background

The Fountain Fund, based in Charlottesville, Virginia, provides loans to formerly incarcerated individuals with the goal of empowering individuals and their families, reducing recidivism, and creating safer and more productive communities for everyone. The Fountain Fund began offering loans in May 2017. Borrowers can use the loans to:

- repay court-imposed fees, costs, restitution or other obligations, or pay back child support;
- purchase specialized equipment necessary for particular jobs;
- start small businesses; or
- cover other costs that support returning citizens to settle into the community and achieve financial independence.

Loan Design

The Fountain Fund's board and staff worked together to design the loan. The only fees charged are late payment and bounced payment fees (to cover the cost of bank charges). The five percent interest rate was set by taking into account industry standards, potential earnings to the organization, and the cost to borrowers. The program director reflected that when they compared earnings from a five percent versus ten percent interest rate, the difference to the organization seemed marginal, so they prioritized terms that would be the most favorable to the borrower.

The average loan is $3000 and is used to pay back court fees and fines. There is no cap on the loan amount, but the Fountain Fund must balance borrower requests with their ability to continue lending to others. The Fountain Fund disburses all checks directly to the court or vendor; no monies are given directly to the client.

Loan Implementation

Referrals, Application and Loan Closing

The Fountain Fund works within a network of partners, as one service of many that supports returning citizens. Partner organizations refer clients to the Fountain Fund, and the Fountain Fund connects their clients to the additional services of their partners. The program director also reflected that many of their clients come through word of mouth, "Our clients support each other a lot. Once the word got out among them, we started getting a lot of phone calls."

When clients call or visit the Fountain Fund, staff provide education on navigating the court process to repay legal financial obligations, as well as information on what to expect from the loan program. As a condition of receiving the loan, applicants must attend financial education training (provided in-house and through partners). Along with creating a budget and reviewing their credit report with the program manager, applicants must substantiate the use of their loan funds and provide references. The Fountain Fund's staff spend a lot of time working with individuals during the application process. They also work with the courts to help the individual set up payment plans where the loan funds are used as a starting down payment or lump sum payment, or to reduce interest charges.

Currently, the board approves all loan applications but the Fountain Fund is in the process of developing a separate loan review committee.

Servicing and Repayment

More than half of the Fountain Fund's borrowers make auto-debit payments. Borrowers that rely on the cash economy, or live paycheck to paycheck, typically pay using money orders.

Throughout repayment, the Fountain Fund staff often remain involved in the borrower's life by attending relevant court appearances or assisting them with other administrative processes (such as the Department of Motor Vehicles). The program director says, "We become a partner to our clients in the residual criminal justice process. This strengthens our relationship with them and they see that we are invested in their progress."

Since the Fountain Fund's operation is relatively small, staff currently use spreadsheets to track loans. As they grow, they will shift to a loan management software.

Other Services

In addition to providing financial education, the Fountain Fund is working to establish partnerships with local banks to increase borrower's access to mainstream financial products. They are also exploring a peer-mentoring component, which matches loan recipients with individual "sponsors" who have successfully returned to communities following periods of incarceration.

Additional Considerations

Provide a Cushion and Incentivize with Savings

For returning citizens who truly need a second chance, loans could be designed with a built-in safety net and ideally, with an opportunity to save. Organizations may seek to design their product to include a reserve guarantee account, for instance, with specific funds set aside to help borrowers in emergency situations during which they cannot make a payment. Additionally, offering matched funds for every on-time loan payment (modeled after individual development accounts) can support returning citizens in more quickly achieving their financial goals. The Twin Accounts™ product developed by the Local Initiatives Support Corporation (LISC), for example has paired a 12-month installment with 1:1 monthly match. These match funds are set aside to support the continuation of credit building activity upon loan closure (completion). A designer of or provider of a reentry opportunity loan may opt to build in similar safety net features.

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 Card—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.

Step 3 Tools

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

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

Review your goals, credit report, and budget to determine whether and what type of credit product(s) you could benefit from and why. Make sure to prioritize your ability to make on-time payments on any new product!

1. My goal is to: _____

_____

2. My credit profile is:

NO FILE (Credit Invisible)	THIN FILE	THICK(ER) FILE
No Credit Report	Credit Report	Credit Report
No Credit Score	No Credit Score/Low Credit Score	Credit Score
No positive or negative information	Fewer than 3 ACTIVE tradelines	Generally 3-5 ACTIVE tradelines
☐	May also include: ☐ Small, paid or older collections only ☐ No MIX of tradelines ☐	Other features: ☐ No current delinquencies ☐ Small, paid or older collections only ☐ No MIX of trade lines ☐ Low revolving credit utilization ☐ Not a lot of recent inquiries ☐ Long history ☐

3. Based on my credit profile, I would most benefit from (check all that apply):

☐ **Opening an Installment Trade**

- ☐ **Credit Builder Loan –** A small-dollar loan designed for the purpose of credit building
- ☐ **Personal Loan –** A loan used for a variety of personal matters
- ☐ **Consolidation Loan –** A loan obtained for the purpose of reducing quantity of bills and/or the consolidation of various interest rates charged into one new loan
- ☐ Other_____

☐ **Opening a Revolving Trade**

- ☐ **Secured Credit Card –** A credit card often secured with a cash deposit, most often used by those new to credit or seeking to improve their credit rating
- ☐ **Unsecured Credit Card –** A credit card obtained without a required security deposit

☐ **Working with my current credit products**

- ☐ Pay down credit card debt
- ☐ Pay down loans
- ☐ Repay a student loan in deferment, forbearance, or in a $0 repayment plan
- ☐ Request a credit line increase

4. This will help me because: _____

_____

Example: *A debt consolidation loan will lower my monthly payments. I will use the $50 I save to place a deposit on a secured credit card, which will help me increase my credit score.*

5. Based on my budget, I can afford to pay $_____ each month on new credit.

Credit Product Comparison

Compare products using the chart below. Unfortunately, some of this information may not be accessible online. Consider contacting creditors directly to obtain the information necessary to make the best product selection decision.

Questions to Consider*	Product #1	Product #2	Product #3
Basic Information			
Creditor Name			
Name of Product			
Type of Product (installment/revolving)			
Eligibility Requirements			
Identification Requirements			
Deposit Amount Required			
Minimum Required Credit Score			
Accessibility			
Language Options			
Transaction Options			
Affordability & Other Terms/Requirements			
Term (6 month, 1 year, revolving)			
Interest Rate (variable, fixed)			
Estimated Monthly Payment			
Credit Limit			
Account Opening Fee			
Annual Fee			
Late Fee			
Prepayment Penalty			
Flexibility			
Payment Due Date			
Grace Period			
Statement Options (email, text, mail, etc.)			
Graduation Options			
Will this product help me graduate to another product?			
Does this creditor have other products I can use that will be of value to me?			

**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 payzing 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 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.

Common Types of Returning Citizen Debt

Returning citizens often carry large debt loads that make it challenging to start life with a clean slate. One study found that male returning citizens face debt that is typically 36 to 60 percent of their annual income.[1] Common types of debt include:

- Legal financial obligations (LFOs)—debt imposed by the criminal justice system including fees, fines, and restitution;
- Debt incurred from incarceration (legal fees, bail bonds, etc.); and,
- Past due child support.

While some of these types of debt may not be a good fit to pay off with a reentry opportunity loan, in supporting returning citizens with reentry and building credit, it is important to take all of the possible types of debt into account.

Legal Financial Obligations (LFOs)

In 2011, incarcerated individuals owed an estimated $50 billion in LFOs.[2] This translates to tens of millions of individuals who have been assessed LFOs.[3] The practice of assessing fines and fees has increased along with the increase of rates of incarceration. As the incarcerated population increased, policy makers argued that taxpayers should not bear the costs associated with incarceration (which typically costs almost $30,000 a year per individual[4]), so local jurisdictions passed on costs to incarcerated individuals themselves.[5] Often, those with lower-risk criminal charges face higher fees in lieu of shorter sentences.[6] LFOs are typically assessed without consideration of the ability to pay and come in three forms—fees, fines and restitution—and arise as a result of arrest, conviction, incarceration, and probation. Courts can charge interest and tack on collection fees.

FINES, FEES, AND RESTITUTION

The Council of Economic Advisors provides the following definitions of fines and fees:[7]

Fines ***are monetary punishments for infractions, misdemeanors or felonies. Fines are intended to deter crime, punish offenders, and compensate victims for losses.***

Fees ***are itemized payments for court activities, supervision, or incarceration charged to defendants determined guilty of infractions, misdemeanors or felonies. Fee collections are intended to support operational costs in the criminal justice system and may also be used to compensate victims for losses. Fees may also have a punitive and deterrent purpose, but are not designed to cater to specific offense categories.***

Restitution can be defined as payments as the sum of money paid by the offender to the victim to balance monetary debt incurred by their crime.

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1 Sankar-Bergmann, A. & Shorter, C. (2016, April 28). Out of Prison, but Shackled in Debt. Prosperity Now.

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

3 Council of Economic Advisors Issue Brief. (2015, December). Fines, Fess, and Bail. https://obamawhitehouse.archives.gov/sites/default/files/page/files/1215_cea_fine_fee_bail_issue_brief.pdf.

4 DeVuono-Powell et al, 2015.

5 Council of Economic Advisors Issue Brief, 2015.

6 Council of Economic Advisors Issue Brief, 2015.

7 Council of Economic Advisors Issue Brief, 2015.

Often, courts outsource the collection of fines and fees to private agencies. These agencies make money by adding additional fees to the original debt, which can double or triple the amount imposed by the court.[9] These debt collectors do not provide much transparency in their processes, and some have been found to employ abusive practices.[10] They also have the power to wield dire consequences for lack of payment, including further incarceration.

LFOs have implications for reentry success and re-incarceration. A report by the Council of Economic Advisors found that 20 percent of all jail inmates were put behind bars because of their inability to pay LFOs.[11] In some states, failure to make a LFO payment is a violation of parole and can lead to further incarceration. For some returning citizens, pressure to repay debts may result in a return to illegal activity, or force individual to "go underground" and disengage from mainstream systems to avoid the police and threats of re-incarceration.[12] In addition, failure to pay LFOs can result in a revoked driver's license. Research conducted in just five states found that 4.2 million people lost their driver's license for failure to pay court fines and fees.[13] Without a driver's license, returning citizens face compounded barriers to maintaining employment, supporting their families, or even meeting other requirements imposed by the criminal justice system.[14]

The adjacent table has a list of common fees imposed by courts around the country. For more information on the LFOs charged in your state and ideas for reform visit Harvard Law School's 50-State Criminal Justice Reform Debt Builder.[16]

COMMON COURT FEES

Pre-conviction
Application fee to obtain public defender
Jail fee for pretrial incarceration
Jury fees
Rental fee for electronic monitoring devices
Sentencing
Fines, with accompanying surcharges
Restitution
Fees for court administrative costs
Fees for designated funds (e.g. libraries, prison construction, etc.)
Public defender reimbursement fees
Prosecution reimbursement fees
Incarceration
Fees for room and board in jail and prison
Health care and medication fees
Probation, parole or other supervision fees
Drug testing fees
Vehicle interlock device fees (DUIs)
Rental fee for electronic monitoring devices
Mandatory treatment (includes drug and alcohol therapy and class fees)
Poverty penalties
Interest
Late fees
Payment plan fees
Collection fees

Source: Brennan Center for Justice and NPR[15]

[9] Quinlan, C. (2017, September 22). Court fees and fines target the poor, leaving them in a 'never-ending cycle of debt. Think Progress. https://thinkprogress.org/court-fees-collections-companies-58ece19be258/.

[10] Quinlan, C., 2017.

[11] Council of Economic Advisors Issue Brief, 2015.

[12] Shapiro, J. (2014, May 19). As Court Fees Rise, the Poor are Paying the Price. NPR.org.

[13] Moyer, J. (2017, September 26). Millions of drivers lost their license for failure to pay court fees, study fines." The Washington Post.

[14] Moyer, J., 2017.

[15] Shapiro, J., 2014.

[16] For more, visit https://cjdebtreform.org/.

Court-Ordered Debt Loads

Debt Incurred from Incarceration

Who Pays?, a national community-driven research project, surveyed over 1,000 returned citizens and their family members. Out of those interviewed, 43 percent of families found attorney's fees to be the most difficult cost associated with incarceration, followed by courts fees and fines (38 percent), bail and bail bonds (20 percent) and restitution (20 percent).[17]

Bail

Bail amounts vary widely by jurisdiction. For a felony arrest, the median bail is $10,000, and the mean is $61,000.[18] Individuals who cannot afford to post bail themselves turn to predatory bail bond companies who typically charge a 10 percent nonrefundable fee. Many bond agents require borrowers to cover any other costs associated with recovering the bond. Depending on an individual's bail amount, the 10 percent fee can be steep and result in a prolonged period of repayment.

Legal Fees

Everyone has the right to a public defender, but, in at least 43 states and the District of Columbia, defendants can be billed for the use of a public defender.[19] These fees typically include an upfront fee for hiring a lawyer, which can range from $10 to $400 and/or fees to reimburse the court for representation, which can add up to thousands of dollars.[20]

In addition, if a family chooses to hire a private defender this can be even more costly.

Other Debt

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 this debt upon release.[21] 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 experience reduced ability to pay off the debt when released. This accumulated child support debt is rarely paid. Research finds that this uncollectible

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[17] DeVuono-Powell et al, 2015.

[18] Council of Economic Advisors Issue Brief, 2015.

[19] Shapiro, J. (2014, May 19). As Court Fees Rise, the Poor are Paying the Price. NPR.org.

[20] Shapiro, J., 2014.

[21] U.S. Department of Health and Human Services, Office of Child Support Enforcement, 2006; Ovwigho et al, 2005; Griswold and Pearson.

debt substantially reduces noncustodial parent earnings. On the other hand, reducing uncollectible debt can increase payments.[22]

Incarcerated individuals may be eligible to get a modification of their child support order.[23] Clients may wish to seek help from Legal Aid to navigate these issues, which are mostly controlled by state, rather than federal law. To find a legal aid organization near you, visit the Legal Services Corporation website.[24]

Past-due Bills and Other Debt

While incarcerated, an individual's entire life can be put on hold. It can be difficult to tie up every loose end. Especially if an individual does not have support from family or friends, utilities and services may not get cancelled and bills may go unpaid, resulting in a large number of collections.

- **College & Community Fellowship**, an organization that helps formerly incarcerated women earn a college degree, found that many of their clients had credit card debt and high student debt loads that prevented them from returning to school.
- The **Lansing Office of Financial Empowerment** found that their returning citizen clients were often victims of identity theft. This issue was further complicated by the fact that it was often a family member or friend who used the individual's identity to access credit or other services while they were incarcerated. This meant that OFE clients often had a large number of bills in collection with which they were unfamiliar.

Returning citizens may emerge from their time behind bars with damaged credit. For these reasons, it is important for any lender and/or financial capability provider to help individuals understand their credit report and take actions to improve their credit file.

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[22] For further information, see:

Heinrich, C. J., Burkkardt, B. C., & Shager, H. M. (2010). Reducing Child Support Debt and Its Consequences: Can Forgiveness Benefit All? Journal of Policy Analysis and Management 30(4) pgs. 755-774.

Cancian, M., Heinrich, C., & Chung, Y. (2009). Does Debt Discourage Employment and Payment of Child Support? University of Wisconsin-Madison Institute for Research on Poverty Discussion Paper no. 1366-09.

Holzer, H., Offner, P., & Sorensen, E. (2004). Declining Employment Among Young Black Less-Educated Men: The Role Of Incarceration and Child Support. Urban Institute.

[23] See the Department of Health and Human Services' (HHS) Changing a Child Support Order guide 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.

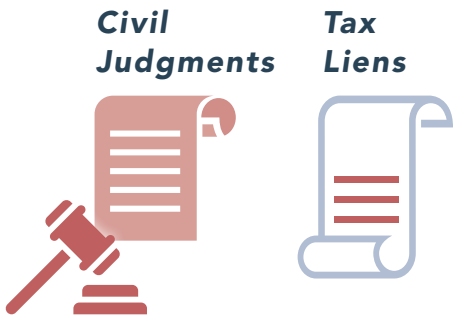
[24] For information, visit https://www.lsc.gov/.

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 affect the credit profiles of returning citizens.

The most relevant NCAP updates include:

- As of 2018, all civil judgments and tax liens have been removed from consumer credit reports due to a high potential for inaccuracy. 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).

Practitioner Considerations: Helping Returning Citizens Deal with Debt Through 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 years from date of closure
Late or missed payments	7 years from date of first delinquency
Charge Off/ Collections	7 years from date of first delinquency
Bankruptcy	10 (Ch. 7) or 7 (Ch. 13) years from date of entry
Foreclosure	7 years
Inquiries	2 years

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.

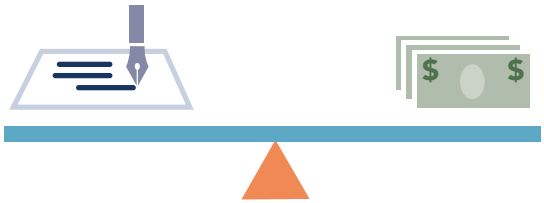
Strategy: Prioritize Debt Obligations

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

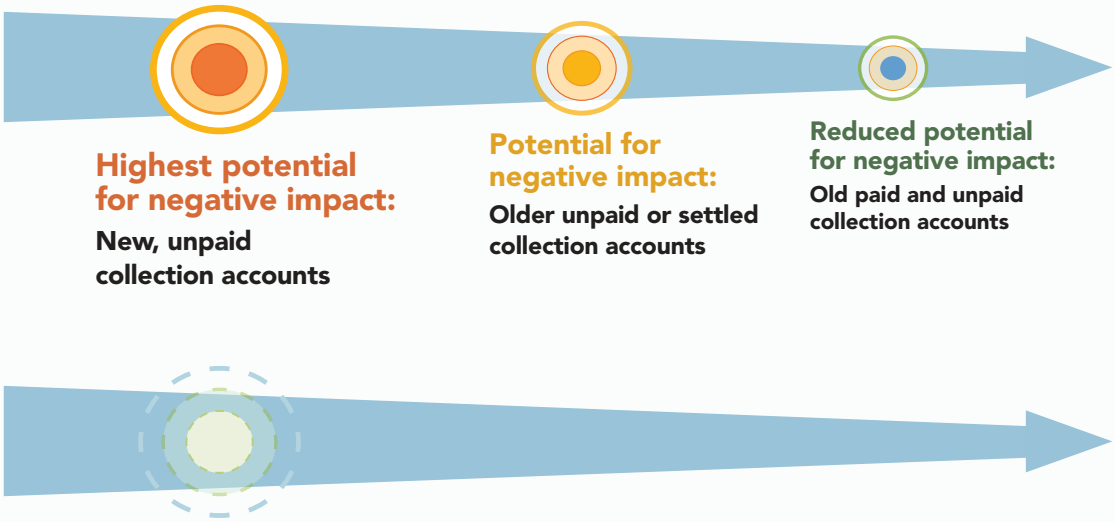
Strategy: Navigate Competing Priorities

- 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.

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



No impact*: Collection accounts with $0 balance
(VantageScore® 3.0 and 4.0, FICO® Score 9)

Collection accounts with very small original balances
(<$250 for VantageScore® 3.0 and 4.0 and <$100 for FICO® Scores 8 and 9)

Inaccurate collection accounts that have been successfully disputed and removed

*May still appear on the credit report and be viewable by lenders!

Step 4 Tools

- CBA Credit Strength Roadmap© Deal with Debt Worksheet (next page—available for 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/.

Debt can weigh down one's credit if not addressed. Identify what steps may be needed to tackle your debt and ensure accuracy of all reported information. Consider how and why you might prioritize certain debts over others.

1. Dispute: Address Errors and Identity Theft

Debts that are not accurately reporting or that do not belong to you, should not appear on your credit report. Take action immediately to request any necessary changes. If you are a victim of identity theft, visit identitytheft.gov to report and resolve the issue.

To dispute errors, include supporting documentation with your dispute letters and keep a copy for your records.

Name of Account/Creditor	Bureau Reporting Debt	Reason for Dispute	Date Letter Sent	Resolved
			/ /	☐
			/ /	☐
			/ /	☐

2. Prioritize Active Debt Payments

Paying on time is most essential to maintaining a strong credit score. Consider opportunities to pay more than the minimum payment to save in total interest paid.

There are a few ways to evaluate how to schedule those additional payments, including:

- ☐ Pay highest interest accounts first
- ☐ Pay smallest balance accounts first
- ☐ Increase the amount paid monthly
- ☐ Other _____
- ☐ Make multiple monthly payments to reduce total interest cost
- ☐ Retain aged credit accounts for longevity
- ☐ Other _____

Work with your financial coach to maximize your budget and identify a debt repayment calculator that can help you develop your debt repayment plan.

Notes _____

_____

3. Budget and Save to Reduce or Pay Off Debt

If and once all active accounts are paid on time, consider opportunities to satisfy old debts, such as charged off/written off debts. When possible, satisfy debt prior to it reaching collection status. Consider how the payment method you choose (lump sum settlement v. payment arrangement) might also affect your timeline for goal achievement.

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

How much can I afford to save monthly towards debt? _____

What other sources of funds or opportunities can I apply to debt payouts?

_____

For example, can I reduce expenses, request a raise, work overtime, seek a part-time job, apply my EITC funds or a gift, etc.?

Source of Funds	Anticipated Amount	Amount to Be Allocated Toward Debt	Date Expected	Account(s) to Be Satisfied
	$	$	/ /	
	$	$	/ /	
	$	$	/ /	

4. Reduce or Pay Off Accounts in Collections

Unpaid debts can have serious consequences, including costing you additional money in fines and fees, wage garnishment, judgments, etc., not to mention limit one's ability to access financial products, such as home purchase. When satisfying, prioritize any high risk accounts while also considering the date that a debt is scheduled to fall off of your credit report, the statute of limitations in your state, your goals, and your timeline. Keep a record of all correspondence.

Debt/Creditor	Settlement Amount	Date Paid	Resolved
1.	$	/ /	☐
2.	$	/ /	☐
3.	$	/ /	☐
4.	$	/ /	☐
5.	$	/ /	☐

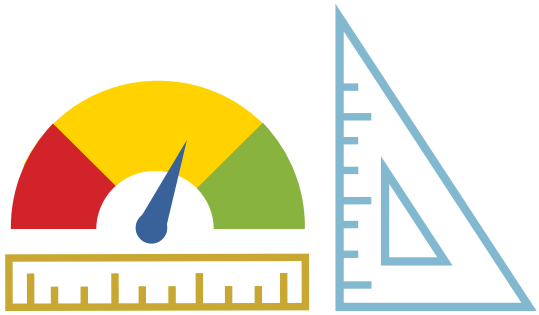
Step 5: Make Credit Building Count

Overview

Credit building does not happen overnight; it takes time and dedication. 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. However, they are not the only metric. Perhaps more importantly, credit score change alone does not equate to financial access or stability unless it is leveraged to help clients:

- 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

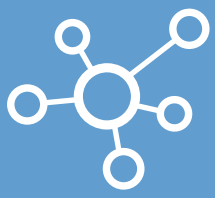


More and more nonprofits recognize that their clients are more than just credit scores, and that focusing on scores alone—particularly in the reentry context when returning citizens may be dealing with monumental external factors—may be too narrow an approach in order to affect more holistic progress 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 be insufficient for tracking how returning citizens are able to use their credit history to move forward in their journey towards establishing financial health or stability. CBA's Credit Strength Framework© offers guidance as it brings some consistent credit building metrics to the field. 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.

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?

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. One study found that over a quarter of formerly incarcerated individuals cited family as the most important factor preventing recidivism.[1] 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.[2]

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., 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.

Justine PETERSEN understands the power and opportunity that credit building offers to low-income individuals in stabilizing finances and providing opportunities that help keep formerly incarcerated individuals from returning to prison.

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[1] The Urban Institute. (2008, May). "The Challenges of Reentry: Facts and Figures." LIWF Fact Sheet. https://www.urban.org/research/publication/challenges-prisoner-reentry-facts-and-figures.

[2] DeVuono-Powell et al., 2015.

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.
- Recognize that 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 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, obtaining housing, getting a well-priced car loan, or even starting a small business.

> 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

Step 5 Tools

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

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

Credit strength can be defined as leveraging strong credit to achieve your goals. Building credit strength requires Knowledge, Access, and Actions, all detailed below.

	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 your goals?		
ACCESS	have active credit?		
	have a mix of credit types?		
	have a credit account with a bank or credit union?		
	have a prime credit score?		
ACTIONS	dispute errors found on your 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?		

Based on your responses above, consider how you might build out your Knowledge, Access or Actions.

What can you work on to improve your credit strength?	
Area	
Support Needed	
Additional Questions	

Track Credit Score Progress

Credit score change is one of many metrics used to demonstrate financial health. Reflect on your actions taken that have led to an increase or decrease in score and continue or adjust this behavior accordingly.

Credit Score Improvement	Experian		TransUnion		Equifax	
Score Model						
Prior Score/Range	Score	Date / /	Score	Date / /	Score	Date / /
Current Score/Range	Score	Date / /	Score	Date / /	Score	Date / /
Credit Score Increase/Decrease						

What factors or actions contributed the most to this change?

_____

What additional steps can I take to continue to improve my credit?

1._____

2._____

3._____

Leverage Your Credit Strength

Credit building is only so effective if it permits us to achieve our other financial goals. Indicate how you might leverage an improved credit score. And celebrate your continued credit success!

Options/Opportunities	Applicable	Next Steps	Due Date
Refinance for a lower interest rate	☐		/ /
Request security deposit	☐		/ /
Request a lower premium	☐		/ /
Apply for a job	☐		/ /
Apply for a bank account	☐		/ /
Apply for another credit product	☐		/ /
Build savings account	☐		/ /
Graduate to unsecured credit account	☐		/ /
Other:	☐		/ /

Appendix 1

About Credit Builders Alliance

Credit Builders Alliance (CBA) is an innovative nonprofit social enterprise dedicated to building the capacity of a diverse and growing network of hundreds of nonprofits (CBA members) across the country that help low- and moderate-income households build strong credit and other financial assets. CBA was created by and for our nonprofit members as a bridge to the modern credit reporting system to help millions of individuals with poor or no credit participate in the mainstream financial system by building credit.

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 serves as a unique and vital bridge between our members and the major credit reporting agencies (CRAs). Our core services, CBA Reporter and CBA Access, provide nonprofits 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.

CBA Credit Builder Community

Our membership is comprised of a diverse array of nonprofit organizations, including Community Development Financial Institution (CDFI) loan funds, microenterprise development organizations (MDOs), small credit unions, and multiservice/integrated services organizations such as community action agencies, affordable housing organizations, Local Initiatives Support Corporation (LISC) Financial Opportunity Centers (FOCs), and local Catholic Charities and United Way affiliates, among many others. Through our members, CBA services touch estimated 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 that our efforts remain grounded in the work members do every day, 50% of CBA's Board seats are held by practitioners in the credit building field.

Our credit building platform has 4 levels of impact in pursuit of our mission:

CBA helps nonprofits start or enhance credit building **PROGRAMS** by becoming credentialed with the credit bureaus to report loans, and/or to pull credit reports for credit coaching or underwriting.

CBA supports **PRACTITIONERS** by providing training and technical assistance on credit and credit building.

At the industry level, we support the replication and promotion of innovative and responsible credit building **PRODUCTS.**

CBA advocates for consumer friendly **POLICY** changes within the credit industry itself.

Appendix 2

List of Organizations Supporting Credit Building Activities with Formerly Incarcerated Communities

As part of the original 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:

Cuyahoga County Office of Reentry

Mission: The Cuyahoga County Office of Reentry's mission is to remove the stigma and social burdens that challenge returning citizens by launching and sustaining a reentry movement that provides the full range of comprehensive services, support, and monitoring opportunities needed for a successful reintegration.

4261 Fulton Parkway
Cleveland, OH 44144
http://reentry.cuyahogacounty.us/

The Fountain Fund

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

233 4th Street NW
Charlottesville, VA 22903
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/

Heartland Alliance, Human Care Services

Mission: Heartland Alliance advances the human rights and responds to the human needs of endangered populations – particularly the poor, the isolated, and the displaced – through the provisions of comprehensive and respectful services and the promotion of permanent solutions leading to a more just global society.

208 S. LaSalle Street, Suite 1300
Chicago, IL 60604
https://www.heartlandalliance.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 includes some of 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: Making a difference by connecting community needs and University resources to address critical issues in Minnesota.

240 Coffey Hall
1420 Eckles Avenue
St. Paul, MN 55108-6068
https://www.extension.umn.edu/

Appendix 3

Additional Resources

Financial Capability/Capacity Building Resources

Bank On

Bank On works to ensure that everyone has access to a safe and affordable bank or credit union account. Their website includes information on branches with certified accounts and information on the many coalitions across the country.

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

Center for Financial Security at the University of Wisconsin-Madison

The Center for Financial Security (CSF) is a research center that conducts top notch financial research examining the role of products, policies, and advice helping households deal with personal financial issues. From this research, evidence-based strategies to promote financial security are developed and shared with financial practitioners in order to strengthen the financial well-being for individuals at all stages of life.

To learn more visit: https://cfs.wisc.edu/home/.

Center for Social Development at the George Warren Brown School of Social Work

The Center for Social Development (CSD) makes many research publications available including topics on financial capability, inclusion in asset building, and other social justice topics.

To learn more visit: https://csd.wustl.edu/.

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/.

Cities for Financial Empowerment Fund

The Cities for Financial Empowerment (CFE) Fund work to improve financial stability by embedding financial empowerment in local government. In addition to providing financial support, they offer webinars, briefs, and other information to support financial empowerment.

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

Consumer Financial Protection Bureau

The Consumer Financial Protection Bureau (CFPB) 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/.

Credit Builders Alliance

Credit Builders Alliance serves as a bridge between its over 550 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/.

Federal Deposit Insurance Corporation

The Federal Deposit Insurance Corporation (FDIC) is home to Money Smart, a financial education curriculum designed to improve financial skills and create positive banking relationships. Money Smart is available for adults, young people, older adults, and small businesses. All the tools are free and there is a train-the-trainer program.

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

Federal Trade Commission

The Federal Trade Commission (FTC) offers information for consumers on money and credit, homes and mortgages, and privacy and scams. The FTC also allows consumers to file a consumer complaint and take steps to address identity theft.

To learn more visit: https://www.ftc.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.

Legal Aid

LawHelp.org offers a directory of free legal aid programs, allowing search by area functions.

To learn more visit: https://www.lawhelp.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/.

The Urban Institute

The Urban Institute seeks to open minds, shape decisions, and offer solutions through economic and social policy research. Areas of focus include crime and justice, health, housing, poverty, race and ethnicity, and much more.

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

Returning Citizens Resources

Center for Social Development

Promoting Reentry Well-Being: A Novel Assessment Tool for Individualize Service Assessment in Prisoner Reentry Programs is a research paper providing guidance on the use of the Reentry Well-Being Assessment Tool.

To learn more visit: https://openscholarship.wustl.edu/csd_research/572/.

Clean Slate Clearinghouse

A clearinghouse on legal service providers, and state policymakers with information on juvenile and adult criminal record clearance policies in all U.S. states and territories.

To learn more visit: https://csgjusticecenter.org/cleanslate/.

Fines and Fees Justice Center

The Fines and Fees Justice Center seeks to catalyze a movement to eliminate the fines and fees that distort justice. Their goal is to eliminate fees in the justice system and to ensure that fines are equitably imposed and enforced.

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

Legal Action Center

The Legal Action Center has advocacy toolkits to combat legal barriers faced by individuals with criminal records.

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

The National Consumer Law Center

The U.S. criminal justice system disproportionately burdens low-income individuals and people of color, as well as their families and communities. The National Consumer Law Center focuses on the intersection of criminal and consumer law, and their role in equitable criminal justice reform.

To learn more visit: https://www.nclc.org/issues/criminal-justice.html.

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.

National Legal Aid and Defender Association

A broad network of advocates working to advance justice and expand opportunity for all by promoting excellence in the delivery of legal services for people who cannot afford counsel, and has a specific initiative focused on safety and justice.

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

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.

PolicyLink

PolicyLink promotes a just society by addressing injustices and its causes, especially as these injustices impact communities of color and low-income communities. To do so, the organization provides legal representation, analysis, and strategies to community-based coalitions working toward equity in economic development and criminal justice. This scope of work also includes advancing policies related to inequitable fines and fees, police accountability and alternatives, and the needs of boys and men of color.

To learn more visit: https://www.policylink.org/our-work/just-society.

Prison Policy Initiative

The non-profit, non-partisan Prison Policy Initiative produces cutting edge research to expose the broader harm of mass criminalization, and then sparks advocacy campaigns to create a more just society. Prison Policy Initiative also provides an at a glance of mass incarceration, state by state.

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

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.

Roadmap to Reentry: A California Legal Guide

An in-depth guide created by the nonprofit Root & Rebound. While the guide is specific to returning citizens living in California, it is comprehensive and returning citizens in other states may find it helpful as well.

To learn more visit: http://www.rootandrebound.org/roadmap-to-reentry-guide.

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.

The Marshall Project

The Marshall Project is a nonprofit dedicated to criminal justice news.

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

The Sentencing Project

The Sentencing Project works for a fair and effective U.S. criminal justice system by promoting reforms in sentencing policy, addressing unjust racial disparities and practices, and advocating for alternatives to incarceration.

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

The Vera Institute of Justice

The Vera Institute of Justice has a mission to drive change. They urgently build and improve justice systems that ensure fairness, promote safety, and strengthen communities. Their three commitments include securing equal justice, ending mass incarceration, and strengthening families and communities.

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

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 4

Special Note on Identity Theft

According to the Bureau of Justice Statistics (BJS), an estimated ten percent or 26 million (up three percent from 2014) of U.S. residents, aged 16 or older, were victims of at least one incidence of identity theft in 2016, the most recent year that data has been collected. The most common misuse, affecting 85 percent of the identity theft victims involved a credit card or an existing bank account.[1] 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 go 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 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. There is no cost to place or lift a security freeze, in any state. 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 Fraud 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 is in addition to the free annual report accessible to all consumers annually from each bureau). This alert does not prevent access to the credit file. It is valid for one year.

Extended Fraud 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. In addition to the free annual report all consumers are entitled to, consumers in this status have the right to two free consumer reports per bureau during the first year that this alert is added.

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[1] Harrell, E. (2019, January). Victims of Identity Theft, 2016. Bureau of Justice Statistics, Bulletin NCJ 251147. https://www.bjs.gov/content/pub/pdf/vit16.pdf.

Credit Bureau Contact Information:

Equifax
(800) 685-1111
Equifax Security Freeze
P.O. Box 105788
Atlanta, GA 30348
https://www.equifax.com/personal/credit-report-services/

Experian
(888) 397-3742
Experian Security Freeze
P.O. Box 9554
Allen, TX 75013
https://www.experian.com/help/

Transunion
(888) 397-3742
P.O. Box 2000
Chester, PA 19016
https://www.transunion.com/credit-help

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	X

*adapted from CFPB resource

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

Additional Resources

Identitytheft.gov – The Federal Trade Commission's site for all things identity theft. It includes a variety of action-oriented checklists as well as the ability to file an identity theft report online.

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