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# Improve Your Clients' FICO Scores

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- What is a Credit Report
- Reading a Credit Report
- What is a Credit Score
- Ways to Improve Credit
- Advocacy
- Credit Builders Alliance

# Importance of Credit Scores, especially now

- CAMEO members work with those who are left out of traditional credit resources that use credit reports to make credit decisions
- Can become “credit invisibles”
- Credit invisibles are more susceptible to usurious loans such as merchant cash advances and payday loans
- Credit is an important element of business growth and wealth creation
- New guidelines for SBA Disaster Loans might be made on credit score alone
- Many people’s credit will be adversely affected by virus pandemic

# What Is A Credit Report?

A detailed borrowing history

- Identifying information
- List of all loan/credit accounts
- Inquiries on the account
- Public record and collection items
- Three credit agencies: Experian, TransUnion, Equifax

# Credit Info on these Reports

- Type of account and date opened: credit card, auto loan, mortgage
- Credit limit or original loan amount, and current balance
- Monthly payment amount
- Payment history – last 25 months
- Delinquencies – last 7 years

# Understanding a TU Report

## TransUnion Credit Report Guide

- Page 1: Sample credit report
- Page 4: Current Manner of Payment codes\*
- Page 5: Details on each Credit Report Section
- Page 6: Scoring
- Page 7: Credit Summary
- Page 8: Public Records and Collections
- Page 9: How to read Trade Lines\*
- Page10: Inquiries

# Let's Look at a Sample



- Anita Pena, Owner of Green Cleaning
- Case Study from CAMEO's Microlending Essentials

# What is a Credit Score

- A credit score is a mathematically calculated number based on the information in a credit report
- Most prominent score is FICO





# FICO Credit Score

- **Payment History:** Paid credit accounts on time
- **Amount of Debt:** how much debt is carried versus how much credit has been extended
- **Length of Credit History:** In general, a longer credit history will increase your FICO Scores
- **New Credit:** Opening several credit accounts in a short amount of time represents a greater risk
- **Credit Mix:** Credit cards, retail accounts, installment loans, finance company accounts and mortgage loans

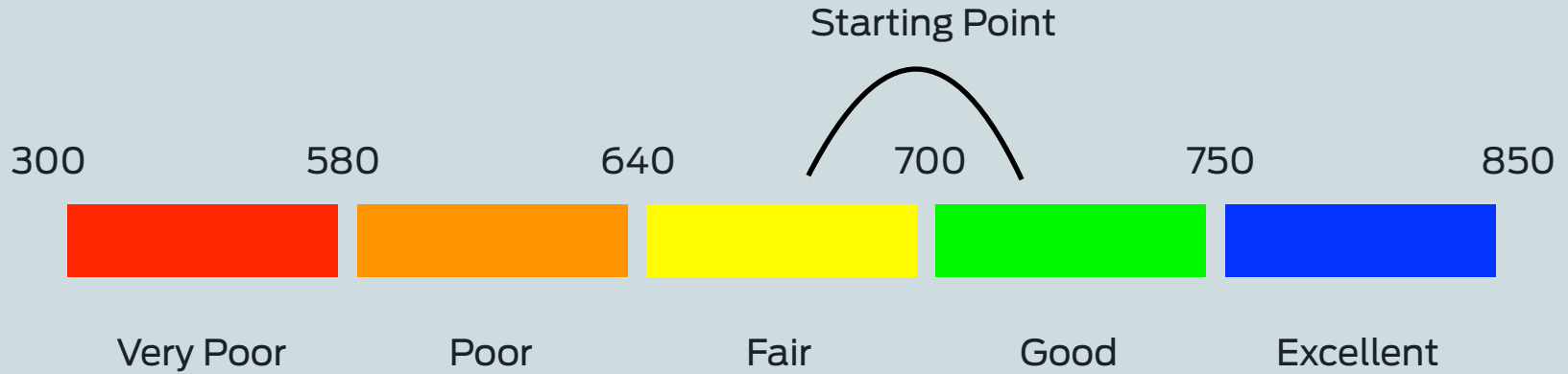
# How FICO Is Calculated



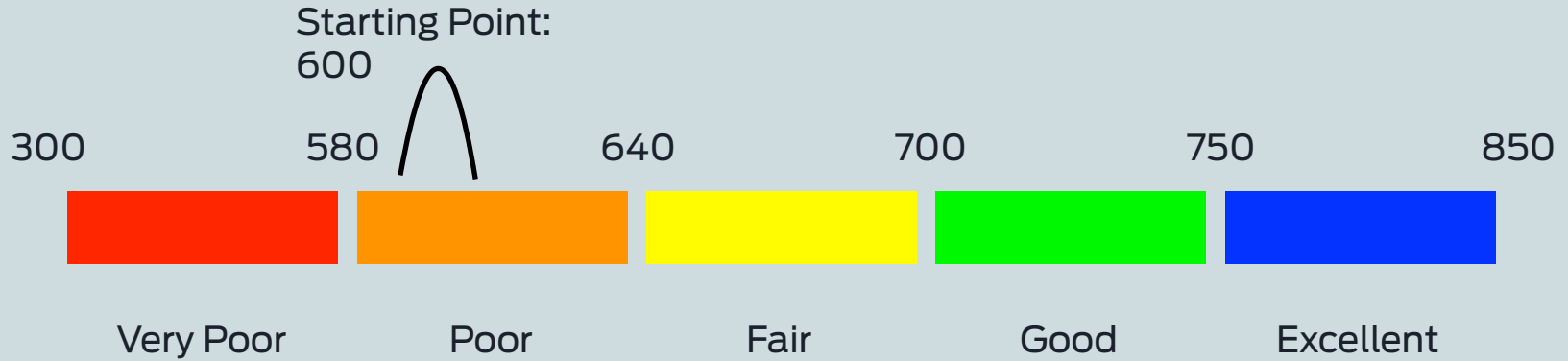
# Experian: VantageScore

- **Payment history:** extremely influential
- **Age and type of credit:** highly influential
- **Percentage of credit limit used:** highly influential
- **Total balances and debt:** moderately influential
- **Recent credit behavior and inquiries:** less influential
- **Available credit:** less influential

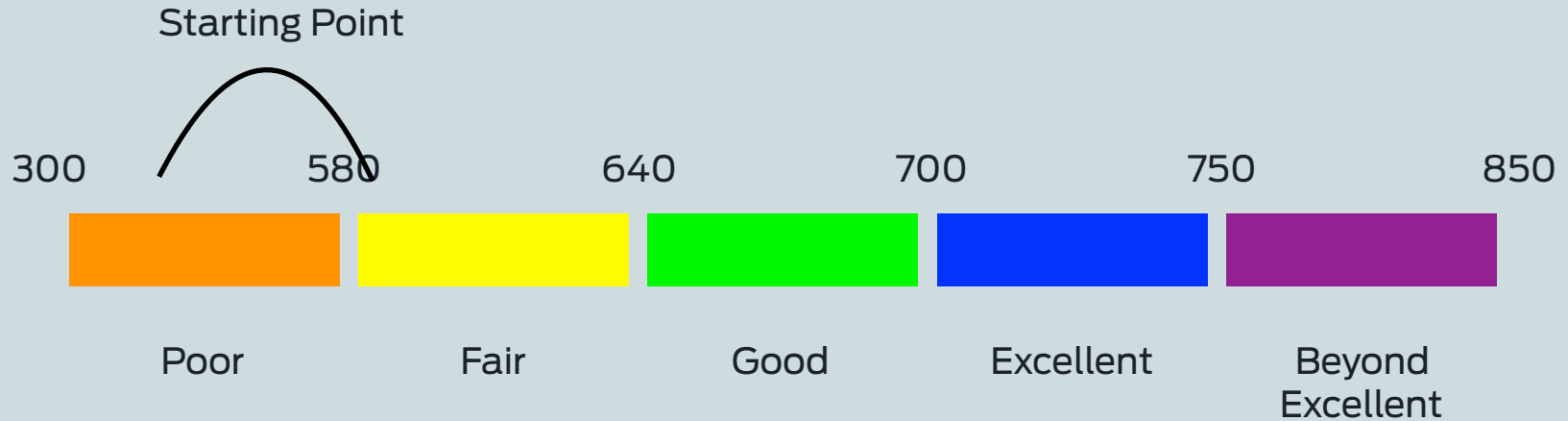
# Banks' Read on FICO



# SBA Disaster Loan



# Community Lender on FICO



Many CDFIs, however, have no minimum FICO requirement



# Public Records, Collections

- Credit bureaus collect public record information from state and county courts, including bankruptcies, civil judgments, tax liens.
- Debt that is overdue and has been sent to collections also appears on your credit report

# New Laws on Public Records

- Credit agencies have begun removing unverifiable public records from about 12 million credit reports.
- Recently adopted stronger public record data standards require tax liens and civil judgments to include name, address and either SSN or date of birth.
- Millions of old public records don't contain all this information, so the credit bureaus are removing them.
- Removing medical collection accounts that have been or are being paid by insurance



# Serious Credit Problems

- Foreclosure, repossession, bankruptcy, collections in past 12 months
- Multiple slow pays on mortgage, credit cards or vehicles in past year
- Slow pay/non-payment on child support
- Unresolved public record

# Improving Credit



## Make payments on time

The best way to improve your credit score is by making at least your minimum payments on time on all credit accounts.

*Keeps accounts out of collections*

*Lowers interest rate*

*Improves eligibility for larger loans*

*Avoids late fees*

# Improving Credit

## Get balances low: credit cards under 30% credit limit

*“The 30% level is not a target, but rather a maximum limit. Exceeding that will have significantly negative impact on credit scores,” says Rod Griffin, Experian’s director of public education.*

*“Consumers with FICO scores of 800 use, on average, 7% of their available credit,” says Can Arkali, principal scientist for FICO.*

# Improving Credit

## Dispute Inaccuracies

- 25% of consumers have inaccuracies on their reports.
- Under the FCRA\* credit reporting companies are responsible for correcting inaccurate or incomplete information.
- Federal Trade Commission website: <https://www.consumer.ftc.gov/articles/0151-disputing-errors-credit-reports>

\*Fair Credit Reporting Act

# Improving Credit

## Possible Errors:

- *Name misspellings*
- *Duplicate accounts*
- *Incorrect accounts*
- *Fraudulent accounts*
- *Information or accounts from an ex-spouse*
- *Incorrect payment statuses*
- *Outdated information*
- *Incorrect date of first delinquency on a collection account*

# Improving Credit

## Contact credit bureaus that have inaccuracies:

- Equifax, P.O. Box 740256, Atlanta, GA 30374-0256, <https://www.equifax.com/personal/credit-report-services/credit-dispute/>
- Experian, P.O. Box 9701, Allen, TX 75013, <https://www.experian.com/ncaonline/creditreport?type=reseller&rid=R0004>
- TransUnion, P.O. Box 2000, Chester, PA 19016, <https://www.transunion.com/credit-disputes/dispute-your-credit>

# Improving Credit

- Make small payments — called micropayments — throughout the month to keep balances down.
- Call credit card customer service to request higher credit limits.
- Keep unused cards open. Use cards at least once per year so they aren't closed by the lender.
- Catch up on any late payments
- Communicate with credit vendors to clean up problems and arrange a payment plan. Get the approved plan in writing.

# Improving Credit

## Credit Mix

Use multiple types of credit: mortgage, car, credit cards

*The credit mix usually won't be a key factor (10%) in determining your FICO Scores -- but it will be more important if your credit report does not have a lot of other information on which to base a score.*



# Improving Credit

- Order reports: visit [annualcreditreport.com](https://annualcreditreport.com)
- Call 1-877-322-8228,
- Complete the [Annual Credit Report Request Form](#) and mail it to: *Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281*
- Creditkarma.com
- Pay clients' fee for obtaining FICO/AdvantageScore

# Improve By 100 Points?

- People with a low score are better positioned to make gains than someone with a strong credit history.
- Rod Griffin, director of public education for Experian, says:

*“The lower a person’s score, the more likely they are to achieve a 100-point increase. That’s simply because there is much more upside, and small changes can result in greater score increases.”*

# Credit Access, Wealth, and Advocacy



Poverty and Environment Research Center video:  
“Credit Invisibles”

➔ <http://vimeo.com/43396643>

“Alternative Data and the Unbanked” by Oliver Wyman

## As information becomes available...

- As CAMEO verifies information on disaster support for small business, we will quickly schedule webinars
- Visit our resource page: <https://cameonetwork.org/coronavirus-resources-for-business>
- Added three tip sheets from **Credit Builders Alliance** on helping clients manage credit in times of disaster
- [SBA website for COVID Assistance](#) for small business

# Credit Builders Alliance



- Supports non-traditional nonprofit organizations helping to build credit and financial access for disadvantaged individuals
- **Credit as an Asset** training
- <http://creditbuildersalliance.org/credit-building-training>