Building Credit for Homeownership IDA Participants

AFI Virtual Coffee Webinar Series
August 29, 2017

Office of Community Services
Administration for Children and Families
U.S. Department of Health and Human Services
Introduction of Speakers

• Carmina Lass, Credit Builders Alliance
• Pat Hilgendorf, NeighborWorks Montana
• Hiba Haroon, Prosperity Now
Connecting to Audio

• Choose the appropriate audio setting (computer or phone)
• Ask a question any time by typing the question into the text box on the GoToWebinar Control Panel
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Housekeeping

- This webinar is being recorded!
  - All attendees are muted to ensure sound quality.
  - A video recording and transcript will be available; details will be provided at a later date.
- The webinar will last approximately 60 minutes.
Objectives for Today

• Explore tools & methods grantees employ to review participants’ credit reports, build their credit and set them up for successful asset purchase.
• Learn about stories of clients who have successfully built credit during their homeownership IDA purchase.
• Learn how grantees have used credit building tools & techniques.
• Discuss effective strategies for integrating credit building into homeownership asset purchases.
A Few Questions For You
What is your role with your AFI project?
What is your level of experience with credit building with IDA participants?
What are specific challenges that you face with incorporating credit building?
PANELIST: CARMINA LASS, CREDIT BUILDERS ALLIANCE
Credit Building and IDAs
Credit Builders Alliance

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

Good Credit is an Asset
Introduction:
CBA’s Platform Supports Credit Building.
Why Credit Building?

Increases Access, Affordability, and Options for:

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

Decreases costs/expenses
Increases cash flow
Creates opportunity
What is Credit Building?
And what it’s not

CREDIT BUILDING = *The act of making on-time regular payments on a financial product such as an installment loan or a credit card that is reported by the creditor to the major credit bureaus.*

CREDIT BUILDING ≠ Credit repair

CREDIT BUILDING ≠ Credit remediation/debt management alone

CREDIT BUILDING ≠ Credit education alone
Non-Traditional Strategies for Credit Building

- Starter products:
  - Credit Builder Loans
  - Secured Credit Cards
- Social loans
- Special purpose loans
- Rent Reporting
Clients with no credit, or challenged credit may have difficulty finding responsible credit products that they are eligible for. Consider the following options:

**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.

**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.
What to look for

Try to find products that are:

- Relevant and accessible to your clients
- Flexible & Affordable
- Potential for graduation

BUILD CREDIT!
Integrating CB with IDAs
Examples from the field

March 2007
No Score
$500 Credit Enhancement Loan

October 2007
Score of mid-600
$2,000 small business loan

2013
Score of high-700
Qualifies for 2 credit cards

2015
Successful Small Business
Home Ownership

Enrolls in BCNA’s IDA Program
$2,000 IDA savings
& $2,000 match grant
Thank You!

Questions?
Contact: programs@creditbuildersalliance.org
Q&A: What questions do you have?
PANELIST: PAT HILGENDORF, NEIGHBORWORKS MONTANA
Background on Montana

- Large state: 147,040 sq miles and a population of 1.04 million people
- Mostly rural state with low wages
  - Ranked 49th among states for average annual wages.
- 66% homeownership rate
Neighborworks Montana IDA Program

- In order to meet the demand of the statewide IDA program, we rely heavily on our partner agencies to promote and screen individuals for the program. We partner with 14 HUD approved housing counseling agencies around the state.
Role of the counseling agencies

- Offer first time homebuyer education
- Conduct one on one counseling for class attendees covering the following:
  - credit report
  - income stability
  - home purchase loan options
- During the homebuyer classes, the counselor will cover the basic guidelines for the IDA program.
- Participants that are about ready to purchase are given NWMT contact information. Those that need to work on their credit are referred to a credit building class or counseling. They may be referred at a later date, upon meeting their credit building goals
- Potential applicants for the program contact NWMT for application
  - During this initial contact, applicant is asked about their earned income for qualification, credit score and goals for homeownership
- Most applicants referred through HBE classes have credit that meets the national guidelines for home purchase
- Occasionally applicants find us on social media
Our 1st AFI Grant: 2008-2013

- Enrolled all applicants, as long as they met the income and asset qualifications.
- If their credit score was low, they would work to repair credit during the time they were saving for the IDA program.
- Homebuyer educators handed out applications upon request.

Results:
- We spent a lot of time processing applications that did not meet the criteria.
- Because of the lack of financial education and credit repair counseling agencies in and around the state, the assumption that clients’ credit scores would improve as they saved, proved to be less than accurate.
Status of Program in 2011

• I took over the administration of the IDA program—3 years into the grant period.

• Due to funding constraints, the administration of the program was an added duty to my lending position and had limited time to put towards this program.

• This grant was closed out in 2014 after a one year extension. Of the 111 enrollees, we had 72 successful asset purchases.

• Of the remaining 39 enrollees not purchasing, 8 had fulfilled all the requirements of the program and were ready for home purchase, but unable to find a suitable property. The remaining 31 enrollees were still working on completing HBE, FE or building their credit.
Our Learnings

• Fulfilling the enrollment for the grant is not an issue

• Demand for the product is ongoing

• There are time restraints for monitoring each file

• Need to have continuous contact with the enrollee to ensure they meet their savings goal and any other they may have set for themselves

• Want to enroll individuals who are mortgage ready or have started the credit building process and showing some improvement
Updates on our current grant (2014-2019)

• 56 full enrollments, only 1 enrollee terminated due to credit
• Within 18 months of getting our program up and running, we had allocated all our funding and started with 5 persons on a waiting list
• Resources dictate program guidelines
Key Takeaways

• Our goal: to enroll the applicant, make sure they complete their requirements of saving and completion of Financial Education and Homebuyer Education and finally purchase a home. We do not have the resources or credentials to offer the credit building within the program.

• Two client stories
Q&A: What questions do you have?
AFI Resource Center

• Help Desk:
  – Email: info@idaresources.org
  – Phone: 1-866-778-6037
Thank You!