Small Dollar Innovations in Credit Building

October 26, 2016

Good “Credit”: Passport to the New Economy
Why Credit Building?
Increases Access, Affordability, and Options for…

- Financial products
- Rental Housing
- Utilities
- Cell phone plans
- Insurance products
- Asset Building

What is Credit Building? How Does it Work?

CREDIT BUILDING: Establishing and maintaining ACTIVE (paying on-time) trade lines (like installment loans or revolving credit cards) that is reported by the creditor to the major credit bureaus.

Focus on behavior now to create opportunities for the future
What is Credit Building?  
The Key  
Opening and successfully managing financial products is key to building and maintaining a good credit history  

BUT…  
Individuals, families and communities with no, thin or poor traditional credit histories have few opportunities to build good credit  

Why Credit Building?  
Credit Realities among US Consumers  
Approximately 45.4 million Americans (almost 20 percent of the population) have “unscored” credit records or are “credit invisible.”  

(CFPB)
Credit Builder Community

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

Good Credit is an Asset

NACDC Financial Services
Providing Alternative Financing for Native Americans throughout Montana
Mission: To provide alternative financing opportunities for Native Americans throughout Montana thereby building a sustainable economy on each of the seven reservations that will provide jobs and income for Indian families.

Loans

- Credit Builder
- Small/Micro Business
- Native Artist Line of Credit
- Consumer
- Down Payment Assistance
- Car
- Farm & Ranch Equipment

NACDC FS had made 154 loans totaling $752,212 in Small Business, Credit Builder, Car, Down Payment Assistance and Consumer loans.
Development Services

- One-on-one Credit Counseling
- Financial Literacy
- Credit Management
- Native Artist Professional Development
- Business of Indian Ag
- HUD 184
- Business Development

In 2015, NACDCFS counseled and trained 224 clients;
- 80% increase in Credit Scores
- 97% of participants rated the course as Good or Excellent
- 59 clients went on to receive a loan
Our “Most Innovative” Project

- Credit Builder loans on 5 of the 7 Montana Reservation Communities
- Each community has a separate loan committee
- These are comprised of 2 local professional community members, typically from CDFI, bank or credit departments
- Additional “swing” member, a local bank lender, sits on each committee

Benefits of the structure

- Loan Fund committees are members of that community
- Familiar with the individual loan applications, their families, the “unique” culture of that community, and the tribal court system in place in their own community
- This assists us in better accessing individuals who have troubled loans, to get that individual appropriate technical assistance, and in case of default, to maneuver through the local tribal court system for collection
- Assists us in maintaining a 0% default rate since 2011
Specific Needs Served

- Products are affordable
- Often the only other capital our target market can access
- Average loans are 2-5 years with a $10,000 limit
- Builds the financial capacity and self-sufficiency of the target market
- Also helping to increase income, grow assets and reduce the dependency on public programs

Success to date

- 0% default rate over 5 years
- Loan portfolio has grown an average of 50%+ annually
- Capital is deployed at 80%
- Inquiries of 6+ per week for loan products
- Pipeline of 22 credit builder loans of more than $200,000
- Over 75% have completed required trainings and will close within the next 90 days
- On pace to close 2016 with record loan volume growth
Honorable Mention “Most Innovative Product”

Thank You Credit Builders Alliance
Angie & Patty

Lending Circles
(Fostering Financial Capability Project)

Stephen Lee, Director of Housing Program
Center for Pan Asian Community Services, Inc. (Atlanta, GA)
CPACS’ Mission Statement

To promote self-sufficiency and equity for immigrants, refugees, and the underprivileged through comprehensive health and social services, capacity building, and advocacy.

Lending Circles

- Social lending
Lending Circles

- Social lending (neighbors, friends, relatives)
- Participants: 6 to 10/circle
- Equal contribution: $50 - $200/month
- Loan amount: $300 - $2,000/month

Lending Circles - example

- Sam ($200)
- David ($200)
- Sarah ($200)
- Paul ($200)
- Tim ($200)
- Rachel ($200)

- 11/2016: Sarah ($1,200)
- 12/2016: Rachel ($1,200)
- 1/2017: Sam ($1,200)
- 2/2017: David ($1,200)
- 3/2017: Paul ($1,200)
- 4/2017: Tim ($1,200)

- Loan amount: $1,200/month
- What’d you do with $1,200 zero interest loan?
Lending Circles

- Savings
- Consumer goods
- Payoff credit card debts
- **Credit building**
- Tuition
- Small business

CPACS’ Lending Circles

- Facilitator: Mission Asset Fund (MAF)
- Target: Refugee community (Clarkston, GA)
  - Burmese & Bhutanese
- Program Staff:
  - Program Coordinator
  - Program Assistant (Burmese)
Program Projection

- Financial Literacy Education: 100
- Financial Coaching: 50
- Lending Circles Participants: 35

Program Output

- Financial Literacy Education: 139
- Financial Coaching: 10
- Lending Circles Participants: 38
Program Results

- # of Lending Circles: 5 (6+7+7+8+10)
- Median Contribution: $50
- Median Loan Amount: $350
- Default: None
- Range of Credit Score Increase: 15 – 660

Challenges:

- Financial illiteracy – banking, credit, mortgage
- Extremely low level of computer literacy
- Even illiterate in their own language
- Integration of services (education → counseling)
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Testimonial

My name is Francis Tuan Cin

#OFNCONF  #RETHINK
MyPath positions low-income youth and young adults to make their first paychecks about economic mobility.
**Why MyPath?**

- 20 million youth ages 16-24 participating in the workforce
- Many low-income working youth growing up in “financial deserts”
- Many barriers to youth banking, particularly for minors
- Research demonstrates the power of starting early
- Youth employment programs are a powerful channel to reach low-income youth earning their first paychecks

*MyPath’s vision is that every low-income youth has the chance to make their first paycheck not just about income, but lasting economic mobility.*

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**1. MyPath Engineers Effective Models**

MyPath’s Financial Capability Approach

- **Traditional Financial Education**
  - Retail Check Cashing
  - Traditional Financial Education
  - Financial Insecurity

- **MyPath’s Financial Capability Approach**
  - Quality Financial Products
  - MyPath Financial Curriculum
  - Personal Goal Setting
  - Financial Empowerment and Mobility
2. MyPath Shares What Works

- Created MyPath National Youth Banking Standards
- Support a team of youth that lead youth financial inclusion campaigns
- Engage with regulators and policymakers to advance youth financial inclusion and integration into youth employment
MyPath Credit – Pilot Components

- Combined Credit Builder + Savings Product
- Group Financial Workshops & Individualized Coaching
- Auto-debit
- Goal Setting

MyPath Credit – 2-Year Pilot Results

First ever youth-focused credit-building model in the country.

- Reached 400+ low-income working youth ages 18–24.
- 85 percent of participants see an improved FICO credit score at the end of the 12-month program.
- FICO scores of 650 to 700 within six months for youth that started with no score or thin files.
- Study results forthcoming from research team at University of Georgia.
MyPath Credit – 2-Year Pilot Results

<table>
<thead>
<tr>
<th>SIX MONTHS AFTER BASELINE</th>
<th>Class 11 (n=31)</th>
<th>Class 12 (n=36)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Change for Students with &quot;Low Credit&quot; (≤679)</td>
<td>+32 points</td>
<td>+17 points</td>
</tr>
<tr>
<td>Average Change for Students with “No Credit”</td>
<td>+679 points</td>
<td>+664 points</td>
</tr>
<tr>
<td>Improved Credit Scores</td>
<td>87.5%</td>
<td>82.9%</td>
</tr>
</tbody>
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MyPath Credit – Next Steps

- Forthcoming MyPath Credit Pilot Paper from University of Georgia researchers
- MyPath Credit 2.0, preparing for scale
  - MyPath Money Platform
  - Group Coaching and Peer Support
MyPath Money – Expense Tracker

MyPath Money – My Budget
MyPath Money – Savings Generator

MyPath Credit – Resources

- Professionalizing Coaching Journal, CFE Fund
  [http://files.ctctcdn.com/a6ac399a001/9b015ff3-dc36-4c04-941e-9d5821aa8f3a.pdf](http://files.ctctcdn.com/a6ac399a001/9b015ff3-dc36-4c04-941e-9d5821aa8f3a.pdf)

- FCPI Partnership Lessons: Chicago, St. Louis and San Francisco
MyPath Contact Information

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Justine PETERSEN

Our mission is to connect low- and moderate-income families with institutional resources in order to build financial assets and create enduring change
Justine PETERSEN
Core Products

- Credit Building & Financial Education
- Homeownership Preparation & Retention
- Microenterprise Lending & Training

Our Passion...

Financial Products + Financial Counseling = Build Strong Credit
Our Experience & Evolution

2006 CB integrated into JPs services
• 1-1 Credit Building w/ >25,000
• >1040 Credit Builder Loans

• 33 Partners
• 650 Secured Card Applications, 93% approval rate
• 71% improved credit
• 42% moved from subprime to prime

2012 USC Partnership Launched
• Counselors from >80 FOC trained
• 16 states
• >700 credit builder loans opened through 36 partners

National partnership to couple JP financial products with financial coaching/counseling provided by nonprofit partners.
**Topics Covered**

- How to identify active lines of credit
- How to identify collection accounts
- Defining a thin file
- Importance of good active lines of credit
- Pre-paid debit card vs. secured credit card
- ChexSystems
- And more...

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**Save2Build Account**

- $300 Save2Build loan
- $300 into locked savings account
- Client makes monthly loan payments
- Score increases as monthly payments reported
- Clients receive $300 at end, can be used for secured card
Credit-Building Impact

- Median credit score increases 40 points (those who start w/score)
- 82% of applications accepted
- 96% of account holders making monthly on-time payments