

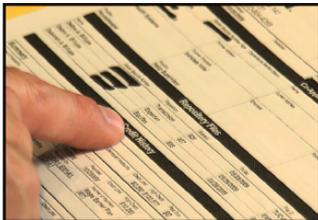
FAMILY ECONOMIC SUCCESS

A DISCUSSION GUIDE



Pursuit of the Dream

Building Credit for Life



The Annie E. Casey Foundation is a private charitable organization dedicated to helping build better futures for disadvantaged children in the United States. It was established in 1948 by Jim Casey, one of the founders of UPS, and his siblings, who named the Foundation in honor of their mother. The primary mission of the Foundation is to foster public policies, human-service reforms, and community supports that more effectively meet the needs of today's vulnerable children and families. In pursuit of this goal, the Foundation makes grants that help states, cities, and neighborhoods fashion more innovative, cost-effective responses to these needs.

The Casey Foundation believes that the children in greatest trouble in America today are those whose parents lack the earnings, assets, services, or social support systems required to consistently meet their families' needs. Most of these children are growing up in impoverished communities that are disconnected from the economic mainstream. The Foundation is working to help these isolated families secure adequate incomes, stabilize their finances, accumulate savings and assets, and live in vibrant, economically viable neighborhoods through a combination of strategies known as building family economic success, or FES. This documentary is an educational tool and part of Casey's FES approach to help families connect with the mainstream economy.

For more information about the
Annie E. Casey Foundation or the
Family Economic Success initiative,
please visit: www.aecf.org

Pursuit of the Dream

Building Credit for Life

About this Documentary

Pursuit of the Dream: Building Credit for Life produced by the Annie E. Casey Foundation, tells the stories of people who have struggled to overcome the effects of having a poor credit score or no credit history at all. This has made it very difficult for them to become self sufficient and achieve economic success.

Credit reports are designed to help companies assess risk before providing financial services. The reports are also used to prevent fraud, verify application information and as a financial character reference when evaluating job applicants, licenses, and other business transactions.

A credit score is assigned based on financial activities—such as credit-card accounts, loans and balances, bill payment history, bankruptcies and legal actions. Consumer reporting agencies study this information and then determine a score, which is used by creditors, employers, insurers, government agencies and others.

A poor score can affect a person's ability to:

- Obtain credit cards, loans, mortgages, and cell phones.
- Receive favorable interest rates and preferred credit limits.
- Qualify for utility and cell phone services with no down payment or substantial security deposit.
- Rent or lease a house or apartment.
- Obtain student loans

Experts estimate that a good credit rating will save the average borrower \$250,000 in interest over a lifetime. But some 70 million Americans either have poor credit scores or no credit history at all. So they borrow from friends and family. Or they turn to common “money traps” —payday lenders, “rent to own” furniture centers, “buy-here-pay-here” car lots—that exact high interest rates and don't report successful repayment to the credit bureaus. Others rely on unscrupulous credit repair firms that promise quick fixes but charge exorbitant fees.

How to Use this Documentary



Pursuit of the Dream: Building Credit for Life is designed to be a helpful tool for a variety of audiences—policymakers, community leaders, service providers and low-income families and individuals. The DVD can be shown at a community event; a local, state or federal policymakers’ forum; or at seminars or workshops. It also may be shown to low-income families as part of financial education programs or credit counseling sessions; at free tax-assistance sites or other waiting-room venues. The goal of this documentary is to increase awareness about credit reports and credit scores and begin a conversation about how these affect people’s lives and how they can build or repair their creditworthiness.

Ideally, after viewing the documentary, the group leader will guide a discussion about the issues highlighted in the stories and provide handouts listing local resources and programs that offer financial education and practical help. Discussion questions and resources for additional materials and information are included in this guidebook.

Remember that across the country, community lenders and nonprofit organizations are working to help low- and moderate-income families build up their credit histories. Some offer small loans or secured credit cards. Others use alternative measures for determining whether someone can repay a loan. Those include rent and utility payments, phone bills and other transactions. Some advocates question whether it is in the best interest of low-income families to rely on these alternative measures. Others are lobbying for a system that would provide more access to credit without threatening economic security.

Grandville and Rose Marie

Grandville and Rose Marie worked hard to provide for their five children and wanted to buy their own home in a safer neighborhood. But no bank would lend them money because their credit score was dragged down by five overdue bills, all of them smaller than \$600, that had gone into collection. They consulted several credit repair firms who promised to improve their scores—for a fee. These efforts never produced any results, leaving the couple feeling “ripped off” and very frustrated. After 10 years, they found a nonprofit community agency in St. Louis that counseled them and helped them take out a small loan, which they quickly repaid. That helped rebuild their credit and raise their score. Within a year, they had purchased and moved into a beautiful home, paying less in mortgage than they paid in rent.



DO Pay all your bills on time. Even small bills, left unpaid, can bring down your credit score and make it hard to borrow money at a good interest rate. The longer you wait to repay past debts, the worse it can be for your credit score. This is especially true if the debts are turned over to a collection agency. Before it reaches that point, you can work with a creditor to develop a plan to pay back your debt overtime. If your score is low, try taking out a smaller loan, often offered by community lenders, to demonstrate that you can be trusted to repay the debt.

DON'T Get involved with credit repair firms that charge high fees and guarantee to raise scores. Some will encourage you to include misleading or false information. This is against the law. Also avoid predatory lenders who charge high interest rates. These lenders typically don't report successful repayment to credit bureaus. But they will report missed payments or repossessions, dragging down your score.



John

John was single, earning a good salary and spending it all, falling into debt. His poor credit report prevented him from being promoted to a better job and soon he was laid off. Some 10 years later, with a wife and five children, his low score and poor credit report still haunt him. He has had to dispute mistakes on his credit report, clear up collections, and resolve a bankruptcy.

John has become an apprentice in the construction trades and must budget for seasonal work. He has a five-year plan to repair his credit and has hopes of buying a house for his family. John participated in a “Financial Tools for the Trades” seminar provided by a community group in Seattle. The class, along with “learning the hard way,” has helped him appreciate the importance of credit.

DO *Live within your means and learn to budget for both salary and expenses. This is basic advice but many people, especially young workers new to the job market, don't manage to do it. Having a small amount of debt can be a good thing. Too little leaves lenders with no way to judge whether you can be trusted to repay a loan. As in all things, balance is key. Some counselors recommend having a few credit cards but keeping most of your spending on one card. It's often hard when you find yourself with a lot of money at once, as is the case with seasonal workers or some young soldiers returning from overseas deployments. Credit counselors have some basic advice for new wage earners: Use your bank account to get a small loan from the bank. Also, apply for a credit card—if you can't get one from a bank, try to get a gasoline or store card. Some nonprofit groups offer a credit card secured by your savings account. Paying it off regularly will build a good credit history.*

DON'T *Overextend yourself with loans or credit card debt. Too much debt brings down your credit score. Avoid maxing out your cards. A good rule of thumb is to keep your credit card balance no higher than 35 percent of your maximum. If your credit limit is \$1,000, for instance, keep your balance at or below \$350.*

Cipriano

Cipriano paid his bills on time and was paying off a loan on his truck with the money he made from his construction job. But when he tried to buy a new truck, lenders said his credit score was too low. Landlords who looked at his credit score wouldn't rent him an apartment. After his wife died, he and his two young children had to move in with his sister temporarily. With the help of a community nonprofit in North Carolina he got a copy of his credit report and found, to his surprise, that he was considered delinquent on child support in Texas. It was a case of mistaken identity—he had never lived in Texas and had no other children to support. Cipriano is still working with a credit counselor to clear his credit record but now realizes how critical credit is to his future.



DO Check your credit report annually or in the months before you seek a loan to ensure it contains no outdated data or, as in this case, wrong information. One study showed that as many as 70 percent of credit reports include errors. Be sure to look at reports kept by all three reporting companies. Consumers are entitled to receive one free copy of their credit report every year from each company. Your credit score will not be on the free reports, but you can purchase a copy of your credit score by directly contacting each of the credit reporting companies when you request your free report (see endnotes), or from a number of other sources, such as www.myfico.com.

DON'T Worry that checking your credit report will bring down your score — pulling your own report will not count against you.

Tips for Boosting Credit Scores



Pursuit of the Dream: Building Credit for Life is not intended to be a comprehensive overview of credit score problems, but is a hands-on tool to help low- and moderate-income families—and those who work on their behalf—to strengthen their financial situation and move toward economic stability and success. Share these tips with families and employees who need to build or repair their credit scores.

- **Request a copy of your credit report** from all three national credit bureaus at www.annualcreditreport.com or call 1-877-322-8228 to request your free reports. The three reporting companies are sharing this one website, with one toll-free telephone number, and one mailing address to handle requests for free reports. Request a free report from the bureau directly if you have been denied credit from a lender that purchased a report from that company.
- **Learn about your credit score.** Purchase a copy of your credit score by directly contacting each of the credit reporting companies (see endnotes), or when you request your free report through www.annualcreditreport.com. Go to a nonprofit counselor to discuss your score.
- **Look for errors on your reports** and work with the credit bureaus to correct inaccuracies. Problems could include mistaken identity; outdated information; and incorrect data about your bank, retail or credit card accounts or about bankruptcies, tax liens, or legal judgments.
- **Pay your bills on time, every time.** One-third of your credit score is based on your payment history. If you cannot pay your bills, contact your creditors to ask them about setting up a payment plan. Do not ignore bills that you can't pay.

- **Use credit cards responsibly.** Credit cards are vital to establishing a history of borrowing. But if bills are not paid on time or if the cards are consistently spent to their maximum limit, it can reflect poorly on the borrower. If you can't resist using your credit cards, take them out of your purse or wallet.
- **Don't close old accounts.** The age of your oldest credit card and the average age of your cards affect your credit score. Closing too many accounts at once also lowers the amount of credit that is available to you, causing your current debt to appear to be a higher percentage of your available credit.
- **Consider consolidating your debt.** This will result in fewer payments and often a lower interest rate, making it easier to pay off your debt. However, consolidating debts often extends the repayment period, which can mean higher costs over the long term. Beware of firms advertising "debt consolidation" that are actually selling debt settlement services. Debts reported as settled have a negative impact on credit scores.
- **Contact creditors to develop payment plans.** Many creditors would rather work out a plan for paying off bills gradually than turn you over to a collection agency.
- **Pay off all old debts.** Even very small debts can lower your credit score if they go into collection. Remember, negative payment history stays on your credit record for as long as seven years.
- **Take out a small loan—and repay it.** Even a \$500 loan can help build a credit score if it is paid off on time. If you don't qualify on your own, ask a relative or friend to co-sign the loan.

If you want credit advice or counseling, find a local organization that is recommended by the nonprofit national Foundation for Credit Counseling. (1-800-388-2227 or <http://www.nfcc.org>) The only way to repair your credit score—or build a credit history—is over time, through meeting your financial responsibilities and paying your bills on time. NFCC's member agencies can also offer debt management plans that work something like a consolidation loan: You make one payment to the credit counseling agency, which sends the money to various creditors. Your counselor can also try to get you lower interest rates on credit cards through the "Call to Action" program.

Audiences for this Documentary

Local, State and Federal Policymakers

Elected or appointed officials should view the documentary to gain insight into the challenges their constituents face in building and keeping good credit.

How they can help:

Implement policies that crackdown on predatory lenders to reduce fraud, unfair practices and hidden excessive costs for loans from pay day lenders, rent-to-own centers, buy-here-pay-here car lots and others. Some states have set caps on interest rates.

Implement policies that would restrict credit repair firms from taking advantage of struggling borrowers. Already it is illegal for counselors to suggest misleading the credit companies or altering identities.

Examine policy options that would broaden the use of alternative credit scores for workers who have no credit history or bad scores. Many small community lenders will consider factors overlooked by the national credit bureaus, such as utility and rent payments or evidence of steady employment, to determine whether to give a small loan. Such information is not typically part of credit reports, in some cases because it is prohibited by law. However, the national credit reporting companies are studying ways to incorporate such information into credit histories. The Policy and Economic Research Council is supporting federal legislation and lobbying states to adjust any laws or regulations that might inhibit utilities and telephone companies from sharing payment history. It is also urging these industries to provide more information to credit bureaus. Some advocates raise concerns about using alternative metrics, but supporters say that credit bureaus are already alerted to missed payments and should report positive credit history, as well.

Community Leaders and Service Providers

Community and nonprofit groups are playing a pivotal role in providing the credit counseling and alternative routes to credit that will help families build and keep good credit histories reflected by good scores.

How they can help:

Join Credit Builders Alliance, a national organization that supports community and nonprofit organizations engaged in building credit histories and scores for low-income families. With support from the Casey Foundation, CBA offers a Credit Builders Toolkit which provides comprehensive training, concrete strategies, tools, real-life examples and innovative best practices. CBA also helps nonprofits to report loans to major credit bureaus, develop small loan products and access low-cost soft inquiry credit reports for financial counseling. Visit their website at www.creditbuildersalliance.org.

Offer credit education and free credit reports to low-income families. In North Carolina, the nonprofit Consumer Credit Counseling Service of Forsyth County--in partnership with United Way of Forsyth County, Goodwill Industries of NW North Carolina, Family Services and Experiment in Self Reliance--has established the "Prosperity Center" which provides free Internet access to look for employment and check credit reports. The center also provides counselors to help clear up credit report errors and rebuild credit, budgeting and debt management assistance and financial education. In the Seattle area, Port Jobs developed a workshop that includes budgeting guides, ways to access credit and information to find and correct credit reports.

Set up financial education classes and counseling programs for those with bad or no credit. Justine Petersen in Missouri has offered credit counseling to 15,000 and low- and moderate-income families and helped 4,000 people buy homes. Four out of five of the clients make less than 80% of the national median income, 81% are people of color and more than two-thirds are female heads of households.

Establish programs that will enable low-income families to take out small loans. Community development finance institutions (CDFI's) across the country are offering microenterprise, housing and consumer loans to help families build credit and grow their assets. Justine Petersen partners with local financial institutions and government to help its clients get mortgages and business loans and with Credit Builders Alliance to report the loans to build client credit. CBA helps CDFIs and other nonprofits report the small loan repayments to major credit bureaus.

Work with banks to provide secured credit cards. Justine Peterson is engaged in a pilot program with Citi Microfinance and Banomex USA allowing families to use a credit card secured by a savings account at the bank. After a year of successful payments, customers can receive an unsecured card.

Encourage the use of alternative credit information and credit scoring systems that incorporate this information scores by banks or nonprofit organizations. The Center for Financial Services Innovation assists banks, credit unions, technology vendors and advocates in finding ways to open the credit market to low-income households. Be warned that some consumer advocates question using such measures as rent and utility payments. Some tenants, for instance, withhold rent payments when landlords fail to make needed repairs. But if rent payment history were part of credit calculations, tenants might be reluctant to take such a step.

Develop peer lending circles that formalize the tradition of borrowing from family and friends. In California, the Mission Asset Fund has established “Cesta Populares,” partnering with a bank that can report small monthly contributions pooled from several people each month and lent to a different participant.

Encourage banks to refinance high-interest loans from payday lenders and other unscrupulous firms. Casey’s Making Connections has developed a program with the Republic Bank in Louisville and the Urban League in which the bank pays off exorbitant loans and issues new ones to borrowers at lower interest rates. The borrowers agree to credit counseling and financial education classes.

Low-Income Families and Their Employers

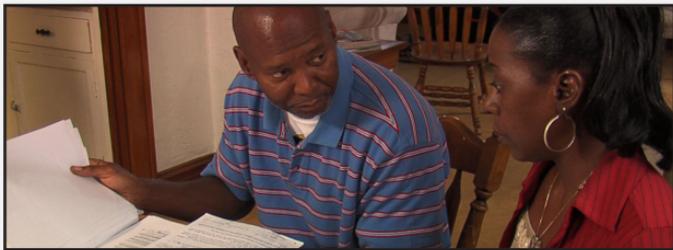
It’s crucial that low-wage workers—and helpful that their employers—know the best strategies for building and keeping a good credit score.

How they can help:

Employers and others can help educate their employees by using this DVD in a number of ways, including:

- Show the documentary to incoming employees as part of their orientation or during special training sessions
- Host a community forum and invite low-wage workers to watch the video and discuss it.
- Have the documentary shown at a workforce development center’s meetings or make it available for viewing in an office waiting room.

Discussion Questions



- 1) Were you aware of credit scores and credit reports—or how important they are—before viewing the documentary?
- 2) Have you requested a copy of your credit report? If so, did you find any errors or other problems? Were you able to have them corrected?
- 3) What are the pitfalls of using payday lenders or buy-here-pay-here car lots instead of traditional lenders?
- 4) What should you be wary of when consulting a credit counselor? How quickly can you expect to turn around bad credit?
- 5) What are the best ways to build a credit history if you haven't borrowed money before—or if financial difficulties have left you with a low score?
- 6) What types of education programs are available in your community to help those who need help building or restoring their credit scores?
- 7) Do any institutions in your community use alternative credit scores? What can you do to promote such practices?
- 8) What economic or community issues could arise because low-wage workers don't have access to credit and good interest rates?
- 9) Which local policies or potential legislation for your community could address these issues?
- 10) What possible steps could you take in your community?

Endnotes

Consumers are entitled to receive one free credit report every year. Request your report through www.annualcreditreport.com. If you want to contact the credit bureaus:

Equifax

P.O. Box 105873
Atlanta, GA 30348
<http://www.equifax.com>
(800) 685-1111

Experian (formerly TRW)

P.O. Box 2104
Allen, TX 75013-2104
<http://www.experian.com>
(888) 397-3742

TransUnion

Consumer Disclosure Center
P.O. Box 1000
Chester, PA 19022
<http://www.transunion.com>
(800) 916-8800 or (800) 888-4213

Forms and info

Credit Reports

<http://www.cccsforsyth.org/yourcreditreport.php4>

Budgeting

<http://www.cfed.org/focus.m?parentid=2&siteid=374&id=393>
<http://www.justinepetersen.org/content/documents/BudgetPage.pdf>

Credit Builder Loans

<http://www.justinepetersen.org/content/credit-building-loans.php>

Credit and Debt Management

<http://www.cccsforsyth.org/debtmanagement.php4>

Alternative Credit Scores

http://www.cfsinnovation.com/whats-new-detail.php?article_id=330601
<http://perc.net/content/projects-adi>

References and resources

“Credit Builders Toolkit,” Credit Builder Alliance: <http://www.creditbuildersalliance.org/toolkit/>

“How to Establish, Use and Protect Your Credit,” the Federal Reserve Bank of San Francisco and the Federal Reserve Bank of Philadelphia; and “Your Credit Report,” the Federal Reserve Bank of San Francisco. <http://www.frbsf.org/consumer/index.html>

“Demystifying Your Credit Score,” <http://www.kiplinger.com/basics/>

“Building a Better Credit Report,” Federal Trade Commission, <http://www.ftc.gov/bcp/edu/pubs/consumer/credit/cre03.pdf>

Credit Score FAQ: Frequently Asked Questions (FAQ) About Credit Scores
Experian
<http://www.experian.com/credit-education/credit-score-faqs.html>

Federal Trade Commission, Consumer Response Center – FCRA
600 Pennsylvania Avenue, NW
Washington, DC 20580
<http://www.ftc.gov>
(877) FTC-HELP

National Foundation for Credit Counseling
8611 Second Avenue
Silver Spring, MD 20910
<http://www.nfcc.org>
(800) 388-2227

Corporation for Enterprise Development
1200 G St. NW Suite 400
Washington DC 20005
<http://www.cfed.org>
202.408.9788
Policy and Economic Research Center
100 Europa Drive #403
Chapel Hill NC 27517
<http://perc.net/content/projects-adi>

Federal Deposit Insurance Corporation (FDIC)
“Money Smart” Financial Education and Literacy Program
<http://www.fdic.gov/consumers/consumer/moneysmart/overview.html>
(877) 275-3342

Experian
Personal Services – Credit Education
<http://www.experian.com/credit-education/credit-information.html>
<http://www.experian.com/credit-education/my-credit-score.html>

TransUnion
Consumer Information—Credit
<http://content.truecredit.com/LearningCenter/creditScores/overview.page>

Equifax
Learn at Equifax
<http://learn.equifax.com/learn/>

Consumer Credit Counseling Service of Forsyth County, Inc.
Winston-Salem, North Carolina
<http://www.cccsforsyth.org/>

Justine Petersen
St. Louis, Missouri
<http://www.justinepetersen.org>

Port Jobs
Seattle, Washington
<http://financialmentoring.net/ftfortrades.html>

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