



What AFI Projects Need to Know About Credit and Credit Repair

This issue brief provides general background information about credit and credit repair for staff of Assets for Independence Projects. It includes the following sections:

- **Credit and the Credit Reporting System** – Summarizes how credit reports are used, how credit reporting works, how to get and use a credit report, and the potential for fraud and scams associated with the credit industry.
- **Credit Counseling Agencies** – How credit counseling agencies work and tips for finding a good credit agency to support your AFI project.
- **How AFI Project May Use Credit Information** – A list illustrating some AFI Projects are using credit information.
- **Additional Resources** – Names and contact information for leading organizations in the credit industry that set operational standards for credit counseling or that provide additional information on the credit industry, consumer interests, and resources for managing one's credit information.

Credit and the Credit Reporting System

A person's credit affects more than his ability to make big purchases, such as buying a home. It also affects his ability to rent, open credit accounts, obtain loans, and get a job. A person with weak credit may be charged more in additional interest on loans or credit card accounts over time. Clearly, AFI participants who are saving and working to become self-sufficient need to know about the importance of having and maintaining good credit.

Who Reports Credit Information

Businesses, department stores, credit card companies and other entities that loan money, pay companies known as "credit bureaus" to provide them with information on borrowers and accountholders. Credit bureaus also provide information on borrowers and accountholders' payment histories. Currently, utilities—telephone, electric, cable—do not typically report to credit bureaus, and some jurisdictions prohibit such reporting. The credit industry, however, is considering "full file" reporting, which would include information on such accounts.

Obtaining Credit Reports

Under the Fair and Accurate Credit Transactions Act (the FACT Act), everyone in this nation is entitled to one free credit report from each of the three credit bureaus annually. The only sources authorized to give free credit reports are found online at www.annualcreditreport.com. Through this site, Experian, TransUnion, and Equifax, the three major credit reporting bureaus, must provide on request free credit reports once every 12 months. This site is the only source authorized by the FACT Act. Other businesses claim to offer free credit reports. Some of these, however, do so on the condition that payments are made for subsequent services attached to the free report.

To use the authorized site, individuals should be prepared to enter their social security number, account numbers for active credit cards and loans, and current and past addresses. The credit agencies require this information to verify the identity of users. In the event that a user enters responses that are inconsistent with their records, the agencies will offer a downloadable form to be filled in and mailed. Whether by mail or online, there must be a separate request to each of the three agencies; and the formats of the reports vary considerably. The content may also vary because a creditor may use any or all of the three agencies. Therefore, checking all three reports is important. Many AFI Projects use a service that merges the reports (called a “trimerge”) for a fee that is less than getting the reports individually. The trimerge is easier to use than referring back and forth between separate reports received by or on behalf of participants.

What information is on a credit report? First, basic information, such as name, address, and phone number, as well as information on spouses, employment, and homeownership. The heart of the report is information on the terms of credit agreements, such as type of credit (revolving or mortgage, for example), terms (payment schedules and minimums, credit limits, highest balances) and whether an account is active or closed. The most important piece of information is the payment history: whether the account is up to date, whether payments are or have been overdue and for how long, and details about bankruptcies, judgments, or repossessions. Each report includes instructions for correcting or disputing inaccurate information that appears on the report. Free reports from the authorized site do not include credit scores unless the user agrees to a fee.

Credit Scores: What They Mean and How They Are Used

Lenders, such as mortgage companies, banks, credit unions, or retailers, look at credit reports and credit scores. Formulas are applied to the detailed information in the credit report to arrive at a credit score: from 400 to 900, the higher, the better. Formulas give the most weight to payment history and amounts owed, and less weight to length of credit history, new credit, and credit being used. In general, a score of 620 or higher is good. AFI participants with scores at or above this point may already be well positioned to secure loans at good terms as part of their

asset purchase. In some cases, AFI Projects have agreements with lending partners to accept lower scores because of the financial preparation AFI participants bring to the table.

Not surprisingly, credit scores can be improved by paying on time and paying off debts. On the other hand, having open accounts is good, *if* they have zero balances, because the score is essentially a ratio of credit used (currently owed) and credit available but not used (the credit limit). The lower the ratio, the better an applicant for a loan looks.

How Credit Counseling Agencies Work

Most credit counseling agencies, whether nonprofit or for profit, offer a range of services, from basic information on how to manage existing debts, to providing contacts and forms for correspondence with creditors, to setting up debt-management plans for individuals. Credit counseling agencies meet their expenses largely by receiving voluntary payments from creditors. The voluntary payment is a percentage of the amount collected on behalf of creditors, but consumers still receive full credit for the amount paid each month on their accounts. Credit counseling agencies may also charge fees to individuals who use their services. For a nonprofit agency, the fee is on a sliding scale and varies according to the services used; it may even be waived completely, depending on the consumer's situation. For example, an individual may receive basic counseling on actions to resolve credit issues at no charge; the individual takes responsibility for acting on the advice. In another situation, an individual may want a debt-management plan, in which the agency receives money from the individual and allocates it to various creditors according to a plan developed with the individual; in this case, the agency may receive from creditors a portion of the amount the individual pays, without diminishing the amount credited to the consumers' debts. The agency may or may not also receive some form of monthly fee from the individual for handling the transactions.

Credit Repair Frauds and Scams

There are many organizations that target individuals with poor credit and that promise to erase their customers' credit histories. This does not work if the debt history is accurate. The only way to get rid of debt is by paying it off. Some organizations charge high fees for their services or fail to deliver on their promises, leaving the consumer with more rather than less debt and a worse rather than a better credit record. Organizations with complaints against them may be listed by the Better Business Bureau (see link below) or the state's Attorney General's office. The Internal Revenue Service is currently reviewing a number of credit counseling agencies to determine whether they meet the educational service requirements for tax exempt status. There are also organizations that attempt to collect personal financial information under the guise of providing assistance with credit repair.

Credible organizations usually have nonprofit status or are endorsed by the National Foundation for Credit Counseling (NFCC) or the Association of Independent Consumer Credit Counseling

Agencies (AICCCA). Only the Council on Accreditation, an independent third-party, determines whether an organization is accredited. Both AICCCA and the NFCC require members to be accredited. In addition, these organizations have additional standards for ethics and practice that members must pledge to follow. They also require member agencies to have staff who are certified credit counselors, to charge fair and limited fees, and to fully inform consumers of their rights and obligations under any debt-management plans.

How to Identify a Credible Credit Counseling Agency

Following are a few basic questions to ask when considering partnering with another organization to provide credit counseling or credit repair services for AFI participants. They are adapted from the Federal Trade Commission's web site on credit and credit counseling (see link below).

1. *What services does the agency offer?*
Look for an organization that offers a range of services, including budget counseling, savings and debt management classes, and counselors who are trained and certified in consumer credit, money and debt management, and budgeting. Counselors should discuss a client's entire financial situation and help develop personalized plans to solve current money problems now and avoid new ones. Avoid organizations that push debt-management plans (DMPs) as the only option before they spend a significant amount of time analyzing clients' financial situations. Clients should sign up for a DMP only after a certified credit counselor has spent time thoroughly reviewing their financial situations and has offered customized advice on managing money.
2. *Is the agency licensed to offer these services in your state?*
Many states require that an organization register or obtain a license before offering credit counseling, debt-management plans, and similar services. Do not use or partner with an organization that has not fulfilled your state's requirements.
3. *Does the agency offer free information?*
Avoid organizations that charge for information about the nature of their services.
4. *Will consumers have formal written agreements or contracts with the agency?*
Consumers should get any verbal promises in writing and read all documents carefully before signing them.
5. *Are the credit counselors accredited or certified by an outside organization? If so, which one? If not, how are they trained?*
Try to use an organization whose counselors are trained by an outside organization that is not affiliated with creditors.

6. *Have other consumers been satisfied with services received?*
Check up on credit counseling agencies through your state Attorney General, local consumer protection agency, and the local chapter of the Better Business Bureau. These organizations can tell you if consumers have filed complaints about them. The absence of complaints doesn't guarantee legitimacy, but complaints from consumers may signal problems.
7. *What are the fees? Are there set-up or monthly fees?*
Get a written, detailed list of fees. Ask if the organization waives or reduces fees when providing counseling to consumers with fewer resources. If an organization does not want to work with low-income consumers, look elsewhere for a partner.
8. *How are agency employees paid? Are they (or the agency) paid more if consumers sign up for certain services, pay a fee, or make a contribution to the agency?*
Employees may receive commissions if consumers choose certain services. For example, a credit counseling organization may receive additional compensation from creditors if consumers enroll in debt-management plans. If the organization will not disclose what compensation it receives from creditors, or how employees are compensated, look for a different partner.
9. *What does the agency do to keep personal information about its clients (for example, name, address, phone number, and financial information) confidential and secure?*
Credit counseling organizations handle the most sensitive financial information. The organization should have safeguards in place to protect the privacy of this information and prevent misuse.

How AFI Projects May Use Credit Information

Eligible applicants may come to the AFI Project with strong, weak, or no credit histories. AFI Projects may use credit information in several ways during the enrollment process and throughout their project activities. Here are a few examples of how grantees use credit history:

- Eligible applicants who have good credit histories and the ability to save may be able to enroll under a “fast-track” option, with plans to meet their savings goal and make their asset purchase very quickly, even in as little as the minimum six months of participation required under AFI guidelines.
- Projects may consider the credit status of applicants and defer individuals who would be unlikely to develop or improve their credit history sufficiently to qualify for a mortgage or business loan at reasonable terms during the time frame available under AFI and local project guidelines.

- Projects may choose to enroll individuals with credit challenges but only for an educational asset goal.
- Projects may also work with individual participants to help them improve their credit as much as possible while they are saving and meeting any other project requirements leading up to their asset purchase.
- Grantees may have certified credit counselors on staff to provide guidance to participants, or a project may refer participants to trusted partners, recognized and reliable credit counseling agencies or other entities with more expertise in this area.
- AFI Projects usually include an explanation of credit, credit reporting, and credit uses in their financial education materials and presentations.

In addition to gaining an asset by the time participants exit an AFI Project, they should be more knowledgeable about credit and prepared to use credit wisely as a result of financial education and any individual counseling. The ability to make good judgments in using credit and to continue to improve their credit, if applicable, is an important factor in maintaining self-sufficiency for the long term.

Additional Resources

Following are a few of many web sites that provide information on where to find reliable credit counseling on fair terms or that provide additional information on how the credit reporting system works.

- **Association of Independent Consumer Credit Counseling Agencies**
<http://www.aiccca.org/>
The Association of Independent Consumer Credit Counseling Agencies (AICCCA) is a national organization of nonprofit agencies that deliver credible credit counseling services. The AICCCA collaborates with numerous professionals and consumers of credit management services to create uniform standards for credit counseling. Users of this web site can locate member organizations of the AICCCA. Member standards are posted on the site.
- **Better Business Bureau**
www.bbb.org
The Better Business Bureau can provide information on 2.5 million different organizations. Their website gives grantees the opportunity to search for reliability reports on organizations with which they are considering partnerships.
- **Center for Financial Services Innovations**
<http://www.cfsinnovation.com/publications.php>

This web site offers research on recent initiatives to serve consumers that have not historically participated in the traditional financial services institutions. One publication specifically addresses alternative data sources for credit scoring.

- **CNN Money Instant Budget Maker**

http://cgi.money.cnn.com/tools/instantbudget/instantbudget_101.jsp

In addition to video information on credit, this website allows a visitor to put in basic financial information and displays how his or her budget compares to that of other Americans.

- **Federal Trade Commission**

<http://www.ftc.gov/bcp/conline/edcams/credit/index.html>

The Federal Trade Commission's website on credit provides basic educational resources for explaining the importance of a good credit record to individuals, as well as basic tools for obtaining a credit report. The website also advises on how to deal with debt collectors and protect one's financial information. The site includes checklists for assessing credit counseling services and for considering debt-management plans.

- **Identity Theft Resource Center**

<http://www.idtheftcenter.org/index.shtml>

The Department of Justice has recognized this organization for its services to victims of identity theft. The site offers explanations of credit monitoring services and other tools to control credit information. The Identity Theft Resource Center distributes research related to the subject of identity theft and provides up-to-date education on this constantly changing and expanding crime.

- **The Jump\$tart Coalition for Personal Financial Literacy**

<http://www.jumpstart.org/index.cfm>

The Jump\$tart Coalition for Personal Financial Literacy was created to teach young people early on about money management, credit, and basic financial literacy. They host educational conferences and provide a variety of resources to those in need of their services. The site includes a clearinghouse of financial education materials tailored for youth, including curricula on credit and using credit...

- **National Consumers League's Internet Fraud Watch**

<http://www.fraud.org/tips/internet/creditrepair.htm>

This website teaches how to avoid credit repair fraud and explains why it is impossible for any organization to erase negative information from a person's credit history if that information is accurate. It also gives practical advice on what types of services ethical credit repair organizations *can* provide and when it is appropriate for them to ask for payment. Most important, the website gives advice on how individuals can be self-sufficient by handling their own credit repair when possible.

- **National Do Not Call Registry**

<https://www.donotcall.gov/default.aspx>

At this site, individuals can register phone numbers to avoid marketing and fishing calls to their homes. This is a useful tool to avoid the growing problem of telemarketing fraud, especially when related to credit repair.

- **National Foundation for Credit Counseling**

<http://www.nfcc.org/>

The National Foundation for Credit Counseling (NFCC) is a nonprofit, community-based, nationally accredited organization that offers ethical and credible credit repair services to help individuals achieve financial self-sufficiency. NFCC members provide financial counseling and educational services to reduce debt and instruct individuals on how to manage their finances effectively. The site includes a locator to find the nearest member agency, a description of member standards, and information on training leading to certification for credit counseling.

- **U.S. Department of Education - Information on identity theft for students.**

<http://www.ed.gov/about/offices/list/oig/misused/index.html>

This Federal website is useful for assisting program participants in selecting credible educational resources and avoiding credit repair fraud. The website warns of specific scams that are being investigated by the Attorney General, such as fraudulent scholarship programs charging a processing fee for Federal grants. There is information on how to avoid such scams and how to proceed when encountering a fraudulent organization.

Credit Bureaus

Experian, TransUnion and Equifax credit reports are available at the following websites. However, the information that they use to compose an individual's credit report may vary. It is important to review each report to insure the best basis for working with AFI participants to improve their financial status.

Experian

<http://www.experian.com/>

Experian can provide a free credit report and credit score when participants become members, although only the first month of their credit report services are free. Each month following—if membership is not canceled—costs \$9.95.

TransUnion

<http://www.transunion.com/index.jsp>

TransUnion offers the same deal as Experian at the same cost. They help prevent fraud while providing affordable credit reports.

Equifax

<http://www.equifax.com/>

Equifax can provide a free credit report and credit score when participants become members, although only the first month of their credit report services are free. If membership is not canceled by the end of the first month, there will be an automatic 12-month renewal, costing \$79.95.

A number of businesses can provide credit reports that merge information from the three major credit bureaus. These resources may be found through an Internet search for “trimerge credit reports.”

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