Credit Builder Loan

TOOLKIT

CBA Training Institute

Credit Builders
ALLIANCE

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About Credit Builders Alliance

CBA was created by and for our nonprofit members in response to a serious gap in the modern credit reporting system that locks millions of individuals with poor or no credit out of the mainstream financial system. CBA's core services provide our 550+ members with the ability and support needed to report loan data to the credit reporting agencies and to pull client credit reports for financial education, outcome tracking, and underwriting. Our Training Institute provides robust trainings, tools, and up-to-date industry information that equips practitioners to help clients build credit and reach financial goals. Through this support, CBA helps people and small businesses who are outside of or underrepresented in the financial mainstream build credit to achieve their goals and enjoy financial resiliency.

For more on CBA, go to **www.creditbuildersalliance.org** and follow us on Twitter at **@Credit_is_Asset.**

Acknowledgments

This toolkit was developed with support from

WELLS FARGO

We would like to thank FUND Community Institute for their collaboration on our Credit Builder Loan research. In addition, we thank the dozens of Community Development Financial Institutions and nonprofit lenders that took time to share information about their Credit Builder Loan programs and those that went above and beyond by participating in an in-depth interview.

A. What is a Credit Builder Loan?

A good credit history is crucial in today's economy. Far more than just a number, a good credit score is a prerequisite for every day financial services like a low-cost credit card, a bank account, or a car loan. A good credit history can make the difference in accessing the affordable lending products essential to going to college, buying a home, or starting and growing a small business. Renting an apartment, paying for car insurance, signing up for utilities, and even landing a job can also be affected by a person's credit history—or the absence of one. Yet, 91 million adults in the US are credit challenged, meaning they don't have enough credit history to have a score, or they have a subprime credit score, and are deemed too risky by lenders to qualify for financial products.[1]

Credit can be an unyielding catch-22: without credit, it is hard to get credit. However, more and more nonprofit lenders and credit unions across the country are seeking to shift this restrictive paradigm by offering small dollar Credit Builder Loans (CBLs) that allow individuals to begin to build on-time payment history, with minimal risk and at a rate that is affordable and accessible to them. CBLs are designed to help consumers with no or thin credit files, or those with low scores but minimal outstanding current delinquencies, to establish and (re)build their credit histories and scores. These small consumer loans are generally made using alternative underwriting criteria to assess borrowers' ability and likelihood to repay.

CBA DEFINITIONS

CREDIT BUILDER LOAN

Small dollar consumer loans that are secured by the loan proceeds themselves. Rather than issuing the loan funds to the borrower at loan closing, the money is released to the borrower upon repayment.

CREDIT BUILDING

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 credit bureaus. 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, they can access opportunities and reduce expenses, while also building assets.

A crucial difference between CBLs and other small dollar loans that also build credit is that CBLs are "secured" by the loan proceeds themselves and released to the borrower upon repayment. Rather than issuing the loan funds to the borrower at loan closing, the funds are deposited into a restricted deposit account. As a result, CBLs are designed to doubly benefit borrowers by helping them build credit as well as creating an opportunity to accrue savings.[2]

Although terms (e.g. interest rates, fees, length, amount, etc.) may differ, CBLs are generally small dollar installment loans with terms ranging from 12 to 24 months. Some providers incentivize the loan program by matching the loan proceeds at maturity. To fulfill the core purpose of the loan, providers of CBLs must report complete payment histories on these loans to at least one major consumer reporting agency (CRA). Full reporting of payments enables borrowers to establish and build credit and better meet their financial goals.

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[1] Graham, Karen and Elaine Golden (2019). 2019 Financially Underserved Market Size Study. Financial Health Network.

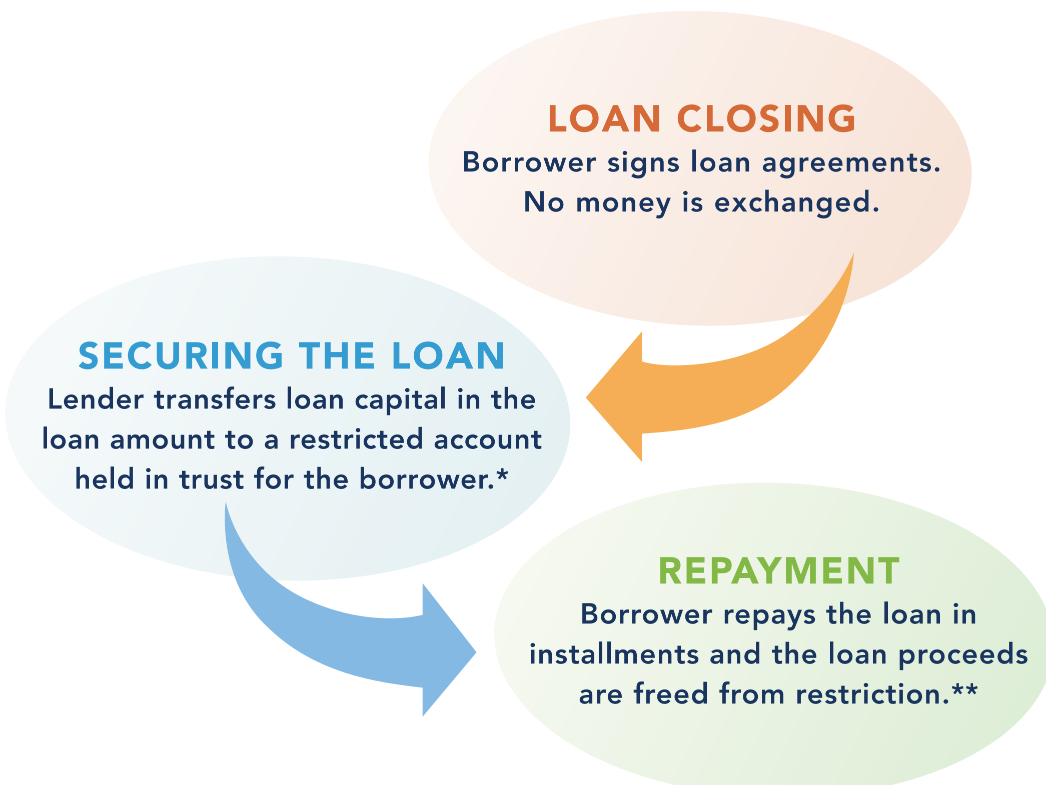
[2] There are many organizations that offer loans that they call "Credit Builder Loans" that don't meet this definition. For the purposes of this toolkit, our guidance and examples are specific to CBLs that strictly follow our definition.

This guide aims to walk nonprofit financial capability/asset building practitioners and lenders through the steps to offer CBLs in their community. It provides technical and programmatic recommendations along with real-world examples of how nonprofits are administering and servicing CBLs. The guide also includes examples of ways to offer CBLs in partnership with another lender, who can handle the back-end work of loan provision, if offering CBLs in-house isn't the right fit for your organization. For organizations setting up a loan program for the first time, this toolkit can be a resource to learn from others in the field and minimize roadblocks. For lenders who are experienced with the fundamentals of providing loans, this guide can help differentiate CBLs from other loans in their portfolio. Regardless, readers should select the information that best aligns with their program, capacities, clients, and environment.

B. Typical Credit Builder Loan Mechanics and Features

Credit Builder Loans are unique in that they are purely for credit building purposes. Since the funds are secured in a restricted account by the lender, no money is exchanged up front. The security, released when the loan is repaid, can often serve a second purpose of savings accumulation. The diagram below shows a typical version of the lending process and Table 1 shows common features of CBLs provided by CBA Members.

FIGURE 1: CBL LENDING PROCESS



* Once the loan is closed and the lender transfers the loan capital to a restricted account, these funds technically belong to the borrower, hence the loan is secured by the loan proceeds. The lender can start repaying themselves for the loan capital once the borrower makes payments.

** In some cases, the loan proceeds are released to the borrower once the loan is paid in full in other cases, the proceeds may be released with each payment.

TABLE 1: TYPICAL CBL FEATURES

	CBA Member Practices
Purpose	Building or establishing credit
Loan Amount	$120 - $500
Loan Terms	12 to 24 months
Interest Rate	0% - 12%
Typical Fees	Fees vary
Key Underwriting Considerations	▪ Identity verification ▪ Ability to make payments (review of income and budget)
Security/Collateral	Secured by the loan proceeds
Loan Servicing and Payments	▪ Monthly payment reminders ▪ Flexible payment options (i.e. online, in-person, via mail)
Collection Procedures	▪ Provide notices at 10 and 30 days past the due date ▪ Close out the loan and return any proceeds owed to the borrower before 60 days past due
Borrower Support/ Financial Education	▪ Review budget and credit report during the application process as an educational and readiness assessment tool ▪ Offer ongoing credit pulls and reviews; support working on a credit action plan ▪ Offer or connect to a graduation product once loan has been paid-off
Credit Reporting	Report to all three major credit bureaus
Measuring Success	Collect information on: ▪ Credit score change or establishment ▪ Access to additional credit building products ▪ Progress towards and achievement of financial goals ▪ Success with repayment ▪ Borrower's program satisfaction

C. What Do We Know About Credit Builder Loans?

CBLs are most immediately meant to help consumers establish or build their credit score. Much of the research conducted to-date confirms that CBLs are effective, but most impactful for consumers with specific credit profiles. Below we highlight findings from various studies that portray CBLs' potential for impact, as well as implications for the delivery of CBLs by nonprofit organizations.

CREDIT TERMINOLOGY

CREDIT INVISIBLE:

No credit report or score due to lack of credit history.

UNSCORABLE:

No credit score due to limited credit history (could have a credit report).

1. Credit Builder Loans generally provide the most benefit to those who are credit invisible or unscorable

- **CBLs are a powerful strategy to help those with no credit scores become scorable.** Self-Help Federal Credit Union (Self-Help) found that of borrowers who took out their Fresh Start CBL, those who were unscored at loan origination established an average score of 643.[3] Furthermore, Justine PETERSEN, a nonprofit that has offered CBLs since 2008, reported that on average, clients with no credit score reach a score of 680 after paying off a CBL.[4]
- **For those with low credit scores but minimal delinquent debt, CBLs can provide a substantial boost.** Among borrowers in the Self-Help study who improved their existing score, the average gain was 47 points. Using a randomized control trial, researchers found that at St. Louis Community Credit Union (STLCCU), CBL borrowers with no outstanding debt experienced a 60 point credit score increase.[5] Justine PETERSEN also found that individuals with starting credit scores below 520 saw an average score increase of 90 points, with over 85 percent reporting a 30 point or higher score. For those with initial scores between 521 and 620, clients saw an average credit score increase of 29 points (see Figure 1). Among CBL borrowers, those with the lowest scores often experience the largest gains.
- **CBLs are less likely to improve credit scores for those with large debt loads, especially if any or all of the debt is delinquent but not yet in collections.** CBLs are also less likely to benefit those who already have many positive, active lines of credit and as a result already have good credit scores. Through in-depth interviews with ten CBL lenders, CBA and FUND Community Institute heard across the board that borrowers with large debt loads, recent collections, and/or multiple existing lines of positive active credit experience minimal score improvement, if any, with the addition of a CBL. The STLCCU study confirmed this, finding that for those who were scored and had existing debt, the addition of the CBL slightly lowered their scores.[6] Similarly, Justine PETERSEN notes that

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3 Wolff, Sarah. (2016). PROVIDING A FRESH START: An analysis of Self-Help Federal Credit Union's Fresh Start product. https://www.self-help.org/docs/default-source/PDFs/freshstart-2-23-16.pdf?sfvrsn=2.

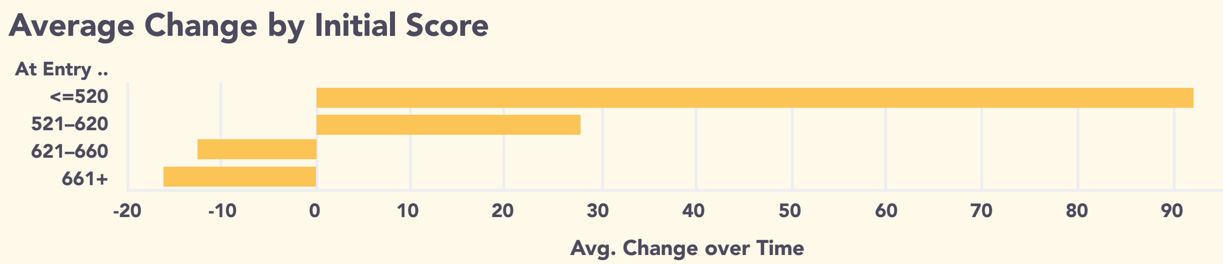
4 Floros, Theodore and Tamra Thetford. "Credit Score Outcomes for Credit Building Loan Borrowers." Credit Building Nation and Justine PETERSEN. 2019. St. Louis, MO.

5 Burke, Jeremy, Jamison, Julian, Karlan, Dean, Mihaly, Kata and Zinman, Jonathan. (2019). Credit Building or Credit Crumbling? A Credit Builder Loan's Effects on Consumer Behavior, Credit Scores and Their Predictive Power, No 26110, NBER Working Papers, National Bureau of Economic Research, Inc. https://EconPapers.repec.org/RePEc:nbr:nberwo:26110.

6 ibid.

46 percent of borrowers with initial credit scores between 620 and 660 see an average decrease of around 12 points after taking out a CBL. For clients starting with prime credit scores, above 660, 78 percent see an average score decrease of 16 points.[7] While the decrease in score is nominal and may not influence a borrower's risk tier, it shows that CBLs may not be the best credit improvement tool for this segment of borrowers.

Figure 2: **Justine PETERSEN tracked credit scores for 180 clients that received and completed the credit building product between January 2016 and May 2017. This table shows average change in score by initial score.**



Source: Floros, Theodore and Tamra Thetford. "Credit Score Outcomes for Credit Building Loan Borrowers." Credit Building Nation and Justine PETERSEN. 2019. St. Louis, MO.

"The biggest improvement comes when someone has no credit, which in fact most of our borrowers fit because they're new to the country, they have no credit history. We've seen people go from insufficient credit to score up to the mid-600s just in six months…Where it becomes less clear or there is less of an impact is when someone already has credit and has negative impacts on their credit…Sometimes a $100 installment loan really won't do much to offset some of those previous negative impacts."

Zachary Bezold, Operations Coordinator
International Rescue Committee's Center for Economic Opportunity (IRC CEO)

2. Credit coaching can enhance credit score outcomes for CBL borrowers

Some studies indicate that CBL borrowers also receiving financial coaching experience enhanced outcomes. For example, CBL borrowers using Fig Loans, an online lender and CDFI, who made all their payments but did not receive any additional coaching support saw an average credit score increase of 47 points. Fig Loan CBL borrowers who took out the loan from a nonprofit that provides additional credit building support experienced an average increase of 60 points. Similarly, a Local Initiatives Support Corporation (LISC) study of the LISC Twin Accounts™ CBL program, found that Twin Accounts™ holders engaged in financial coaching services more frequently, almost double the amount of time of the control group.[8] Among the lenders

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[7] Floros, Theodore and Tamra Thetford. "Credit Score Outcomes for Credit Building Loan Borrowers." Credit Building Nation and Justine PETERSEN. 2019. St. Louis, MO.

[8] Rankin, Sarah. (2017). Loan Products for Credit-Building: An Impact Analysis of Twin Accounts. https://www.lisc.org/media/filer_public/ed/51/ed516c85-5917-4f0a-9fa0-edbc79a4cbdb/022717_resource_loan_products_for_credit-building_twin_accounts_analysis_final.pdf.

interviewed by CBA and FUND Community Institute, many speculated that CBLs are more impactful when they are not a standalone product. Accompanied with support such as a readiness assessment, coaching towards financial goals, a credit report review, and credit action planning, borrowers can leverage CBLs for greater impact. CBA recognizes the opportunity for further research in this area.

3. CBLs are loss leader products, but further lenders' missions

Lenders offer CBLs to further their missions, despite the need to subsidize costs. Of the banks, credit unions, and nonprofit lenders interviewed by CBA and FUND Community Institute, all were subsidizing the cost of offering CBLs in some way.[9] As credit reports are used more widely by creditors, employers, and other businesses, mission-oriented lenders see the connection between their clients' credit profiles and the opportunities available to them. Over the last decade, the nonprofit community in particular has embraced credit building as integral to helping low- and moderate-income and other underserved individuals weather economic shocks and smooth income, improve access to high-quality credit products, and expand opportunities to generate wealth through asset building.

While some of the costs of CBLs are offset by an application fee, lenders often seek to bring down organizational costs by streamlining the application processes and underwriting requirements. In addition, many of the lenders, particularly banks and credit unions, found that CBLs can serve as a gateway product to other credit products offered. Hence while not immediately profitable, CBLs build their pipeline for other self-sustaining products. Of the 56 CBL CDFI providers surveyed by CBA and FUND Community Institute, 54 percent do not charge application fees; of those that do the average is $46 and the median is $28. The other most commonly charged fee was for late payments at an average of $13.

"We are definitely subsidizing the loans, but because of how mission impactful they are. They really meet the core mission of what the Credit Union is trying to establish. I don't see us ever questioning should we offer them, but we often discuss: how can we offer this product without it being so costly to the credit union?"

Mark Ryan, Vice President of Lending
Self-Help Federal Credit Union

[9] In the survey conducted by CBA and FUND Community Institute, 96 percent of respondents report that they find their CBL products extremely beneficial or beneficial to clients and others in the community. 60 percent of respondents strongly disagree or disagree that their CBL product is profitable.

D. Programmatic Recommendations

Below we provide guidance and recommendations for successfully offering a CBL program. This section is based on insights and data from CBA members collected over many years.

1. Loan Structure

Simplify underwriting. Since CBLs pose minimal loan loss risk to the lender, the most important part of underwriting is ensuring that the borrower can afford the monthly payments. In addition to identity verification, many nonprofits require proof of income and sometimes a household budget. Most don't consider credit history or use other traditional underwriting measures such as debt-to-income ratios. For example, Self-Help Credit Union only requires self-reported income as the underwriting criteria. International Rescue Committee's Center for Economic Opportunity (IRC CEO) requires valid ID, a US transactional bank account, and participation in financial coaching. Simplifying underwriting cuts down on the lenders' costs and keeps the product accessible to potential borrowers.

"This is a really entry-level product, and so keeping the underwriting, the documentation, all of that as minimal and streamlined as possible is really important. The person has to be at least 18 years old; they have to have a monthly budget that shows at least $27 in their monthly budget to make the loan payment. They have to have no delinquencies on their active tradelines or discharge bankruptcy in the last three months. That's it. And we tried to do that so that it's completely transparent to the client, and to the counselor, and the coach."

Tamra Thetford, Chief Program Officer, Justine PETERSEN

Set loan terms for at least twelve months. CBA recommends structuring the loan term to report to the credit bureaus over a minimum of twelve months for optimal credit impact. The purpose of a CBL is to build a track record of on-time payments, so early repayment of the loan is not in a borrower's best interest and can in some cases result in a decrease in the borrower's credit score. Thus, it is important to encourage borrowers to make payments outlined over the full term of the loan, as scheduled. While CBA encourages twelve months of reporting, borrowers should not be penalized for prepayment.

Develop policies that mitigate non-payment consequences, within the constraints of the Fair Credit Reporting Act (FCRA). The FCRA is designed to protect consumers by ensuring that lenders are accurately reporting data with integrity. For CBLs to be considered a loan, all payment history—positive and negative—must be reported. While lenders are required to report late or missed payments, lenders can put policies in place to curtail prolonged harm to a borrower's credit if they are late. For credit reporting purposes, payments are considered late if they are more than 30 days past due. If a borrower falls past due but they can catch up on payments relatively quickly, they may still have time to build credit with the loan. Many CBA members providing CBLs report delinquent loans up to the point that they are 60 to 90 days past due and then apply the secured collateral to pay and close out the loan. This means that the borrower would experience negative credit impact of two to three missed payments before the loan is closed out and the funds that they have already paid into the loan are sent back to them.
In addition, the final coding of the loan should also reflect that the borrower did not pay as agreed (see more about guidance for credit reporting in Section E: Credit Reporting Guidance).

"We're always very careful when it comes to doing credit reporting. We let borrowers know that if they do have a missed payment there's action that needs to be taken. They either need to make up the payment or they need to stop the program because if they do go more than the 30 days [past due] they are going to have a negative report and there is nothing that can be done about that. We have certain responsibilities within our credit reporting, and we make it very clear to them about that...we do offer remedies to the situation, but they have to keep that communication open with us in order to do that."

Carol Danziger, Finance Director, Community Capital New York

2. Borrower Support

Screen for good fit. As mentioned above, CBLs won't benefit everyone. CBLs are a good fit for those with no score or those with limited active credit lines and minimal to no current derogatory debt (older debt in collections may be okay). For these borrowers, CBLs can propel them into a prime tier, thus offering opportunities to qualify for better rates and terms on loans and other financial products. CBLs are often not a good fit for those struggling to pay their bills, those juggling many lines of current or delinquent debt, those with high debt loads, or those who already have a prime credit score—CBLs likely won't have a large impact in moving these borrowers from one risk tier to the next.

Tip: Consider using soft-inquiry credit reports as an educational tool to help individuals determine if they will benefit from a CBL prior to applying for the loan.

FIGURE 3: WHO IS A GOOD FIT FOR A CREDIT BUILDER LOAN?

Ability to make on-time payments!		
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 May also include: ▪ Small, paid or older collections only ▪ No MIX of tradelines	Generally 3-5 ACTIVE tradelines Other features: ▪ No current delinquencies ▪ Small, paid or older collections only ▪ No MIX of tradelines ▪ Low revolving credit utilization ▪ Not a lot of recent inquiries ▪ Long history
✓	✓	✓?

READY FOR A CBL! EXAMPLE BORROWER PROFILES

Here are some examples of borrowers that may be a good fit for a CBL:

Credit Invisible: *Great fit!*

Paul immigrated to the United States four years ago and works as a line cook. He primarily uses cash and money orders; he has no credit history. Paul has been saving to buy a car, but he will likely still need financing to purchase a reliable vehicle.

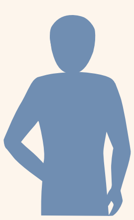
Starting with a clean slate, Paul and others who are credit invisible are excellent candidates for credit building. Typically, these individuals are able to establish a credit score in as little as six to 12 months, even with only one tradeline reporting. It's important to consider the reasons why individuals like Paul have not used credit in the past and how that informs which products would be best for them. Paul may have trepidation about accessing credit or may have had cultural reasons for not using credit previously. Within the coaching process, he might decide that a CBL could help him to establish a credit score that would support his ability to access a car loan at an affordable rate.

Thin File: *Great fit!*

Lucia recently completed her degree to become an X-ray technician. She is a single mother and has been living with family while in school. She hopes to move into an apartment with her son within a year. Lucia has one deferred student loan and a few medical collections appearing on her credit report. She has no credit score.

Lucia's credit profile is thin file. Thin files often consist of three or fewer open and active tradelines or could mean that the only items on someone's report are accounts in collections. Lucia, unlike Paul, has a credit report, but similar to Paul does not have enough information in her file to be scored. Once Lucia gains employment and feels confident that she has the cash flow to make timely payments, a CBL will be a useful tool for Lucia to build credit. At the same time, Lucia can determine her strategy for addressing the medical collections. This might expand her options for rental housing.

For other thin file individuals with accounts in collections, it's helpful to understand how old accounts are, what type they are, and to make a plan for dealing with them.



Thick(er) File: *Possible fit…*

Parker is a ride-share driver and aspiring entrepreneur. Parker was laid off from a factory job three years ago and is still paying off the last of the debt incurred during that time. Parker has several credit cards. All have been paid and unused for a year, except for one. Parker also has several accounts in collections.

Parker has what we refer to as a "thick" credit profile. For those like Parker who have an extensive credit history, whether positive or negative, the question is, do they need to add a credit building product, or can they work with existing lines, to maximize their credit score?

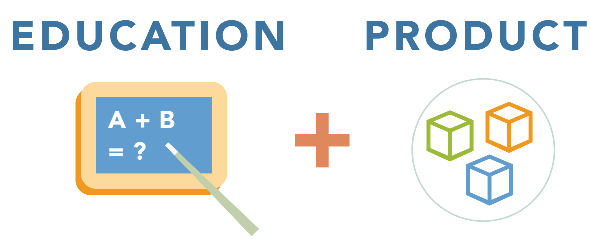
Parker can continue to build credit by paying their outstanding credit card. A CBL could be beneficial to Parker's credit score by establishing more of a mix of account types, but they would likely not want to take on a new debt solely for that reason. Potentially, they could find another type of installment loan that would help them to pay off some of the collection accounts. Ultimately, we would need a lot more information to understand the best route forward for Parker.

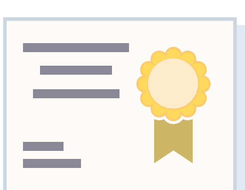
Take time to set borrower expectations about the loan. Since CBLs are often a borrower's first loan, and given that CBLs have a unique structure, taking the time to review how the loan works with the borrower is critical. This can be done at application and/or at loan closing and in tandem with credit education/coaching. Ensure the borrower knows that the purpose of the loan is purely for credit building, that no money is exchanged upfront, and that credit score change is not guaranteed. In addition, lenders should make sure that the borrower knows how to make payments, the importance of on-time payments to their credit score, and the policy for late payments, as well as how to get in touch with staff, particularly to help mitigate payment challenges. This can also be a great time to inform borrowers of additional educational and coaching opportunities or referrals available to them.

Pair CBLs with credit coaching and/or credit education. CBLs provide an opportunity to connect credit building to borrowers' larger goals. Credit coaches can help clients pull, review, and understand their credit report and create a plan for working towards financial goals. The CBL is a chance to practice using a financial product and building the habit of using credit safely and strategically. Preliminary studies show that credit coaching and/or education can help a borrower leverage their CBL to ultimately enhance its impact. For credit coaching tools and trainings, including an e-training on reviewing credit reports with clients, visit CBA's Training Institute.

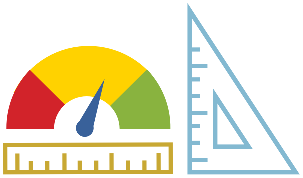
"I do think that a CBL needs to be part of a bigger strategy for the client. Or at least that there's a follow up game plan. That's why for us, the standard is that you would have one of these loans, complete the program, and then you could use the savings to put a deposit on a secured credit card if that's something that would be a fit for the client."

Tamra Thetford, Chief Program Officer
Justine PETERSEN





Offer a graduation product. Given that CBLs are a starter product, many nonprofits offer a next step for CBL borrowers to continue their credit building journey. Once the borrower has paid off their CBL, they will have a positive tradeline on their account that is no longer active. In order to avoid losing gains made from successfully paying off a CBL, it's good practice to ensure availability of a "next step" credit product for borrowers. Because of the CBL tradeline, borrowers may now be eligible for other products offered by the lender, or the lender can refer the borrower to a local bank or credit union. Graduation products can include secured or unsecured credit cards, larger installment loans, or other lines of credit. Many CBL lenders including Justine PETERSEN, Innovative Changes, and Self Financial encourage the borrower to use their loan proceeds from the CBL to fund the security deposit on a secured credit card. Since CBLs function differently than revolving lines of credit, it's important to ensure borrowers know how to successfully manage their new product. For example, for a secured card, borrowers must understand their credit limit, credit utilization ratios, and the difference between the minimum payment and paying their card in full, among other factors.



3. Outcome Tracking

Track credit score changes. CBA recommends tracking a credit score at baseline and at a minimum once again after the borrower pays off the loan. Some lenders also pull an interim score at six months (during a 12-month loan cycle). Tracking credit scores is not only helpful for showing impact of CBLs but can also be an important readiness assessment and coaching tool (see the borrower support section!). Here are some key things to keep in mind when tracking credit scores:

- ***Compare apples to apples.*** When using a credit score to measure progress, always use the same score from the same credit bureau at intake or baseline as you do at follow up intervals. Most major scores operate along the same range, but a 640 VantageScore 4.0 is not necessarily the same as a 640 FICO® Score 8.
- ***Avoid combining the data on average credit score changes for those who start with no score and those who start with a score.*** Aggregating these data can misrepresent the likelihood of realistic score changes and certainly inflates your results. CBA recommends that organizations use two separate metrics to report on credit score change:
  - Average established credit scores for borrowers who were previously unscored.
  - Average score change for borrowers who were previously scored.

USING CBA ACCESS SERVICE TO PULL CREDIT REPORTS

CBA's Access Service serves as a one-stop shop for CBA members that want to pull traditional and non-traditional credit reports, scores, and data. Through our exclusive credit bureau partnerships, CBA members benefit from waived monthly fees and minimum requirements for pulling reports and reduced set up, site-visit, and per report fees. CBA Access Members can utilize both hard inquiry and soft inquiry reports depending on their permissible purpose for accessing the credit reports. Visit the CBA Access page at www.creditbuildersalliance.org/cba-services/cba-access/ to learn more.

Consider tracking other outcomes besides the credit score. While credit scores are derived as a snapshot in time, you can't easily see patterns without looking at the credit report in greater depth or knowing where that person is on their trajectory towards improving their credit profile. For example, someone may have been working hard over the last six to 12 months to improve their score, only to have an account that has been sent to collections hit their report. This collections account will negatively, perhaps dramatically, impact their score at the time their credit report happens to be pulled. Yet, it does not necessarily indicate that the person is a bad credit risk. In a survey of CDFIs offering CBLs we found that in addition to credit scores, 45 percent track debt reduction, 32 percent credit utilization on active tradelines, and 23 percent the number of active tradelines.

CREDIT STRENGTH FRAMEWORK®

Other metrics can include:

- CBA's Credit Strength model which tracks credit-related measures tied to knowledge, access, and actions (Appendix A)
- Changes to the credit report: debt reduction, errors resolved, collections paid off, etc.
- The Consumer Financial Protections Bureau's financial well-being scale, a self-reported measure of an individual's sense of financial wellbeing
- Progress and attainment of financial goals
- Access and success with other credit products

4. Special Features

- **Add a matched saving component to the loan.**
  - Local Initiatives Support Corporation's (LISC) CBLs are called Twin Accounts™. Borrowers are issued a 12-month, $300 loan which is immediately transferred into a "locked" savings account, where it remains until the loan is paid off. Unique to the Twin Account™ model is that LISC matches each monthly payment—dollar for dollar—as long as it is paid on time.[10] At the end of the loan term, borrowers who make 12 on-time payments can access their $300 loan proceeds and $300 in matching funds.
- **Offer CBLs in increments increasing in size.**
  - International Rescue Committee's Center for Economic Opportunity offers what they call a Credit Building Ladder. The first increment is a $100 CBL, repaid over six months. If the borrower successfully repays this part of the loan and wants to continue, the second tier of the ladder is a $300 CBL, repaid over eight months. Once this is repaid, the borrower has the option to go on to the third CBL rung, a $1000 loan, repaid over 20 months.
- **Use the CBL payments to cover the costs of financial education.**
  - Capital Good Fund has a version of its CBL through which the borrower makes monthly $15 payments for twelve months, and these payments cover the costs of in-depth financial coaching.
- **Use CBLs as a way to partner with culturally-specific organizations including those that serve immigrants, youth, and others that may not have access to credit.**
  - Community Capital New York, a Community Development Financial Institution (CDFI) primarily focused on small business lending, developed a CBL specifically to serve the clients of a partner organization that supports refugees and asylees new to the country.
  - Innovative Changes, a CDFI focused on consumer lending and financial capability, partners with a men's peer group within a state prison so that inmates could use CBLs as a way of maintaining and building their credit, rather than have it go stale, while incarcerated.
  - MyPath US, a nonprofit dedicated to youth economic empowerment, partnered with Self-Help Federal Credit Union to embed CBLs into their youth employment program.[11] (See more on this model in the case studies section.)

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[10] Match option is only available in certain markets.

[11] MyPath. "NOT GETTING ENOUGH CREDIT: Exposing Credit Needs Among Opportunity Youth, and Introducing an Innovative Solution." https://mypathus.org/wp-content/uploads/2018/09/Not-Getting-Enough-Credit-Full-Report_v1.pdf.

E. Credit Reporting Guidance

First and foremost, because of the unique nature of CBLs, it is important to ensure that the product meets the credit bureaus' standards and criteria to be reported as a loan. Key to this is a) a clear lender-borrower relationship, b) a loan agreement that lays out the responsibilities of each party and, c) reporting the loan accurately in Metro 2® Format according to CDIA guidelines as part of the responsibilities of a data furnisher under the Fair Credit Reporting Act.

The following section outlines key considerations for how to furnish CBL data. This is designed for lenders who already have the loan management software, necessary staffing, and a data furnisher relationship in place to report loan portfolio data. For lenders that have not yet established the systems needed to report loan portfolio data, feel free to contact CBA for more information about that process and CBA's Reporter Service.

1. Reporting CBLs

Prior to issuing CBLs, consider how you will manage these loans in your loan management software to align with your policies and ensure accurate reporting. Below are some key considerations for how to configure your loans in your loan management database. Make sure to consult the most recent version of the Credit Reporting Resource Guide® (CRRG) for further clarification on the reporting codes referenced.

- **Account Type: 02: Secured**
  CBLs are considered secured loans because the lender holds the loan amount as security until the loan has been paid off.
- **Portfolio Type: I: Installment loan**
  CBLs are installment loans because payments are made according to a pre-determined amortized payment schedule.
- **Scheduled Monthly Payment Amount**
  Monthly payments should be set at $10 or more. Smaller payment amounts are not recommended as they may raise flags for unusual activity or potential fraud with the credit bureaus. However, it is important to note that even this small monthly payment/loan amount is sufficient to build credit; larger amounts are unnecessary for credit building.

2. Servicing CBLs

- **Payment Schedule**
  If possible, offer multiple options for the monthly due date, as this can help your borrower align loan repayment with their monthly cash-flow.[12] Regardless of when the payment due date falls during the month, a borrower cannot be reported as delinquent unless they are a full 30 days past the due date. Communicate with borrowers immediately after a missed payment to encourage them to make a payment within the 30-day window or come up with an alternate arrangement. If a borrower cannot catch up on payments, or if the borrow gets in touch and the payment schedule is adjusted or modified, report the status based on the new schedule and not the original schedule. Once the payment is delinquent by 30 days or more, the delinquency must be reflected in your credit reporting.

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[12] For example, a lender could offer two payment date options, one at the beginning of the month, and one mid-month to help a borrower decide if they want the due date to be aligned with their first or second paycheck of the month (if paid bi-monthly).

- **When a Borrower Pays as Agreed**
  With each monthly loan payment, you will reduce the current balance as appropriate. As a data furnisher, it's important to submit your Metro 2® loan data consistently each month to ensure your borrowers get credit for each on-time payment they make. Once the borrower has paid off the loan as agreed, report the loan as follows:
  - Account Status: 13: paid or closed account/zero balance
  - Payment Rating: 0: current
  - Current Balance: $0
  - Date of last payment/date closed: the date the account is paid in full
- **When a Borrower Falls Behind on Payments**
  Report the loan accurately until the point that your policy allows you to pay off and close the loan using security. If you choose to pay off a loan using the secured amount due to borrower non-payment, report the loan in the following way:
  - Account Status while still open: 71: 30 days delinquent; 78: 60 days delinquent, etc.
  - Final Account Status: 13: paid or closed account/zero balance;
  - Payment Rating: status of the account just before the collateral is applied and the loan is closed (1: 30 days late; 2: 60 days late; for the full list see the CRRG pages 4-11)
  - Special Comment Code: AX: Account Paid from Collateral
  - Current Balance and Amount Past Due: $0
  - Date of first delinquency: date the account was first 30 days past due leading up to being past due at payoff (the accuracy of this date is crucial for FCRA compliance)
  - Date of last payment/date closed: the date the collateral is applied

While the special comment code AX will indicate that the borrower was unable to meet their obligation to pay off the loan as agreed, it will be less damaging than defaulting on the loan. However, impact on the borrower's credit score can vary.

Notes:

If the loan has outstanding fees or finance charges such that the current balance is greater than the secured amount, the lender can report the loan with the special comment code of AU: paid in full for less than the full balance in place of the AX code.

- If loan terms are for 12 months and many of your loans are paid off in two or three months with collateral, the credit bureaus might flag this as unusual. With the requirement that furnishers accurately report loans, including delinquent loans, it is important to assess borrower readiness for success and maintain coaching engagement through the life of the loan to prevent delinquency before it must be reported.

For additional questions on reporting CBLs contact help@creditbuildersalliance.org.

F. Partnering to Offer Credit Builder Loans

If starting a CBL program internally doesn't seem like a good fit for your organization, there are many options for partnering with a nonprofit lender, credit union, bank, or financial technology company to ensure that your clients have access to CBLs. External partnerships can reduce the demands on your organization by tapping into competencies of other organizations/companies. You can:

1. **Create a referral partnership with an agency that already offers CBLs.** Use CBA's member map[13] to identify local nonprofits offering CBLs, or look to nationally chartered entities to which you can direct clients and/or create a partnership.
2. **White label a CBL.** White labeling means that your organization offers a financial product in-house under your name, but a partner lender provides back-end servicing. This model is good for organizations that have staff with the capacity (time and knowledge) to work with clients, but don't want to or cannot invest in the infrastructure and jump through the regulatory hoops required to provide financial products.
3. **Partner with a local nonprofit, bank, credit union, or fintech to create a CBL.** This type of partnership can save you the administrative hassle of program management while maintaining the opportunity for involvement in the design from the beginning. Your organizational responsibility can vary depending on the amount of time and resources you wish to offer, as well as your desired level of control over the process. Once you choose a partner and partnership model that seems like a good fit, we advise seeking legal counsel to solidify expectations around responsibilities and liabilities.

If you would like support finding an organization to partner with for referrals, white labeling, or product creation, we have lots of ideas! Reach out to us at cbafund@creditbuildersalliance.org.

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[13] https://creditbuildersalliance.org/find-a-member/.

G. Case Studies

Justine PETERSEN's Save2Build Loan

Justine PETERSEN (JP) is a nonprofit asset-building organization headquartered in St. Louis, Missouri that works to help consumers build assets through credit building education and products, microenterprise loans and technical assistance, and home ownership preparation and retention. Justine PETERSEN's innovative credit building program focuses on how to best help low- to moderate income individuals build credit and increase credit scores, often through the introduction of credit building products. Through Justine PETERSEN's Credit Building Nation initiative, JP is able to partner with nonprofit organizations across the country to expand access to credit building products for their clients and advance JP's philosophy of "lending-led credit building."

justine PETERSEN
BUILDING ASSETS. CHANGING LIVES.

The Save2Build loan is designed for credit invisible and unscored clients. It offers a safe and affordable way to enter the credit system for those who may not otherwise have access. It also provides an opportunity to develop financial capability by practicing making monthly, on-time payments on an active installment loan that reports to all three major credit bureaus.

Terms & Conditions

Loan amount: $300.00

Terms:

- 12-month repayment
- Interest and fees vary by state
- Loan proceeds go directly into a locked savings account; released upon loan completion
- Reports to Experian, Transunion, Equifax

Requirements:

- Ability to repay the monthly payment (~$27)
- No late payments or bankruptcy discharge on the credit report in the last three months (90 days)
- Client is at least 18 years of age
- Client desires to continue credit building activity post loan (credit building is only effective if it continues over time)

Justine PETERSEN launched Credit Building Nation—a partnership model with other nonprofit organizations to expand credit building across the country—to address the lack of access to credit building products in other geographic markets. Partner organizations can work with Justine PETERSEN to offer the Save2Build loan in local markets.

- Find out more about Justine PETERSEN's Credit Building Nation initiative by visiting: www.creditbuildingnation.org
- Find out more about Justine PETERSEN by visiting: www.justinepetersen.org

Citizen Potawatomi Credit Builder Loan

Citizen Potawatomi Community Development Corporation (CPCDC) works to finance, promote, educate, and inspire the entrepreneurial growth, economic opportunity, and financial well-being of the Citizen Potawatomi Nation Tribal Community and other under-served Native populations. CPCDC offers financial education, access to capital, business development services, innovative capacity building practices, and community development initiatives.

CPCDC's Credit Builder Loan Program was designed for those who are first time borrowers or those with past credit problems and was initially created as a tool to help improve the financial position of the tribal community. This program offers CPN tribal members and the broader community an active line of positive credit. CPCDC has found that the CBL dramatically increases their borrowers' credit scores and helps with establishing or reestablishing good credit. All CBL borrowers participate in credit counseling at the time of loan closing to help them strategically leverage the loan. Often, borrowers use the CBL as a chance to save for a specific purpose. Common savings goals include paying off a debt in collections or putting a deposit down on a secured card to continue to build credit.

Terms & Conditions

Loan amount: $200 - $1000.

- The amount is determined by what the borrower can afford to pay back in installments as well as what they want to use the funds for when they are released after final payment.

Terms:

- Minimum of 12-month repayment
- Interest rate: 10%
- Loan proceeds go directly into a locked savings account; released upon loan completion
- Reports to Experian, Transunion, Equifax

Requirements:

- Ability to repay the monthly payment
- CPN members and/or employees

Find out more about CPCDC by visiting: **https://cpcdc.org/**

MyPath Savings2Credit

MyPath is a national nonprofit paving pathways for youth economic mobility through partnerships with youth-serving organizations and the integration of financial capability strategies into youth workforce systems. MyPath launched the nation's first credit building and savings model for working young adults from low-income communities in 2013. MyPath's initial pilot included two partners: Year Up Bay Area, a nationally recognized youth leadership and employment program for young adults ages 18-24, and Self-Help Federal Credit Union, a leading CDFI credit union based in California with a community CBL. MyPath worked with these partners to design and integrate financial mentoring with a CBL catered to youth, with the goal of making it a natural and hassle-free component of their employment program.

Through the pilot, MyPath 1) revealed the magnitude of the credit barriers facing low-income working young adults (four in five young adults began the program with no or poor credit), 2) proved that with access to the right high-quality financial products, youth could build their credit and savings, amassing $500 in savings at the end of 12 months, and 3) demonstrated the need for increased access to and support for financial mentoring services for youth.[14]

Loan amount: $500

Terms & Conditions

- 12-month repayment
- Interest rate: 4.25%
- Loan proceeds go directly into a locked savings account; released upon loan completion
- Reports to Experian, Transunion, Equifax

Requirements:

- Age 18-24
- Part of a partner employment program
- Loan payments are auto-debited from the youth directed checking account

Find out more about MyPath by visiting: **https://mypathus.org/**

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[14] You can learn more about the pilot and MyPath's findings in the brief Not Getting Enough Credit **(https://mypathus.org/wp-content/uploads/2018/09/Not-Getting-Enough-Credit-Full-Report_v1.pdf)** and highlights Youth Credit Matters **(https://mypathus.org/wp-content/uploads/2018/09/NotGettingEnoughCredit_083118-4.pdf).**

H. More Information

For more information on CBLs and credit building, visit:

- **CBA's Training Institute** (cbatraininginstitute.org) which is full of resources, trainings, and tools for lenders and financial coaches. On the Training Institute, you can find CBA's other small dollar lending toolkits, including a library of lending resources.
- In addition the Consumer Financial Protection Bureau has a CBL Practitioner Guide (www.consumerfinance.gov/data-research/research-reports/targeting-credit-builder-loans/) with ideas that financial educators and financial intuitions can use to help consumers benefit from CBLs and other credit building tools.

If you have questions or feedback about this toolkit, contact us at cbafund@creditbuildersalliance.org.