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.

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 participant's credit score, it has to report to all three major credit bureaus.
2.	☐	Is the term at least 12 months long?	Fifteen percent of the credit score is length of time an account has been open. Participants should be advised not to pay off the loan under 12 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 interest rate below 18%?	When one pays less in interest, there is more money to spend elsewhere.
4.	☐	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?
5.	☐	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. Having flexibility to choose the size and term of the loan can contribute to the successful repayment of the loan. Alternatively, the financial institution should set a loan amount and term in which the monthly payment stays under $50 per month.
6.	☐	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:

7.	☐	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.

8.	☐	Flexible and consistent payment arrangements.	For some participants, it may be easier to make loan payments on pay days - evenly splitting the payment to two smaller monthly payments (or weekly payments if that is how they get paid).
9.	☐	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.
10.	☐	A credit and ChexSystems report should not be used for underwriting. Consider alternative underwriting considerations, like employment and/or financial education.	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.
11.	☐	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.

12.	☐	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.
13.	☐	Trained staff	Financial institutions shall make reasonable, affirmative efforts to train staff regarding the availability and features of credit building products.
14.		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? Bank staff should be made aware of these policies to guide customers and ideally information is posted on its website for consumers.

15.		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.
16.	☐	Is the loan application online?	The product is accessible and convenient for individuals who can not find transportation to institutions. Financial institution streamlines the application process for the ease of a client.
17.		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. 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 620) 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.

#	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 security deposit affordable/ accessible for Low to Moderate Income (LMI) families? Banks 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 banking 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.
3.	☐	Is the interest rate below 18%?	When one pays less in interest, there is more money to spend elsewhere.
4.	☐	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.

5.	☐	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).
6.	☐	Are the fees limited?	Beyond an annual, cash advance, returned payment, and balance transfer fee, 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.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.
7.	☐	Is the secured credit card application online?	The product is accessible and convenient for individuals who can not find transportation to institutions. Financial institution streamlines the application process for the ease of a client.
8.	☐	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:

9.	☐	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.
10.	☐	Is the monthly minimum payment affordable?	The amount of the card and/or Interest rate, and term should coordinate so that the monthly minimum payment on the card is affordable for the participant. Having flexibility to choose the size and term of the card can contribute to successful repayments. Alternatively, the financial institution should set a card amount and term in which the monthly minimum payment stays under $50 per month.
11.		Are the standards for product approval provided?	Do bank staff and/or consumers know 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? Bank staff should be made aware of these policies to guide customers and ideally information is posted on websites for consumers.
12.	☐	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.

13.	☐	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.