Credit Building Product Guidelines

Financial Institutions are an integral part of helping consumers to build or rebuild their credit profile and score. Without access to safe and affordable credit building products, consumers often pay more for basic financial needs – high fees and/or interest rates on loans and credit cards, large deposits for cell phones and/or utilities - and they have difficulty renting quality apartments and securing quality jobs. Below are our guidelines for financial institutions to use when considering offering a credit building product or evaluating whether their credit building product is helping consumers in need of credit building.

There are two basic types of credit building loans that are thought of when establishing the credit building product guidelines. For Credit Building Loan **Product Comparisons**, see link.

1. **A loan secured by the loan funds.** With a "pure credit-builder loan," the lender puts the loan amount in a locked savings account and gives it to the borrower only after receiving the final payment. There are two key benefits to a "pure credit-builder loan", (1) the borrower doesn't have to come up with cash upfront to secure the loan, and (2) they save while building credit; as the sum of their loan payments are returned to them at the end of the loan term.

2. **A standard secured loan.** This type of loan is secured by money the consumer already has in a savings account or certificate of deposit with the financial institution. The collateral account is frozen, and funds are released incrementally as the loan is paid down.

Transparency: Privacy policies, disclosures, terms and prepayment flexibilities must be clear.

	Y/N	Credit Building Loan Core Features	Rationale
1.	☐	Does it report to all three major credit bureau companies?	In order for a credit building loan to optimally increase a consumer's credit score, it has to report to all three major credit bureaus.
2.	☐	Is the term at least 6 months long?	Fifteen percent of the credit score is the length of time an account has been open. Consumers should be advised not to pay off the loan in under 6 months (unless the payment is becoming a hardship). A longer history on a loan provides more information and shows a better picture of long-term financial behavior.

3.	◻	Is the loan application online?	The product is accessible and convenient for consumers who can not find transportation to institutions. Financial institutions shall streamline the application process to ease a client.
4.	◻	Is there a prepayment penalty?	The financial institution/lender must allow early payoff without penalty. The consumer may pay off the loan early in whole or in part with no extra, or pre-computed fees or charges.
5.	◻	Is the Truth-in-Lending Act Annual Percentage Interest Rate, calculated using the requirements under the Military Lending Act, 18% or below?	When one pays less in interest, there is more money to spend elsewhere.
6.	◻	Is the payment affordable?	The amount of the loan, and/or interest rate, and term should coordinate so that the monthly payment on the loan is affordable for the participant. The lender considers the borrower's ability to repay the loan on its terms in accordance with applicable laws, regulations and guidances. (See, e.g., NCLC memo on potentially applicable laws, regulations and guidances.) Additionally, the financial institution should set a loan amount and term in which the monthly payment stays under $50 per month, or should utilize an income vs. expense or budget to set the monthly payment.
7.	◻	Does the account **not** go into collection in the Event of Default?	In the event of default, the financial institution/lender will collect the unpaid balance from the security but will not employ a third-party debt collector, sell the debt to a debt buyer, or initiate legal action against the borrower.
8.	◻	Is the product accessible to consumers?	Are all staff at the financial institution knowledgeable about the product and able to both recommend and originate the product? Are there marketing materials in all branches? Is the product featured on your website?

9.	☐	Is there flexibility to choose the size of the loan?	Having flexibility to choose the size and term of the loan can contribute to the successful repayment of the loan.
10.	☐	Is the privacy policy clear?	Products must have a clear and understandable privacy policy statement or a legal document that discloses all of the ways the institution gathers, uses, discloses, and manages customer or clients' data. An ability to opt out would be ideal.

Highly Recommended Features:

11.	☐	Is there a potential for graduation?	The client should have the ability to graduate to an unsecured loan, secured credit card, a subsequent credit builder loan, or to another loan product (vehicle loan or personal loan) with a lower interest rate after successfully completing the credit builder product.
12.	☐	Soft Pull vs. Hard Pull	Hard pulls can affect someone's credit score by up to ten points. If the credit (report) is not going to be used for underwriting purposes, but for verification and/or tracking it should be a soft pull, and not a hard pull.
13.	☐	Does the loan get closed before the participant goes 30 days late?	A credit building loan's purpose is to help a consumer build credit. A 30-day late payment can drop a credit score by 100+ points. If a payment is not made, ideally, the loan would be closed before it is reported 30-days late. Financial institutions should adopt procedures to monitor their credit building loans to make sure that the loans do not go 30+ days late.

14.	☐	The ability to adjust payment deadline dates.	For some participants, it may be easier to make loan payments if they can set the day of the month that their payment is due, or evenly split the payment into two smaller, biweekly payments (or semi-monthly, or weekly payments if that is how they get paid). If payments are due more than once a month, a late fee should only be charged once a month, or any late fees should be reduced proportionally.
15.	☐	A low credit score and ChexSystems report will not disqualify/reject the client's application. Consider alternative underwriting considerations, like employment, financial education and/or coaching.	The financial institution should offer the credit building product to the client regardless of collections and previous late payments on the credit report. A ChexSystems denial should only occur if the participant owes that particular financial institution.
16.	☐	Partner with a local non-profit community based organization that offers credit building, financial coaching, and is trained and/or vetted by the United Way of Massachusetts Bay and Merrimack Valley, or other self paced opportunities for financial education to consumers with credit building loans.	Research has shown that financial coaching can lead to participants having decreased late payments and increased credit scores. Financial coaching has also shown to reduce financial stress levels. See Boston Builds Credit's Find a Coach.
17.	☐	The financial institution offers the credit building loan themselves, remotely, or through vetted, participating counseling organizations.	Application and credit builder loans should be accessible to the public through participating organizations vetted and/or trained by the United Way of Massachusetts Bay and Merrimack Valley (*see #10 above).* Both the loan application and closing documents will be easily accessible online through the financial institution's website or could be transmitted between the financial institution and the counseling organization through secure email.

18.	◻	Trained staff	Financial institutions shall make reasonable, affirmative efforts to train staff regarding the availability and features of credit building products.
19.	◻	Soft Pull vs. Hard Pull	Hard pulls can affect someone's credit score by up to ten points. If the credit (report) is not going to be used for underwriting purposes, but for verification and/or tracking it should be a soft pull, and not a hard pull.
20.	◻	Are the standards for product approval provided?	Do financial institution staffers and/or consumers know the minimum standards to be approved for the financial product? What is the monthly income vs. monthly expenses ratio? Is there a minimum debt-to-income (DTI) ratio required? Will public records automatically disqualify an application? Is there a maximum collection debt load to consider? Is a bank account required? Are institution’s staff should be made aware of these policies to guide customers and ideally information is posted on its website for consumers?
21.	◻	Outcome Tracking and Data sharing	In order to assess the efficacy of financial education and to see if individuals are transitioning to additional credit building products, we are requesting that financial institutions share quantitative aggregate client level data regarding usage of credit building loans.

Secured Credit Card Product Guidelines

Secured credit cards can be a great tool to build credit, especially for people who have less than **prime credit scores (under 700)** or cannot get approved for an unsecured credit card.

Participants with credit cards are in a better position to weather a financial emergency – such as a car breaking down – without missing hours or days of work and without having to borrow from high-priced lenders. For Secured Credit Card **Product Comparisons**, **see link**.

#	Y/N	Secured Credit Card Core Features	Rationale
1.	☐	Does it report to all three credit bureaus?	The main reason to get a secured credit card is to build credit, so it's imperative that the secured credit card reports to all three credit bureaus.
2.	☐	Is the Truth-in-Lending Act Annual Percentage Interest Rate, calculated using the requirements under the Military Lending Act, 18% or below?	When one pays less in interest, there is more money to spend elsewhere.
3.	☐	Is there an annual fee and how much? We propose that the secured credit card should have no ($0) annual fee.	There are many credit cards that do not charge an annual fee. Credit cards that do charge fees often tend to provide other rewards such as cash back or travel points as an incentive and as a way to offset those fees. Secured credit cards are meant to be temporary products (< 1 year), serving as support to eventually graduate up to unsecured cards.
4.	☐	Are the fees limited?	Beyond an annual, cash advance, returned payment, and balance transfer fee, all other fees should be limited or non-existent. For instance, there should be no monthly servicing fee or processing fee. Attachment A (TBD) provides a list of top-rated secured credit cards and can be used as a guideline for acceptable fees. Boston Builds Credit's webTool provides a list of top-rated secured credit cards and can be used as a guideline for acceptable fees.

5.	☐	Does the account **not** go into collection in the event of default?	In the event of default, the financial institution/lender will collect the unpaid balance from the security but will not employ a third-party debt collector, sell the debt to a debt buyer, or initiate legal action against the borrower.
6.	☐	Is the security deposit affordable and/or accessible for Low to Moderate Income (LMI) families? Institutions should incorporate a three-tiered system that allows clients to deposit a smaller portion of the credit line so as to increase accessibility. We propose that institutions provide an initial credit line of $200 from an initial deposit of either $50, $100, or $200 for their secured credit card product.	Experience has shown that security deposits over $300 can become a hardship for participants, especially those who are low to moderate income. By lowering the security deposit, the product becomes more accessible to low and moderate income individuals. The proposed deposit and credit limit should be similar and compete with other low-cost credit building products already available in the market. Underwriting for the ability to repay is at the core of responsible lending. The lender considers the borrower's ability to repay the loan on its terms in accordance with applicable laws, regulations and guidances. (See, e.g., NCLC memo on potentially applicable laws, regulations and guidances.)
7.	☐	Is the secured credit card application online?	The product is accessible and convenient for individuals who can not find transportation to institutions. Financial institutions streamline the application process for the ease of a client.
9.	☐	Is the privacy policy clear?	Products must have a clear and understandable privacy policy statement or a legal document that discloses all the ways the institution gathers, uses, discloses, and manages customer, or clients' data. An ability to opt out would be ideal.

Highly Recommended Features:

10.	◻	Is there a graduation strategy?	A secured credit card should be viewed as a short-term product (6-18 months). Ideally, the secured credit card company has a graduation strategy in place that requires the company to review the customer's credit report regularly (recommended: soft pull every 6 months) to see if they qualify for an unsecured credit card. If the participant qualifies for a better card, they should be able to keep the same account number and roll the current card over to an unsecured credit card (so they don't lose their credit history).
11.	◻	Soft Pull vs. Hard Pull Credit report pulls that are for verification or tracking purposes only are done by soft, not hard, pulls.	Hard pulls can affect someone's credit score by up to ten points. If the credit (report) is not going to be used for underwriting purposes, but for verification and/or tracking it should be a soft pull, and not a hard pull.
12.	◻	The ability to adjust payment deadline dates.	For some participants, it may be easier to make payments if they can set the day of the month that their payment is due, or evenly split the payment into two smaller biweekly payments (or semi-monthly or weekly payments if that is how they get paid). If payments are due more than once a month, any late fees should be reduced proportionally.
13.	◻	The secured card gets closed before the participant goes 30 days late	A credit building product's purpose is to help a consumer build credit. A 30-day late payment can drop a credit score by 100+ points. If a payment is not made, ideally, the product would be closed before it is reported 30-days late. Financial institutions should adopt procedures to monitor their credit building products to make sure that the customers do not go 30+ days late.

14.	☐	Does the institution partner with a local non-profit community based organization that offers credit building, financial coaching, and is trained and/or vetted by the United Way of Massachusetts Bay and Merrimack Valley, or other self paced opportunities for financial education to consumers with credit building products?	Research has shown that financial coaching can lead to participants having decreased late payments and increased credit scores. Financial coaching has also shown to reduce financial stress levels. See Boston Builds Credit's Find a Coach.
15.	☐	Outcome Tracking and Data sharing	In order to assess the efficacy of financial education and to see if individuals are transitioning to additional credit building products, we are requesting that financial institutions share quantitative aggregate client level data regarding usage of secured credit card products.
16.		Bank and/or Lender staff are knowledgeable about the standards for product approval. Financial institutions shall make reasonable, affirmative efforts to train staff regarding the availability and features of credit building products.	Bank staff should know and be able to answer consumer questions about the minimum standards necessary to be approved for the financial product: ● What is the monthly income vs. monthly expenses ratio? ● Is there a minimum debt-to-income (DTI) ratio required? ● Will public records automatically disqualify an application? ● Is there a maximum collection debt load to consider? ● Is a bank account required? Your staff should be made aware of these policies to guide customers. Ideally, all information is posted on websites for consumers.