Achieving Credit Strength

A Toolkit for Supporting Young People

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Contents

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Introduction

According to 2021 TransUnion data, 54 percent of Generation Z ("Gen Z," those born between 1997 and 2012) believe access to credit and lending products is important to achieving their financial goals. However, young people often face challenges in both obtaining credit products and understanding how to manage them. They also may face intersectional disadvantages from aging out of foster care, disconnection from school and work, juvenile detention/incarceration, time spent unhoused, racial discrimination, generational poverty, disability, neurodiversity, and immigration barriers. These factors especially impact young people of color and/or from low-income backgrounds, contributing to widening racial and ethnic wealth disparities. While all these issues deserve advocacy and policy changes, this toolkit offers one immediate solution: credit building for young people.

Access to safe and affordable credit is foundational to financial health, economic mobility, and wealth creation. Lack of access to quality, affordable financial products due to no or poor credit forces individuals to rely on higher-cost, often predatory financial products. As a result, they experience the flipside of income inequality, "expense inequality," the sustained overpayment of interest and fees on financial products. While credit itself will not solve all structural and economic problems that young people face, it is the foundation on which young people can build financial security and, in turn, find the freedom to pursue their dreams.

While some young adults are familiar with the term "credit," others might not understand it or the importance of establishing good credit at an early age. Many young adults only realize the value of a good credit history when they attempt to rent an apartment, obtain a job, purchase a cell phone, or buy a car. Or they recognize it when economic conditions and natural disasters such as the Great Recession or the COVID-19 pandemic bring finances to the forefront. However, young people often crave more knowledge about where to turn, how to assess products, and what to do to succeed with credit.

Credit Access Among Young People

The Consumer Financial Protection Bureau (CFPB) estimates that 26 million Americans are credit invisible and do not have any credit record; a further 19 million have an insufficient credit history to generate a credit score. Insufficient credit histories can occur due to stale credit or a lack of recent credit activity to generate a score, although this is less common among young adults. Credit invisibility, on the other hand, is prevalent among young adults. This means they have never used a credit product and do not have a credit history. Over 10 million credit invisibles are younger than 25, which corresponds to almost 40 percent of this population.[i] However, as young people reach their mid-20s, those numbers decrease. Only nine percent are considered credit invisible.[ii] Credit invisibility might instead be situational for many young adults under 24 because young people generally do not have access to or use credit before the age of 18.

Young Adults' Access to Credit Varies

The Urban Institute's 2018 research found that there are stark credit distinctions for young adults by race. The median credit score for a white young adult is 657, while it is 606 for a non-white young adult. These differences impact access to future credit products, but they also relate to when and how a young adult begins interacting with credit.

Young adults who are scored often start their credit journeys with one of three main products: one in three begin with an unsecured credit card, one in four through authorized user status (piggybacking on an adult's credit account)[1], and one in five through student loans.[iii] Two of these credit products require connection to a trusted guardian or parent (generally with established/positive credit) or admission into a higher education institution, which are not options available to all young people.

Young adults who are added as an authorized user to a parent's or guardian's credit card tend to come from predominantly higher income areas. Data from TransUnion suggests that 64 percent were teenagers under the age of 14 when first added as an authorized user.[iv] This pathway to credit is less prevalent in lower income neighborhoods where consumers are more likely to acquire a credit record from non-loan items, such as third-party collection accounts or public records than credit cards.[v] Lastly, some students have no access to federal student loans. This gap is particularly pronounced in the South and affects a large percentage of non-white students.[vi]

Barriers to Credit Access

System and Situational Exposure Increases Credit Access Vulnerability

Exposure to systems and situations such as foster care, juvenile justice, homelessness, Opportunity Youth,[2] immigrants/refugees, parenthood at an early age, and caring for parents or siblings presents unique challenges to credit and financial well-being. These challenges may include, but are not limited to:

- **Lack of familial support or mentorship.** During developmental years and beyond, parental guidance is critical. Without guidance, young adults must navigate challenging financial decisions on their own and lack access to credit building opportunities that rely on direct parental support. This can also occur if parents are credit invisible themselves and cannot access similar products or services.
- **Higher prevalence of identity (ID) theft.** For some youth, particularly those in foster care, there may be a significant risk of ID theft by trusted adults.[vii] Young victims of ID theft might be unaware of the ID theft or choose not to remediate their

1 TransUnion data from 2017 suggests that one in five teens (19 percent) have a credit card thanks to authorized user status (www.transunion.com/docs/TUC_GenZReport_FINAL_06.22.17_US%5B2%5D.pdf). The variance from the CFPB data reflects the ongoing emergence of more updated data availability around Generation Z.

2 As defined by Measure of America, Opportunity Youth, or disconnected youth, are young people between the ages of 16 and 24 who are neither working nor in school.

credit reports potentially due to fear of retaliation or damaging a relationship. This can exacerbate credit consequences in the short-term and long-term such as denial for an apartment, mounting debt, or difficulty accessing student loans.

- **Language barriers and lack of culturally relevant services.** For immigrants and Native youth, financial education that relies on highly specific English vocabulary or unrelatable concepts can act as a significant barrier to understanding credit and the financial system.
- **Prohibitive ID requirements.** Those exiting the justice system, immigrants, and foster youth are sometimes unable to meet identification requirements (Social Security Number or Individual Taxpayer Identification Number (ITIN)), which restricts their options for opening a bank account, obtaining a driver's license, or accessing credit building opportunities.
- **Lifestyle instability.** Many young adults face significant challenges due to inconsistent income, misaligned schedules, a lack of a stable address or phone number, and transportation limitations. This may affect access to housing, employment, and education options, as well as food and childcare choices (for young adults who themselves have children).
- **Exclusion and denial due to sexual orientation or gender identity.** Lack of stable housing can increase the difficulty in finding credit, financial, and social support measures. LGBT youth face a higher likelihood of becoming unhoused, and this group makes up 40 percent of all unhoused youth. As a result, LGBT youth often face additional challenges in their search for credit building programs.[viii]
- **Disabilities.** Gaps in accessible resources and programming for youth with disabilities function as a significant barrier that may prevent this group from accessing credit education or credit building products.

Geography can impact opportunities for accessing and building credit for young adults, particularly Native youth and youth of color. The southern United States, specifically Louisiana, Mississippi, Texas, Oklahoma, and Alabama, has the lowest concentration of credit scores.[ix] Across the country, urban and rural communities, especially low-income areas, each face their own challenges. In low-income urban census tracts, 30 percent of people are credit invisible, a number **eight** times that of upper-income areas. Rural areas have the greatest rates of credit invisibility, an issue that is compounded by technological challenges.[x] In rural areas, a lack of stable internet access correlates with credit invisibility, even more so than the lack of a bank branch (in contrast to urban areas).[xi]

These realities are further exacerbated in tribal communities where both internet bandwidth and traditional financial institutions are in short supply. For example, credit scores for those living on reservations in Arizona and Nevada were approximately 70 points lower than those living off-reservation.[xii] On average, those living in Native communities are approximately 12.2 miles from a financial institution.[xiii]

Proximity to High-Quality Credit Products Matters

There are numerous reasons for lack of access to products, including implicit and explicit discrimination in marketing, lending, and financial services practices, both historically and in the present. Youth living in these areas have less access to traditional financial service providers, like banks or credit unions, than those living in moderate and high-income neighborhoods or their white peers. Over the last several decades, many traditional financial institutions have divested from communities with high concentrations of low-income individuals and households of color while predatory alternative financial services (AFS) have filled the gap.[xiv] According to one survey, "proximity to home or work was a priority for nearly half (48 percent) of all respondents" in how they choose where to conduct their financial transactions.[xv] As a result, residents of low-income communities or communities of color typically experience higher borrowing costs relative to their amount of debt and access more of their credit from more costly lenders.

When the availability of financial services is constrained on a local or regional level, young adults struggle to afford basic living expenses by balancing multiple jobs to make ends meet.

As one college-age young adult from a focus group with Foster Success shared, "It's $900 per each month [referring to student housing]. That's more than what my dad pays on his mortgage each month. But that's ridiculous, but that's what I have to pay if I want to be where the resources are. Where I'm from, in southern Indiana, there is nothing. Either I bend over backwards to be where the resources are, or I go back to cornfields basically."

These realities further contribute to the widening racial wealth gap while also highlighting understandable mistrust or hesitance for engaging with credit. While addressing these issues via systems reform is necessary, this toolkit is designed to focus on the more accessible actions within reach for young people through credit building.

About the Toolkit

This toolkit supports organizations offering services to young adults and emphasizes the role credit building plays in improving financial health, economic mobility, and sustained wealth creation. Over the last decade, Credit Builders Alliance (CBA) has conducted extensive research[3] on credit building with various communities and populations.

In this toolkit, CBA highlights best practices for supporting credit building efforts for young people, including youth intersecting with the foster care system. This work features credit industry and field research, comments from young people who participated in focus groups, and best and promising practices drawn from CBA's Credit Building Community.

Who Should Use this Toolkit?

This toolkit is beneficial for organizations, particularly those newer to credit programming, that work with young people between 18 and 24 years old. Of the many young adults (18-24 years old) interviewed as part of this toolkit development, one takeaway expressed was the desire to have learned credit basics at an even earlier age. Youth development organizations have a unique opportunity to connect young people to this knowledge, even if it sits outside their core service delivery models.

The toolkit may be helpful for the following types of organizations:

- Child welfare agencies and groups focused on caring for youth;
- The juvenile or criminal justice system;
- Educational systems such as high schools, universities, community colleges, and trade schools;
- Workforce programs and employers with entry-level jobs, internships, and apprenticeships primarily filled by young adults;
- Head Start programs focused on serving parents, including young parents;
- Multi-generational (two-gen) financial wellness services; and
- Nonprofits with a primary mission of serving young people.

3 A note on demographic terminology: When citing research, CBA seeks to mirror the language used in the original research. That means this toolkits switches between a variety of demographic terms (Black, African American, BIPOC) or use terms that may be slightly outdated (LGBT).

How to Use the Toolkit

Credit and financial knowledge might not always be subject-matter competencies for practitioners, case workers, and other providers supporting young adults. Thus, CBA introduces credit basics to establish set knowledge. This content is designed to complement existing curricula and is not a deep dive into all financial and/or credit terms or concepts.

As such, this toolkit offers ideas for plug-and-play strategies that work across organizational capacities and offers tips for various models of program integration, ranging from low-touch referrals to more collaborative partnerships to robust in-house implementation. CBA is not prescriptive with the information presented and encourages practitioners to mix and match sections as needed for their programs.

The content is divided into six core sections:

Section One | Learning About Credit Building: Start with credit basics. CBA demystifies credit by explaining key components contributing to credit building and provides resources that can be used with program participants.

Section Two | Credit Building Products, Services, and Tools: Identify safe, affordable, and accessible products for young people. CBA provides a menu of options for practitioners to consider.

Section Three | Introducing Credit to Young People: Hear from young people interviewed for this toolkit about what most resonates with them when learning about credit.

Section Four | Implementation Models: Explore three different models of implementation through which practitioners can offer credit building strategies: referrals, partnerships, or in-house (DIY) integration.

Section Five | Best Practices and Emerging Strategies: Gain program inspiration from lessons learned from CBA's research and member experiences over the last decade. Case studies are included.

Section Six | A Call to Action: Build on the skills presented in this guide to support young people in building credit. Want to do more? Consider expanding beyond your local program and share the call to action with stakeholders in your network.

SECTION ONE
Learning About Credit Building

Credit building is a key component of financial capability, which occurs through the combined application of knowledge, skills, and products to successfully manage financial resources. As important as timely, often on-going financial education is, credit building cannot occur without the active management of a credit product. While this toolkit includes a more robust discussion of credit products in Section Two, this section provides a crash course in credit building basics.

What is Credit Building?

Credit building is a powerful financial capability strategy to help individuals assess opportunities, reduce expenses, and build assets. This, in turn, will help them progress toward life goals like buying a car, completing a college or trade program, or owning a home and/or business.

CBA defines credit building as the act of making on time monthly payments on a financial product such as a loan or a credit card that is reported by the creditor to at least one of the major consumer credit bureaus. Opening and successfully managing financial products is key to building and maintaining a strong credit history.

Credit building relies on having **active** tradelines (credit accounts that show on credit reports). Active installment accounts, such as car loans, student loans, business loans, or mortgages, must carry a balance, have a monthly payment, and cannot be closed. While paying off debt is a good thing, once paid in full, a loan is no longer active and will not continue to build credit. Eventually, even an established credit score will disappear if a consumer has no other active tradelines.

Revolving accounts, on the other hand, are credit cards, charge accounts, or lines of credit. Revolving credit offers a credit building opportunity, as long as it is actively used. In the case of revolving tradelines, active does not mean carrying a monthly balance; it instead means making at least one payment every six months. Revolving accounts do not need to carry a balance to build credit.

Inactive tradelines include those that are paid off or closed to future activity, which can include delinquent accounts like collections or charge-offs. These accounts cannot become active again. That means they do not provide credit building opportunities.

While a credit building journey may include reducing current debt loads and paying off historical accounts in collections, addressing past credit problems alone does not constitute credit building.[4] Regularly using and making on time payments on active credit accounts is the only way someone with no credit file or a thin file (a file with a limited

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4 "Credit repair" is a term often used interchangeably with credit building/credit remediation, but it is a red flag to the credit bureaus. The bureaus consider credit repair to be a specific tactic that disputes every negative tradeline on an individual's credit report regardless of whether a consumer recognizes the debt as their own. CBA encourages nonprofit and other socially responsible entities working to help individuals resolve legitimate errors, manage debt and deal with collections to avoid using the term "credit repair" altogether. Debt management or credit remediation are more appropriate terms.

number of tradelines) can establish or re-establish a credit score. It can also be a more effective first step for those with lower credit scores who wish to boost their credit files and scores than only paying off old, inactive debts.

Credit Strength Framework©

CBA's Credit Strength Framework© was developed to support nonprofits in their quests to comprehensively design, enhance, and measure the success of their participants' credit building progress and their credit building programs. There are three key elements, Knowledge, Access, and Actions that can be combined to help individuals achieve credit strength:

KNOWLEDGE

First, young adults need knowledge about how the system works and what would most benefit them personally in establishing and improving their credit files and corresponding credit scores. There is no one-size-fits-all approach to credit building, but there are certain universal principles. Programs that provide an educational component about credit, among other financial education/money management topics, are essential to filling gaps in knowledge. However, knowledge alone is insufficient if young people cannot act on it.

ACCESS

Second, young people need access to responsible credit products that help them establish and improve their credit files and credit scores. Unfortunately, access to affordable financial products can be a challenge for young adults, many of whom are credit invisible, unscored, or have low credit scores. Organizations that lend or connect young adults to viable options for access to credit open doors that might not otherwise exist.

Some organizations may prefer to offer their own products in-house while others instead refer young adults out to other lenders. However, offering referrals requires due diligence to ensure that products available in the local community are truly accessible to young adults.

ACTIONS

Third, young adults must be able to take actions that help them establish, build, and improve their credit reports and scores. Credit building is a lifetime journey, rather than just a one-off event. Yet, young adults' credit building and financial actions are often complicated by their personal experiences with credit and money. They can also be impacted by their family's or community's credit experiences, emotional triggers that can influence behavior, and external circumstances outside of their control like job loss or even a natural disaster. Healthy credit building actions are contingent upon several variables, but every young person's credit journey is going to be different, as are the actions they will need to focus on at different points in time.

Programs that intentionally integrate credit building can help young adults determine what credit success means to them. And while success may mean access to a necessary product or service in the short-term, it can also connect to long-term success in achieving financial well-being through asset building goals such as post-secondary education, small business development, or home ownership.

Credit Strength Roadmap©

Throughout this section, CBA highlights key credit building basics by walking through CBA's Credit Strength Roadmap©. This action-oriented framework, designed for credit building practitioners, highlights ways of working with participants to build credit. While the steps are depicted in a linear progression, they are designed to meet program participants where they are and are customizable to participants' situations. This toolkit contains a handful of worksheet resources that practitioners can use with young adults in coaching sessions. While it is not absolutely necessary to use these resources, they may be helpful as practitioners integrate credit building into their programs.

Step 1: Consider the Goal

Credit building is a goal-focused process that should take place as early as participant intake. The SMART framework can help identify short-, mid-, and longer-term financial goals and the necessary steps to achieving them. There are likely many opportunities to connect good credit back to young adults' goals even if it might not always seem obvious.

For example, a young person might want to move into an apartment closer to their job to cut down on their transportation costs and commute time. However, a closer apartment might come with a higher rent or even a required minimum credit score to be considered as a tenant. How could credit building help a young adult in this situation? Their goal relates to their credit, and their credit situation may directly impact the apartments available to them now (and in the future) and related security deposits. A SMART goal lets them establish a timeline while helping set an actionable, realistic plan for next steps.

Specific

Measurable

Actionable

Realistic

Time-Based

Sample participant goal (before SMART):
I want to rent an apartment.

Sample goal (SMART):
I need to rent a one bedroom apartment within one mile of my job by October.

Making the connection to credit building:
Improving my credit score will improve my chances of being approved for rental housing as many landlords check credit scores as part of the application process. A good credit score may also reduce the amount I may be charged for a security deposit on the rental and on the utility accounts I need to set up.

Goal Setting with Young Adults

Credit connects to nearly all financial goals. Sometimes, the focus is placed on large, future goals like buying a house, which aren't on a young person's immediate radar. Help young adults recognize that even smaller goals, like getting car insurance, can connect to credit. Leverage this connection to further motivate and encourage progress in a young person's credit journey. Consider where and how you interact with young adults and how credit naturally ties into goals they have already discussed with you (such as higher education, establishing housing, or even starting a job). See Section Three for young people's perspectives about how to talk about credit.

Start the Conversation by Changing Perceptions

Young people may have negative associations with credit for many reasons, including current and historical systemic inequities. Part of connecting goals to credit building may include separating the idea of credit from the burden of debt.

This may also represent a perception change for coaches, as well. Take the time to acknowledge individual starting points, preconceived notions, and cultural beliefs around credit and if they might differ from young people's views. Keep in mind that everyone is a learner in this process.

RESOURCE ONE

CBA Credit Strength Roadmap©

Step 1: Consider the Goal

Goal setting informs our credit journeys. Consider what you are striving to achieve and identify how credit can help you to achieve this.

What are my goals? What do I want my life to look like?	
Short-Term (< 6 months)	Longer-Term (> 6 months)

How can building my credit help me achieve my goals?

What concrete steps can I take to achieve my goals?	**Due Date**

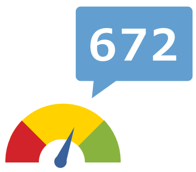
What resources or support would help me to achieve my goals?		
What do I need help with?	Where can I go for help?	Due Date

What are my immediate needs for loans/credit?		
Amount/product needed	Purpose	Due Date

Step 2: Know the Score (and Report)

Discussions around credit or credit building inevitably bring up the topic of credit reports and scores. Though they are often lumped together, these are two separate yet essential tools for understanding credit files and focusing on credit building.

Credit Report: **summary of credit history**



Credit Score: **risk model used by lenders/other businesses to provide a snapshot assessment of credit information at a moment in time**

Credit Reports

First, a credit report reflects a summary of an individual's credit history with a specific credit reporting agency. A credit report may or may not include a score. While each credit report may display information differently and/or not display certain information at all[5], all credit reports contain the same general categories of information. There are four main credit report sections: Personal Identifying Information, Credit History, Public Records, and Inquiries. Each section is broken down below with emphasis on considerations that might be most relevant to young adults.

Personal Identifying Information	**Credit History**
Public Records	**Inquiries**

5 For example, credit reports sold to employers will not have credit scores or personal information such as age, marital status, account numbers, or other personal information protected by the Equal Credit Opportunity Act. Additionally, consumers pulling their own reports (called Consumer Disclosure Reports) will see more information than lenders see when they pull reports (called Business Division Reports).

Personal Identifying Information	This type of information is often updated only when someone applies for credit, so it may be common for it to be out of date. Check this section carefully with your participants for errors and signs of ID theft.	*Includes:* Full (formal) name, Date of birth, Social Security Number (if applicable), Current and past employers.

Considerations for Young People: Personal Identifying Information

The Personal Identifying Information section may be relatively limited for young adults, particularly if they have not had many home addresses or employers. As a young adult's credit and financial presence grows, they will want to ensure consistency in their applications for credit, housing, and employment. Using full formal names helps distinguish between the young person and anyone with similar identifying information. This also helps ensure the information on their report only contains their accounts, not those belonging to someone with a similar name.

Young adults without Social Security Numbers (SSNs) should not supply an Individual Taxpayer Identification Number (ITIN) or another number in place of a SSN. Why? Outside of the federal tax system, an ITIN is not otherwise used for identification verification.

Additionally, those who have experienced or have reason to believe they are a victim of identity theft should pay close attention to all information reported in this section. While typos can happen, bigger errors with ID information, such as unknown names, addresses, or dates of birth can be a sign of a bigger problem they'll want to investigate.

Credit History	This section provides information about a consumer's open and closed credit accounts and how they have managed their payments to creditors.	*Includes:* Open—active and inactive—tradelines and derogatory information such as collections accounts.

Considerations for Young People: Credit History

Credit history displays both active accounts and those that are closed or inactive. This section contains more information about the status of each account, any outstanding balances, and payment history for each month.

Young adults new to credit won't find much in their Credit History section. But starting fresh has its advantages. Building knowledge around credit can help young adults understand myths and facts around credit to better take control of their reports and scores. This can also help them focus on habits and actions that build credit. Credit building requires patience and commitment, which can be tough if a young adult has previously accrued derogatory debt. Luckily, the impact of derogatory items fades with time, though it is still important to address and counteract by keeping positive, active accounts on time.

There are ultimately no quick fixes to credit issues, and organizations or people promising they can get rid of any derogatory information are generally trying to separate young adults from their money.

Public Records	**These records can only affect credit reports negatively, and some items may stay on reports longer than 7 years.**	***Includes:*** **Bankruptcies**

Considerations for Young People: Public Records

Public records include the data available through the court system that relates to debts with legal ramifications. While bankruptcies still appear on credit reports, certain other debts are no longer reported under public records, including tax liens, child support, and civil judgments. If any of these are of concern, a young person may wish to check records at the court(s) where these items originated.

While no longer appearing on traditional credit reports, these debts may still appear on alternative credit reports (such as a LexisNexis® RiskView report) and affect credit applications; they are also still outstanding obligations that the individual is responsible for satisfying. Non-payment might lead to wage garnishment, which can significantly affect an individual's financial circumstances, basic needs, and ability to meet existing credit payments.

Inquiries	**Records of lenders, employers, and other businesses and parties who have requested access to view an individual's credit report.**	***Includes:*** **Soft and hard inquiries. Soft inquiries are a result of an educational or informational request, not an application for credit, which is characteristic of hard inquiries. Soft inquiries have no credit score impact. Hard inquiries do.**

Considerations for Young People: Inquiries

There are two types of credit inquiries. Hard inquiries occur when a lender or other creditor checks a credit report as part of a credit application. Soft inquiries occur when a person checks their own credit or via an educational or informational request. Young people who are new to credit might want to shop around to find the right credit product(s) before applying for anything, which is often a sign of a savvy consumer looking for the best deal and rates. That being said, young people should remain focused on the goals they laid out for themselves. It is far too easy to get caught up with pre-approval or point-of-sale offers and overextend themselves with credit. This can also lead to more hard inquiries appearing on a report, making the individual look like a potential credit risk. This may also lead to temptation to use credit products because they happen to be available, without considering budget or plan for making on time payments.

Credit Scores

While credit reports offer a summary of an individual's credit history, credit scores offer a snapshot assessment of their credit at a particular moment in time.

While there are many different companies that create credit scores, including the major credit bureaus themselves, there are two score modeling companies that generate the scores most major creditors use: FICO® and VantageScore®. While the scores themselves are different, the factors that drive each model's scores (most of which range from 300 to 850) are similarly weighted in terms of importance, with payment history, in each case, being the most important factor.

However, credit scores can be confusing because individuals don't just have one credit score; they have many. Lenders and other creditors use credit scores as one means of evaluating potential customers. Those with higher scores are considered less risky than those with lower scores. Yet, there are many types of lenders, and those that make mortgages assess risk differently than a lender that offers credit cards. Because of this, scoring modelers (the companies that provide credit scores) generate multiple credit score models and versions to meet different needs.

Many different credit scores designed for different lending and business purposes!

This can make it confusing for young adults to understand why the score they view through an online credit monitoring platform might be different from the actual score a lender uses. These platforms provide one specific score without always informing users that this is not their **only** credit score. This can lead to frustration for young adults who are actively tracking their score because they might feel misled and become more distrustful of the credit system. This is another reason building knowledge matters. In this case, it can help young adults understand that while scores often do vary, key strategies for score improvement are similar across all scoring models: paying on time and in full and keeping balances low.

It may ultimately take up to six months after opening and regularly using a credit product to generate a credit score. This means young adults need to be patient while continuing to focus on the following to maximize credit building potential:

1. **Keep it active.** Open appropriate loans and credit cards to build credit history. Always pay on time. In the credit space, paying on time means payments are never 30 days or more late.
2. **Keep it low.** Use as little as possible of the available credit limit.
3. **Keep it up.** It takes time and ongoing dedication to build and sustain strong credit scores.

Scoring Factors

Key Scoring Factor	Key Takeaways
All credit accounts owed	Credit reports show a history of a young person's credit accounts. This includes credit products that are active, like those in good standing or those that have only recently fallen delinquent. It also includes delinquent accounts that are 30 days or more past due, accounts that have been sent to collections, and accounts that have been charged off. Active accounts provide credit building opportunities while inactive accounts do not. However, managing outstanding inactive accounts (like charge-offs or collections) may be an important piece of a credit building and debt management journey.
Debt	Debt can be both good and bad for credit building. Keep on time accounts on time. Catch up any recently delinquent account so it becomes an active credit building opportunity. Do not automatically open new accounts to serve as credit building opportunities if existing accounts could instead be brought current or caught up.
Credit utilization rate (Usage)	Credit utilization is calculated by dividing the total debt a young person has by the total credit available. A lower rate (generally under 30%) is interpreted as good credit management. Encourage young adults to avoid maxing out any one credit card. Whenever possible, pay off credit card balances in full. Incurring even one small charge each month and paying in full will build credit. They do not need to carry a balance to build credit.
Credit Inquiries	There are soft and hard inquiries. Hard inquiries are initiated when a consumer applies for credit. Only hard inquiries initiated in the previous 12 months can impact credit scores. Soft inquiries are educational in nature and have no bearing on scores.
Length of credit history	Financial institutions look for the age of credit accounts. Longer credit history will have a positive effect on credit building, as it demonstrates a more established relationship with credit.

RESOURCE TWO

CBA Credit Strength Roadmap© — Step 2: Know the Score

Identify what is on your credit report. This will help determine the next steps you take to build or rebuild your credit.

CREDIT REPORT SUMMARY		Next Steps	Notes
Score Model and Generation (For example, 640 Equifax FICO® 8)			
Number of ACTIVE* Installment Tradelines			
Number of ACTIVE Revolving Tradelines			
Percent (%) of Available Revolving Credit			
Number of Delinquencies on ACTIVE Tradelines in last 12 months			
Outstanding Balances on ACTIVE Tradelines (e.g. loans or credit cards)			
Number of Accounts in Collections			
Other Outstanding Debts Owed (e.g. charged off accounts and collections)			
Number of Inquiries in Last 12 Months			
Date of Oldest Open Account			

* ACTIVE refers to open tradelines (loans/credit cards) that are currently (in the last 6 months or so) being used

Step 3: Get the Good Stuff Going

Every monthly payment reinforces positive habits that contribute to credit building. But to do so, you need to have access to products. This section overviews credit product providers and the characteristics of credit building products. Section Two of this toolkit provides more in-depth examples of starter (entry level) credit building products.

How to Build Credit

On time payments

↓

Reported to at least one credit bureau

↓

Every month

↓

Builds credit

Product Access for Young Adults

- **Banks/Credit Unions,** particularly those that are Community Development Financial Institutions (CDFIs), often offer small dollar secured and unsecured products. If your participant already has a relationship with a financial institution, this can be a good place to start.
- **Nonprofit/community lenders** (including CBA Members and CDFIs) in your area might have programs specifically designed for underserved communities, those with challenged credit, or those new to credit.
- **Licensed and reputable online lenders** are becoming more prolific and might offer options at reasonable rates and with more responsible policies and procedures than online payday lenders.

While these providers tend to offer safe(r) products, there are also AFS providers that offer access to money at an exceedingly excessive cost, often just under 400 percent interest.[xvi] These include payday lenders, auto title lenders, and check cashing vendors. Predatory lenders, which can include AFS providers, often fill the gap left by traditional financial services and specifically target, by location and marketing, Black, Indigenous, (and) People of Color (BIPOC) consumers who may have limited options, guiding them to alternatives that often have harsher fees and penalties. These lenders can also prey on those who are desperate for credit because of emergency expenses or needs, which can lock people into a debt cycle as they struggle to repay the initial sum borrowed on top of the interest.

Educating young adults about the variety of providers and their pros and cons is a critical piece of their credit building journeys. Learning to identify what constitutes a safe and affordable credit product, how to compare products, and where to find these products is a life skill that is useful to learn as early on in young adulthood as possible.

What to Look for in Credit Building Products

Starter credit products offer an easy entrance into the credit building world. There are a variety of starter credit products on the market, including credit builder loans and secured credit cards, which are discussed more in Section Two, but many of these products are specifically designed to support those new to credit. These products share several common characteristics:

- **Small product size.** Just because a young adult can qualify for a large product, does not mean they need it to build credit. A small dollar credit product (generally consumer loans, often under $5,000, that help meets a household's needs) can help build credit while staying within budget. Often these smaller products come with low credit amounts and affordable terms, allowing individuals a safe entryway into learning how the system works.
- **Affordability.** Credit building requires consistent on time payments. Products that build credit with a minimal debt burden, if any at all, are ideal because they do not stretch budgets.
- **Flexibility.** Supportive features include the ability to prepay without penalty, flexible loan modification policies, the use of secured savings as collateral, and low to zero percent interest rates.
- **Financial education and coaching.** Pair product access with education and support at natural touchpoints such as the first paycheck and with automatic deposits to optimize positive behaviors around credit.

Additional Considerations for Coaching Around Credit Products

Seek Products with a Cushion and Incentivize with Savings

Loans could be designed with a built-in safety net and, ideally, an opportunity to save. Organizations may design products to include a reserve guarantee account, for instance, with specific funds set aside to help participants in emergencies who cannot make payments. Additionally, offering matched funds for every on time loan payment (modeled after individual development accounts or IDAs) can support young people in more quickly achieving their financial goals by pairing savings with credit building.

The Importance of a Graduation Product

Credit building does not end with the last payment on the first product. Without continuing to build active credit, an established or improved credit score may eventually disappear. Paying off a credit account should be celebrated. But what happens next? How can a young adult leverage the skills and behaviors they learned and built on that account with a new credit building opportunity? Lenders may have another product that the young adult is interested in, like credit cards or another loan for a different purpose. Practitioners who support young adults can help identify a product to graduate to that helps support the young adult's goals. Graduation product options could include:

- Larger, longer-term installment loans
- Lines of credit
- Secured or unsecured credit cards

Graduation products help young adults maintain the credit scores they worked hard to build up while simultaneously leveraging score increases. Higher scores allow young adults to qualify for needed credit products that have lower interest rates, better terms, and reduced or eliminated security deposits. This, in turn, frees up more of their money for other wants and needs, especially as they turn toward larger purchases like a car or house in the future. Help young adults focus on sustained credit building by taking the small steps now that will lead to extra benefits in the future.

CBA Credit Strength Roadmap© — Step 3: Get the Good Stuff Going

Review your goals, credit report assessment, and budget to determine what type of credit product(s) you could benefit from and why. Make sure to prioritize your ability to make on-time payments on any new product!

1. My goal is to: ______________________________

____

2. My credit profile

NO FILE (Credit Invisible)	THIN FILE	THICK(ER) FILE
No Credit Report	Credit Report	Credit Report
No Credit Score	No/Low Credit Score	Credit Score
No positive or negative information	Fewer than 3 ACTIVE tradelines	Generally 3-5 ACTIVE tradelines
	May also include: ☐ Small, paid, or older collections only ☐ No mix of tradelines	Other features: ☐ No current delinquencies ☐ Small, paid, or older collections only ☐ No mix of tradelines ☐ Low revolving credit utilization ☐ Few recent inquiries ☐ Long history
☐	☐	☐

3. Based on my credit profile, I would most benefit from (check all that apply):

- ☐ Credit Builder Loan – A small-dollar loan designed for credit building
- ☐ Personal Loan – A loan to be used for a variety of personal matters
- ☐ Other____________
- ☐ Secured Credit Card – A credit card often secured with a cash deposit, most often used by those new to credit or seeking to improve their credit
- ☐ Unsecured Credit Card – A credit card obtained without a required security deposit
- ☐ Working with my current credit products
  - ☐ Pay down current credit card debt
  - ☐ Pay down loans
  - ☐ Repay a student loan in deferment, forbearance, or in a $0 repayment plan

4. This will help me because: ______________________________

____

____

Example: *A credit builder loan will allow me to establish and build credit while also saving money to put towards my goal.*

5. Based on my budget, I can afford to pay $________ each month on new credit.

Credit Product Comparison

Compare products using the sample questions provided in the chart below. Unfortunately, some of this information may not be accessible online. Consider contacting lenders or creditors directly to obtain additional or missing information.

Questions to Consider	Product #1	Product #2	Product #3
Basic Information			
Creditor name			
Name of product			
Type of product (installment/revolving)			
Eligibility Requirements			
Identification requirements			
Deposit required			
Minimum required credit score			
Accessibility			
Language options			
Transaction options			
Affordability & Other Terms/Requirements			
Term (6 month, 1 year, revolving)			
Interest rate (variable, fixed)			
Estimated monthly payment			
Credit limit			
Account opening fee			
Annual fee			
Late fees			
Prepayment Penalties			
Flexibility			
Payment due date			
Grace period			
Statement options (email, text, mail, etc.)			
Graduation Options			
Will this product help me graduate to another product?			
Does this lender have other products I can use that will be of value to me?			

Step 4: Deal with Debt

In many cases, debt management is a critical piece of the financial puzzle, and credit building can often incentivize debt reduction, if not elimination. In some cases, debt management may need to happen before, or in conjunction with credit building. However, while essential to financial stability, debt management alone is **not** a credit building strategy. While this toolkit overviews debt, it does not include a detailed breakdown of all debt or debt management considerations.

Understanding Debt

When talking about debt with young people, reinforce that debt is not inherently bad. Taking on debt can allow people to gain access to needed goods and services that contribute to security and stability. For example, a car loan can allow a young adult to purchase a car that lets them commute to work, which generates their income. Debt could also come from a secured credit card that was opened to support credit building efforts. In these examples, debt through a credit product serves as a tool. However, debt can also sometimes become an overwhelming burden. This is particularly true for debt that keeps mounting or turns into collection accounts or charge-offs. Let's break down these two common, confusing terms.

- A **charge-off** is an account that has an unpaid balance that the lender is reporting as a loss. The date this happens varies between lenders but often occurs 90-120 days past due.
- An account in **collections** is a delinquent or past due account moved out of routine account processing to an internal collection department or third-party debt collection agency. This may include accounts that were previously reported on credit reports when active (installment or revolving accounts) or accounts that have not been previously reported (like telecom/utilities).

These accounts have significantly negative impacts on credit scores. However, the most dramatic impact on credit scores occurs right after a charge-off or when the account is sent to collections, with that impact lessening over time. While the good work done by building new, active credit might help mitigate past negative information, it doesn't fully erase the harm that other negative accounts have had.

Certain situations may be more urgent and easier to navigate than others.[6] However, only focusing on delinquent accounts that are now inactive is **not** a credit building strategy on its own. Only **active** accounts can build credit. But simply ignoring derogatory debt to focus only on credit building can be dangerous and can lead to larger financial and

6 Effective July 1st, 2022, all paid medical collection debt will no longer be included on consumer credit reports. Additionally, the time period before unpaid medical collection debt can appear on a consumer's report has now increased from six months to one year, giving consumers more time to work with insurance and/or healthcare providers to address their debt before it is reported on their credit reports. In the first half of 2023, Equifax, Experian, and TransUnion will also no longer include medical collection debt under $500 on credit reports.

credit problems if not addressed. That means a young adult may want or need to focus on charge-off or collections accounts as part of their overall debt management strategy before they can focus on credit building.

Practitioner Considerations: Deal with Debt Through a Credit Building Lens

One important consideration before addressing debt through a credit building lens is to understand how long derogatory information will stay on credit reports. The **Date of First Delinquency** (DOFD) sets the timeline for when negative information remains on credit reports. This date refers to the date the account was first 30 days past due leading to its present derogatory status. This date remains attached to the account until the individual brings the account current again, either by making up missed payments or restructuring the account. Then the date disappears; however, the record of the delinquent payments remains on credit reports. If the consumer falls delinquent again, a new date of first delinquency will be assigned. The DOFD sets the 7-year credit reporting timeline for derogatory accounts/information on credit reports. This timeline is set by the Fair Credit Reporting Act rather than by individual lenders.

Different types of accounts appear on credit reports for different lengths of time. Knowing how long accounts are scheduled to show on reports can help determine next steps in the credit building journey, especially if debt management is also needed.

When Information Falls Off Credit Reports

∞	**Open accounts in good standing**	7 YEARS	**Charge-offs and collections** *from date of first delinquency*
10 YEARS	**Closed accounts in good standing** *from date of closure*	7 YEARS	**Late or missed payments** *from date of first delinquency*
10 YEARS	**Chapter 7 Bankruptcy** *from date of entry for relief*	7 YEARS	**Chapter 13 Bankruptcy** *from date of entry for relief*
2 YEARS	**Inquiries**	7 YEARS	**Foreclosure**

When resources are limited and outstanding debt is significant, it can be difficult to make decisions about what debts to prioritize. It can be helpful to take a step back and think about how to set priorities with the debt payoff that align with the young adult's current financial situation and credit building goals. Consider asking questions like:

- Is there an opportunity to request a deferment or forbearance from the creditor?
- What are the risks of non-payment?
- How is the account impacting credit scores?
- How much is owed?
- How long will the account remain on credit reports?

The Intersection of Debt and Credit Building: Best Practices

Even when a young adult is not actively working on building credit, they can still consider how decisions regarding outstanding debt might affect future credit building goals and try to make decisions that will set them up to be ready to build credit in the future.

Consider the following best practices:

- Pay on time, paying particular attention to keeping accounts in good standing.
- Maintain regular activity (and ideally low balances) on revolving accounts and avoid maxing out any revolving product.
- Prevent delinquencies from getting worse. Focus on bringing accounts that are 30 or 60 days past due back to a current status.
- Do not open new credit accounts if older accounts can be brought current instead. Catching up active, delinquent accounts can turn these accounts back into credit building opportunities.
- Consider if a young adult first needs to prioritize debt management before focusing on credit building.
- Debt management options may include paying/settling the account with the original creditor when possible and working to prevent accounts from going to collections.
- Dispute inaccurate information on reports. Provide the credit bureaus or the original creditor with specific details about what is inaccurate and provide proof (like payment receipts, communication, or bank statements) whenever possible.
- Be patient. Time lessens negative impacts.

Keep in mind that debt can be emotional. Many young adults turn to social media or peers for advice about their finances. However, this information may not be accurate. For successful debt management, turn to trusted and vetted resources. For complex debt issues, connect participants with legal aid resources. It is best not to make assumptions on topics outside of your organization's expertise. And remember that there is no one-size-fits-all approach to debt management.

Debt can weigh down credit if not addressed. Identify what steps may be needed to tackle debt and to ensure accuracy of all reported information. Consider how and why you might prioritize certain debts over others.

1. Dispute: Address Errors and Identity Theft

Debts that are not accurately reporting or that don't belong to you should not appear on your credit report. Take action immediately to request any necessary changes. If you are a victim of identity theft, visit **identitytheft.gov** to report and resolve the issue.

To dispute legitimate errors, include supporting documentation (copies rather than original documents) with your dispute letters and keep a copy for your records. Do not dispute accounts that you know are accurate just because they are delinquent.

Name of Account/ Creditor	Bureau	Reason for Dispute	Date Letter Sent	Resolved

2. Debt Repayment Methods

Work with your financial coach to maximize your budget and identify a debt repayment calculator that can help you develop your debt repayment plan.

Paying on time is essential to maintaining a strong credit score. Consider opportunities to pay more than the minimum payment to save in total interest paid.

Which approach to debt reduction below most appeals to you?

- ☐ Pay highest interest debt first
- ☐ Pay the smallest debt first
- ☐ Increase the amount paid monthly
- ☐ Pay debt with highest credit utilization first
- ☐ Other________________________________

Notes____

____

3. Dealing with Derogatory Debt

If and once all active accounts are paid on time, consider opportunities to satisfy derogatory debts, such as charge-offs or collections. When possible, satisfy debt prior to it reaching collection status. When satisfying, prioritize any high risk accounts while considering the date that a debt is scheduled to fall off of your credit report, the statute of limitations in your state, your goals, and your timeline.

Some strategies to consider for paying derogatory debt are paying in full, settling for less than the full amount, or setting up a payment plan with the creditor or collection agency. Different strategies will have different credit score impacts. No matter the strategy, get everything in writing and keep evidence of any payment made on derogatory debt.

Debt/Creditor	Debt Repayment Strategy	Anticipated Amount	Anticipated Timing	Actual Amount Paid
	☐ Pay in full ☐ Settle ☐ Payment plan			
	☐ Pay in full ☐ Settle ☐ Payment plan			
	☐ Pay in full ☐ Settle ☐ Payment plan			
	☐ Pay in full ☐ Settle ☐ Payment plan			
	☐ Pay in full ☐ Settle ☐ Payment plan			
	☐ Pay in full ☐ Settle ☐ Payment plan			
	☐ Pay in full ☐ Settle ☐ Payment plan			

Step 5: Measure Credit Success

Credit building does not happen overnight; it takes time and dedication. Most importantly, credit building is not an end in and of itself. Credit building helps young adults achieve their financial and personal goals.

CBA's Credit Strength Framework© allows participants to put learnings into practice. Because credit strength can mean different things to different people, comparing participant goals or even average change in credit scores may be insufficient for tracking how young adults leverage credit to move forward toward financial health. CBA recommends using the indicators below to track participants' abilities to build and sustain strong credit. The chart can be applied both on a one-on-one basis as well as from a programmatic level. That being said, consider which factors might be most important to measure for young adults at various stages of their credit building journeys. Consider, too, how different indicators can directly tie into a young adult's goals and their vision of what credit success looks like. And make sure to celebrate young adults' progress and successes, big and small, along the way.

At the end of the day, these indicators can help measure and build the credit strength that young adults can leverage to:

- Reach their goals
- Obtain affordable financial products
- Reduce interest and fees
- Lower insurance premiums
- Eliminate/reduce security deposits
- Obtain desired rental housing
- Start a career in a desired field
- Get a job
- Establish or build savings accounts

CBA Credit Strength Roadmap© Step 5: Make Credit Building Count

Credit strength can be defined as leveraging strong credit to achieve your goals. Building credit strength requires Knowledge, Access, and Actions, all detailed below.

	Do you...	YES	NO
KNOWLEDGE	know how to pull a free annual credit report?		
	know how to dispute errors?		
	know what financial actions drive credit scores generally?		
	know how to find the right credit products to achieve your goals?		
ACCESS	have active credit?		
	have a mix of credit types?		
	have a credit account with a bank or credit union?		
	have a prime credit score?		
ACTIONS	dispute errors found on a credit report?		
	pay all bills on time?		
	maintain revolving debt balances at 30% or less of total available credit?		
	apply for credit only as needed?		

Based on your responses above, consider how you might build out your Knowledge, Access, or Actions.

What can you work on to improve your credit strength?	
Area	
Support Needed	
Additional Questions	

Track Credit Score Progress

Credit score change is one of many metrics used to demonstrate financial health. Reflect on the actions taken that have led to an increase or decrease in score and continue or adjust this behavior accordingly. And celebrate your successes along the way!

Credit Score Improvement	Experian		TransUnion		Equifax	
Score Model						
Prior Score/Range	Score	Date	Score	Date	Score	Date
Current Score/Range	Score	Date	Score	Date	Score	Date
Credit Score Increase or Decrease						

What factors or actions contributed the most to this change?

Leverage Your Credit Strength

Credit building is only effective if it permits us to achieve our goals. Indicate how you might leverage an improved credit score.

Options/Opportunities	Applicable	Next Steps	Due Date
Refinance for a lower interest rate			
Request all or a portion of a security deposit			
Request a lower premium			
Apply for a job			
Apply for a bank account			
Apply for another credit product			
Build savings account			
Graduate to a new credit account			
Other:			

What additional steps do I need/want to take to continue to improve my credit scores and credit report?

1.

2.

3.

SECTION TWO

Credit Building Products, Services, and Tools

Before exploring various starter credit products, it is important to note that, just as education alone is not a solution, a product on its own also does not solve structural challenges to accessing credit and finance, particularly for low-income young adults and those of color.

Below is a list of credit products with their associated benefits and challenges. Work with young people to educate them about products and discuss together which one is the best fit for their situation. Remain neutral regarding options and avoid steering the young person toward any one credit product. At the end of the day, it is their decision about which product(s) they pursue.

Credit Cards (Revolving Accounts)

There are a variety of credit cards on the market, including unsecured, secured, student cards, and retail cards. Debit cards and prepaid cards are not included in this group because they do not report to the credit bureaus or build credit. Credit cards also differ from lines of credit, which are not listed as a suggested starter product for young adults. This section focuses on two starter cards: secured credit cards and student cards because these are the most common products used to help young people build credit.

Secured credit card

A **secured credit card** is a bank credit card backed by money (a security) deposited by the account owner. The deposit serves as collateral for the card in case of inability to repay. Functionally, secured credit cards operate the same way as unsecured credit cards. They report as revolving lines of credit (typically) to all three credit bureaus, have credit limits (though often lower than those on unsecured credit cards), and require on time monthly payments when used.

- **Benefits:** A young person might be able to obtain a secured card more easily than an unsecured card. A secured card can be used in the same way as an unsecured card and no one, including friends, can tell the difference between an unsecured and a secured card. Additionally, individuals cannot spend more than they have put down as the security deposit or collateral, which helps protect them from spending money they do not have.
- **Challenges:** A downside to the product is that the fees and interest may be higher than with unsecured credit cards. Also, the young person often must save for the secured card deposit (many products require dollar-for-dollar deposits, generally starting at $200) and be without that money, typically for a year.

Potential: Given the typical low credit limits on secured cards, a secured credit card can serve as a good test case for young adults first experimenting with credit. Some secured cards offer automatic graduation or conversion to an unsecured card after 12-18 months of proper usage; however, each provider will have distinct regulations. At this stage, the deposit is returned. If all payments were made as agreed, the original security is returned to the participant in full. Consider if these funds can then be added to an existing savings account or used to open a savings account.

Student credit cards

Student credit cards might be another good option for young adults of university age. Most, but not all, require status as a student for access.[xvii] Providers include major financial institutions and some smaller ones. Most student cards do not require a deposit, which otherwise can be a barrier to procuring a secured card.

- **Benefits:** A student credit card generally does not require a deposit or charge an annual fee, making the product more accessible to young adults with limited incomes. The lower credit limit can help some students avoid considerable amounts of credit card debt or borrowing more than they can pay back.
- **Challenges:** A young person generally must be a current student to obtain this card. The lower credit limit can also discourage some students from wanting the card, especially if they face larger expenses, including those within their budget. For young people unlikely to pay their balance in full every month, pay particular attention to the interest rate charged as the balance can continue to grow if only minimum payments are made.

Potential: Student cards can provide young adults with an opportunity to take out an account with a mainstream financial institution. This can be important for finding a graduation product as they build up their credit scores and prove themselves with on time payments. It may then open doors to other products, including more traditional credit cards, that the financial institution offers. It can also give young adults a sense of what they liked and disliked about working with the specific institution, which can help them better evaluate potential lenders.

Loans (Installments)

Installments are a type of loan where the participant is given the full loan amount, and repayment happens over a fixed number of months or years. Most notably, auto loans, mortgages, and student loans are types of loans that are paid in installments over a fixed time frame. While much attention is given to larger installment loans, smaller installment loans can help young adults or those with a lower credit score build their credit.

Small dollar loans

Small dollar loans are generally consumer loans, often under $5,000, that help meet a household need. These products may be helpful if a purchase is likely to be made anyway, as they can offer more manageable and consistent payments for young adults while building their credit. For example, a small personal installment loan might be taken out to purchase a laptop the student needs for their online classes.

- **Benefits:** While credit card payments can fluctuate each month based on the outstanding balance, installment loans offer a fixed interest rate and a set monthly payment. A young adult can use the fixed annual percentage rate (APR) over their repayment period to their advantage. Loan documentation such as the Truth in Lending Disclosure can help to easily calculate loan payments, which makes budgeting easier. Having an installment product on a credit report helps demonstrate the ability to meet an agreed-upon payment each month, which is important for credit scoring models. While an installment loan helps provide access to a need or a want, it also provides a credit building opportunity.
- **Challenges:** It is important to carefully read the promissory note (the contract that lays out the repayment terms for a loan) before taking on any debt. Pay attention to items such as the interest, APR, repayment term, penalties, restrictions, additional fees, and whether the lender will report the payments to the major credit bureaus. Keep an eye out for lenders that offer loans with three-digit APRs.[xviii] Likewise, some young adults may be hesitant to take out a loan when they know their income fluctuates because of their work schedule or stability level. While they may know a loan's monthly payment amount, they might not be comfortable taking out debt that they are uncertain they can pay in full each month, which is a key component of credit building.

Potential: There are many installment products out there, and not all will be good fits for all young adults. Some young adults might never have access to or plan to pursue more traditional installment loans like student loans or mortgages. That being said, an installment product that specifically meets a need like purchasing a laptop or a car can be a fantastic way of linking credit building directly to a young adult's goals. It can also help the young adult build up a mixture of different types of credit.

Credit builder loans

Credit builder loans (CBLs) are small dollar, short-term loans in reverse. Instead of receiving money at the time the loan is made, the participant's loan funds are held in a savings account until the account is repaid. CBLs usually come with 12–24-month terms but can sometimes be as short as 6 months. Payments are typically reported to at least one of the three major credit bureaus, preferably all three. CBLs are usually small, often between $300–$1,000.

- **Benefits:** CBLs help build a positive credit history without the risk of taking on unmanageable debt, which is a risk with credit cards. Thus, this product is an excellent starter option for young adults new to credit, as well as for those seeking to increase their credit scores. The goal is to allow the participant to begin to build that on time payment history at a rate that is affordable and accessible to them.
- **Challenges:** CBLs are most common at credit unions, community banks (often CDFIs), and nonprofit lenders. Not all financial institutions offer these loans, so young people will need to do some research to locate them.

Potential: CBLs can help build savings. Some lenders offer financial education or coaching as part of the loan program, which can help participants leverage this product into future credit and savings opportunities. The Twin Accounts™ product developed by the Local Initiatives Support Corporation (LISC), for example, has previously tested a 12-month installment with a one-to-one monthly match, although the product can be offered without a match as well. These match funds were set aside to support the continuation of credit building activity upon loan closure. This type of product design could be replicated for those serving youth populations. For example, those designing loan products for young adults might opt to build similar safety net features or rewards as part of an available product.

Student Loans

Student loans offer affordable pathways and support for young adults to pursue post-secondary education and play a role in reducing or deferring the barrier posed by continuously rising tuition costs. The majority of student loans come from the federal government. Once federal student loan options are exhausted, students can explore private loan options including banks, fintech companies, or other financial service providers. Federal student loans offer more flexibility around repayment, forbearances, and forgiveness and tend and offer low fixed interest rates than privately held student loans, but students may end up considering both to fund their education. The loans, which may be accompanied by grants for qualifying applicants, rely on completion of the Free Application for Student Aid (FAFSA), through which applicants can qualify for gift, merit, self-help (work-study), or need-based aid. Youth who intend on continuing their education may leave thousands of dollars in support on the table by failing to complete the FAFSA and assessing their eligibility for need-based aid.

- **Benefits:** Student loans offer young adults the opportunity to afford college and provide the chance to engage with and build credit while paying for their education. Payments on student loans start after a grace period (generally six months) after graduation, offering time for a young adult to find a job and establish themselves financially first.[xix] Federal student loans in particular offer multiple ways to repay after graduation, including income-driven repayment plans and the option to defer repayment in response to adverse life events (though interest may continue to accrue during a deferral).[xx] Additionally, unlike other forms of installment credit, student loans offer several pathways to loan forgiveness, either via the public service loan forgiveness program or after making a certain number of payments under an income-driven repayment plan.
- **Challenges:** Student loans represent 1.7 trillion dollars in debt held by over 45 million Americans, and the gap in affordability of colleges, particularly private colleges, continues to increase the debt burden.[xxi] Federal student loans may offer some flexibility around repayment or postponement, but privately held student loans do not. They also rarely qualify for loan forgiveness. For those struggling with repayment after graduation, interest alone may mean that they end up owing more than they originally borrowed. Additionally, life circumstances that lead to an interruption in education will not eliminate the responsibility to repay student loan debt and can additionally impact the borrower's ability to repay. Youth, especially first-generation and low-income college students, also report challenges in completing the FAFSA and providing the requested information to even qualify for student loans.[xxii]

Potential: Student loans represent a common way that young adults first engage with the credit system. Discussions of college financing options can be a chance to engage with young adults on the benefits and responsibilities that come with credit products. By making payments on student loans, young adults can establish or build their credit by adding another type of credit product to their reports. In addition to funding education, which can help a youth's overall financial well-being, student loans also offer a well-defined pathway to obtaining a credit product linked directly to a common goal.

Social loans

Social loans, or ROSCAs (rotating savings and credit associations), are a form of peer-to-peer lending. While often done informally, lenders like San Francisco-based Mission Asset Fund[7] have formalized the model with a more traditional loan note. This allows them to report these loans to the credit bureaus. How does it work? Participants form a group and contribute a set monthly payment toward the loan. A different participant receives those loan funds every month. In each subsequent month, another participant receives the total sum until everyone has gotten a chance to access the full funds.

7 Learn more about Mission Asset Fund's Lending Circles program: www.missionassetfund.org/our-partners/

- **Benefits:** Social loans offer a benefit of built-in peer support. Participating in a financial activity with other community members, instead of solely interacting with a traditional financial institution, may increase participants' trust levels and comfort with this product. This can make it appealing to those who are currently unbanked or who do not have a relationship with a more traditional financial institution. Additionally, some lenders may allow those with alternative identification, like Individual Taxpayer Identification Numbers (ITINs) to access social loans.
- **Challenges:** Like CBLs, social loans may not be accessible everywhere, and some are limited for specific purposes rather than general usage. Those who do offer more formalized social loans that get reported to the credit bureaus tend to charge other organizations to join their program, and costs could add up. Additionally, participants may be vulnerable to being scammed by another group member if an organization is not monitoring activity and repayment.

Potential: Participants in focus groups had divided responses on whether they felt that social loans are the best fit for youth. Young adults in foster care (a group that CBA observed to be vocally supportive of their peers and advanced in credit knowledge) felt the product design would be helpful, while other youth cited privacy and trust concerns as potential detriments to social loans.

Non-Traditional Credit Pathways

Rent reporting is the act of including positive rental payment data on credit reports, which may increase credit scores. Rent encompasses a regular, ongoing expense that is already a key part of a budget each month. Sometimes the housing provider pays for the cost of rent reporting, and sometimes the cost is passed onto the renter. CBA's Rent Reporting Technical Assistance Center includes additional insights on rent reporting and providers.

- **Benefits:** Most renters are under the age of 35. For most, rent is their largest monthly budget item. Traditionally, renters do not receive the same credit benefits as homeowners for paying their rent on time each month. Having on time rental payments appear on their credit reports allows them to get credit for monthly payments. For young adults, rent might initially be their main expense before taking out a credit product and could serve as their first tradeline to kickstart their credit building journey. Additionally, some rent reporting options allow up to 24 months of past rental payment data to be included, which helps build history.
- **Challenges:** Not all credit scoring models consider rental tradeline data. It is only relevant in newer scoring models including FICO© Score 9, 10, and 10T as well as VantageScore® 3.0 and 4.0. Unfortunately, these do not tend to be the common models that lenders use in underwriting or mortgage making. While some landlords cover rent reporting costs, others pass them onto renters, which might discourage a renter from participating. Additionally, many housing providers do not offer rent reporting, which means rent payments cannot provide a credit building opportunity.

Potential: Rent reporting can be a great introduction to credit building in a safe environment. A young adult has an opportunity to learn more about how credit reporting works while focusing their attention on credit building habits, like making on time payments. These habits can be beneficial as they turn toward other credit building products down the road. Rent reporting could also have more impact on someone new to credit, like a young adult, compared to someone who has multiple tradelines on their report already.

Consumer-permissioned data involves consumers granting permission for companies to access information about account activity that is not normally included in credit scores. This data is then included in some credit score modelers' calculations and may offer the potential of increased credit scores. Items such as bank account information, rental, utility, telecom, and streaming service payments may be reviewed for payment history. Experian Boost™, Experian Go™, Plaid, UltraFICO®, and eCredable Lift® are popular models that consider this data.

- **Benefits:** Some providers may choose to calculate scores by looking only at positive payment history while ignoring delinquencies. This data looks at existing account management rather than requiring that a young adult open up a new account or take on any new debt. Additionally, this type of data sharing puts more power in a young adult's hands to determine whether and where they share their information compared to more traditional credit products where the lender makes that decision.
- **Challenges:** Not all lenders or scoring models consider consumer-permissioned data. Some services may also only be available to young adults with an existing credit file at the bureau that service provider works with, making them inaccessible to those who are credit invisible. Likewise, if a service provider only works with one credit bureau, scores pulled from the other bureaus would not contain this information. Young adults may also be cautious about granting access to their banking data and accounts out of privacy concerns.

Potential: Those who are newer to credit and have thin credit files could potentially benefit the most from consumer-permissioned data. Young adults with more comprehensive credit reports and a variety of tradelines would likely see fewer benefits. Consumer-permissioned data is also a newer field. Much is still unknown about how it could expand access to credit or pose new risks.

Fintech Products

Fintech is a combination of the words “financial” and “technology.” Fintech refers to “any company using technology to support financial services of any type.”[x] Any of the starter products discussed earlier can be offered by fintechs, whose financial services can also include payment options, such as with PayPal, CashApp, and Venmo or lending options, like student loans and mortgage refinancing offered by SoFI and Kabbage. There are also investing and robo-advice services from Acorn, Robinhood, and WealthFront.

Most commonly, customers access these financial services through apps and websites. Traditional financial institutions are also moving more of their services online to remain competitive. With these changes in banking and financial services come important considerations for new customers.

Benefits:

- **Wider reach.** Fintech offers people the opportunity to manage their finances without ever setting foot in a bank. This is especially important for people who live in credit deserts (geographic areas where traditional sources of credit are scarce).
- **Provide faster services.** With payment apps, a person can make a payment to another person within minutes. Similarly, some fintechs can offer pre-approval letters within a day for applicants and with a shorter processing time than a traditional bank.
- **Lower fees.** Fintechs may offer lower fees or interest rates, though these can come with other tradeoffs. Young people who have student loans through the Department of Education have interest rates that average five percent, while online student loan fintechs like SoFI may offer rates closer to two percent. While interest rate may be a key factor in decisions around student loans, consumer protections, repayment, and forgiveness options change significantly once a loan is no longer held by the government. Youth pursuing fintech loan products should be aware of trade-offs between fintech products and more traditional products.
- **Offer financial services to people who might otherwise be denied.** Some fintech providers have missions focusing on access and inclusivity. These companies may offer programs to build or rebuild credit and can offer people-centered financial services focused on where their customers are in their credit building journey.

Challenges:

- **Regulatory differences from traditional financial institutions.** Fintechs operate in a rapidly changing segment of financial services, and their products and services may at times outpace regulatory oversight from government agencies like the Consumer Financial Protection Bureau (CFPB). To mitigate the risk of deceptive or unknown terms, participants should be aware of the terms and limitations of their fintech-provided service and not be afraid to ask for explanations.
- **Misrepresentation of their financial services.** Fintech companies offering misleading or false statements about their services have been the target of enforcement actions by regulators, including the CFPB.
- **Less personal customer service.** When an issue arises, chatbots or email may be a more common means of resolution, compared to financial institutions that offer more personal banking relationships.

- **May not be focused on credit building.** Not all products in the fintech space are designed to build credit. The purposes vary by providers such as banking, payment services, and investments. If seeking a fintech product for credit building purposes, be sure to verify whether and where it gets reported.
- **Lack of division between loan products and banking products.** Many fintechs also take advantage of older models such as "buy now, pay later," while updating them for the online space. Fintechs like Affirm, Afterpay, and Sezzle offer to spread payments over several months, structuring the repayment similar to a short-term installment tradeline. Some report the transactions to the credit bureaus while others do not. This model can also allow consumers to unsustainably accumulate debt, with one-third of "buy now, pay later" users on Credit Karma reporting falling behind.[xxiii]

Potential:

Fintech products and services are quite popular among young adults. A McKinsey & Co. survey on fintechs found Gen Z users represented a majority of all fintech users, with 52 percent of Gen Z accessing these products compared with 48 percent of Millennials and only 24 percent of baby boomers.[xxiv] Since younger people are more likely to use fintech, it is important that they also understand their consumer protections and weigh the risks and benefits of each product used. Examples include:

- In fintech apps, terms of service cannot require users to waive consumer rights for an unauthorized transfer or payment.
- In banking, free does not last forever. There is potential for fintechs to add overdraft fees and additional account usage charges in the future.

Remember that just because a product is offered by a fintech, does not mean that it is necessarily better or safer. Always review and understand the fine print before using any financial product. While fintech products might not work for all young adults, they could provide necessary, relevant products for some. Therefore, it is important to build knowledge in this area so young adults have a trusted source to turn to with questions.

Assessing Product Fit

At the end of the day, not all products serve young adults equally. Consider the young person's budget, goals, and circumstances when reviewing credit products. Additionally, credit coaching is about helping participants make informed decisions, not about telling them what decisions to make about credit. This is especially true for young adults who may be making one of their first big financial decisions.

Accessing Credit Reports

Credit reports are integral to setting up young adults for success. There are a few different ways to access these reports including consumer access and organizational integration.

Pulling Your Report: Consumer Options

All consumers are encouraged to pull their credit reports annually through the federally authorized site, **www.annualcreditreport.com.** The Fair Credit Reporting Act (FCRA) requires each consumer credit bureau to offer one FREE **consumer disclosure report**, which is the report available to consumers rather than lenders or creditors, upon request once a year.[8] Consumers may access free credit reports in other scenarios, such as if they have been denied credit due to information on their report (adverse action) or if changes are made based on something they disputed. These reports are often considered more complete than those pulled from free online credit monitoring sites.

Advantages of Consumer Disclosure Reports

- Easy to read
- Include information about the "Date of First Delinquency" (see Deal with Debt section)
- List the names of original creditors if an account has been sold to one or more collection agencies, which helps with disputing errors
- Include instructions on how to dispute errors
- Allow consumers to monitor and manage their credit reports
- As of 2021, Equifax added access to credit reports in Spanish. Learn more at **www.equifax.com/personal/credit-report-services/free-credit-reports/**

Young adults may consider the following avenues for requesting their reports:

- **Request online: www.annualcreditreport.com**

  Individuals must provide a Social Security Number (SSN) and answer security questions or allow Multifactor Authentication (MFA) via email, text message, or phone call, though each bureau has its own methods of verifying IDs. The security questions are often challenging, particularly for those with recent address changes. Individuals with an ITIN may not be able to request their reports via the online option; instead, they should mail in a request.

- **Request via mail:**

  Annual Credit Report Request Service
  P.O. Box 105281
  Atlanta, GA 30348-5281

8 Specific economic conditions may also yield additional free consumer reports. For example, because of the COVID-19 pandemic, free weekly credit reports are accessible from the consumer bureaus through at least December 31st, 2023. Due to the 2017 Equifax data breach settlement, all consumers are eligible to receive six free credit reports from Equifax per year through 2026.

Parents or guardians may wish to request a credit report for a child under the age of 18. The process varies by credit bureau, but generally, parents or guardians will need to provide the following either by uploading online or by mail:

- A copy of your driver's license or another government-issued identification card, such as a state ID card.
- Proof of address, such as a copy of a bank statement, utility bill, or insurance statement that shows the address.
- A copy of your child's birth certificate.
- Proof of guardianship, if you are not named on the child's birth certificate.
- A copy of your child's Social Security card.[xxv]

Accessing a Report on Behalf of Another: Programmatic Options

Practitioners working with young adults over age 18 may wish to access credit reports on behalf of their participants. In this case, practitioners may pull a business division report.

Business division reports, which are available to lenders, creditors, and other entities like landlords, do not include some of the key information about dates of first delinquency or original creditors. These reports often include a credit score, which can be beneficial for outcome tracking.

Business division reports are particularly helpful to organizations that may wish to pull multiple credit reports over time. A business division report requires less identifying information to access than a consumer disclosure report. A Social Security Number, for example, is not required, which provides the option to pull reports for participants who only have an ITIN. An organization will only be able to pull a limited number of reports via **www.annualcreditreport.com** before the system blocks them, due to fraud controls. This does not apply to pulling business division reports. However, credit and financial counseling or coaching organizations **must** obtain appropriate written authorization from participants to pull their reports. Any agency that is pulling credit reports on behalf of their participants for educational and/or outcome-tracking purposes will need to ensure that they are complying with their signed agreements with the credit bureaus or scoring companies.

Two options for accessing business division reports include:

- **CBA Access:** Soft pull credit reports through Equifax, Experian, and TransUnion are available to eligible CBA Members (visit **www.creditbuildersalliance.org/cba-services/cba-access/**). CBA also has partnerships with alternative data report providers ChexSystems, LexisNexis RiskView™, and Nova Credit.
- **Credco CoreLogic:** Tri-merge credit reports (aggregating data from Experian, TransUnion and Equifax) are available to HUD Certified Homeownership programs and accredited credit counseling agencies. These reports will be available through CBA Access service in late 2023.

Assessing Credit Reports and Scores for Credit Building Readiness

Beyond understanding the basics of how credit scores work and what is on a credit report, practitioners can use credit reports as tools to better assess certain underlying financial issues. For example, credit reports can help evaluate credit building readiness and determine which credit building products might best suit a young adult's needs at intake and over time. Following CBA's Credit Strength Framework©, it is critical that young people embarking on credit building learn and understand how the system works and what would most benefit them personally in establishing and improving their credit files and corresponding credit scores.

For organizations seeking to implement credit building programs, this involves providing appropriate and relevant credit education and credit building readiness assessments. As young people begin to build credit, credit reports reviewed at regular intervals (e.g. at intake, at six months, and at twelve months) offer a series of teachable moments that can motivate individuals to continue to improve financial behavior and achieve asset building goals.

A trained credit building practitioner can help a young adult use their credit reports and scores (or lack thereof) to determine the appropriate sequencing of credit building steps for their circumstances and adapt this plan as their credit situation changes. For example, those with no credit history or score, or with very few tradelines, may benefit from taking out a loan specifically designed to help them build credit, which may result in a prime score within six months. Those who already have multiple tradelines, however, may instead prioritize reducing outstanding revolving debt or bringing any active delinquent accounts current to improve their credit scores.

When reviewing credit reports with young adults, help them understand the information that is included. It is often beneficial to ask them to bring bills and correspondence from creditors because it can help to match up the information with accounts. Thoroughly review credit reports, inventorying all information, including items in good standing, accounts that could be brought back to good standing, derogatory information such as collection accounts, and incorrect information that needs to be disputed. Help young adults understand accounts that do not usually appear on credit reports (utility payments in good standing).

Of those young adults who fall into the no or thin file category (credit invisible or unscored) with no account, no recent activity, or just a single account or two, many may be great candidates for credit building by establishing a new credit account if they can qualify for it and can afford the monthly payments. Even if your participants have poor credit scores and face what may be overwhelming debt loads, this does not automatically indicate that they are a bad fit for credit building; it just means they may not be ready yet.

SECTION THREE

Introducing Credit to Young People

The Credit Catch-22

Talking about credit with young people can be challenging. A positive credit history opens opportunities to lower interest rate loans, renting, and even landing a job; whereas, a negative credit history can close all those opportunities. In some ways, no credit can feel like a good option because potential risks associated with opening and managing credit accounts could lead to poor credit. However, having no credit presents clear challenges, often referred to as the "credit catch-22": It is difficult to access credit without credit.

Consider the following scenarios.

- ***Example 1:*** A young person applies for an apartment but has no established credit. They may face a handful of hurdles because many property owners run the credit of prospective tenants. Why? Credit is used to predict whether someone is likely to pay their bills on time. A property owner will consider someone with bad credit to be a risky renter. Someone without credit may also be perceived as a risk because there is no effective way to predict whether they will stay on top of their bills. Those with low scores or no score are likely to have their rental applications denied or to be required to have a cosigner (an individual willing to guarantee payments in the case of default) to gain access to housing. Without access to a co-signer, often a trusted parent or guardian, it is unlikely that the applicant will be approved for housing, and they may be forced to look elsewhere. Alternatively, the young person could be stuck renting in a location that is not preferred by them or be forced to pay a large security payment, such as the first and last month's deposit, if the latter option is even offered.
- ***Example 2:*** The average new car is around $36,000, with most people choosing to pay a car loan back over a 72-month term.[xxvi] Although rates vary greatly including by geography and the overall economy, consider the following example. A person with a 500-credit score will likely receive a 14.59% APR (the cost of borrowing money on a yearly rate) on this loan, while another person with a 781-credit score will likely receive a 2.34% APR. At the end of the 72 months, the person with the lower credit score will have paid an additional $15,611 more than the person with the higher score. What else could a young adult have done with that $15,611 over 72 months?

Credit matters significantly. Connecting credit back to a young person's goal can be motivational and valuable for turning bigger goals into smaller, actionable pieces. This is why flipping the script from credit as a deficit or barrier to credit as an asset or tool for achieving goals is so important.

Competing with Marketing Messages

Social media marketing geared toward young adults often glamorizes access to credit without providing any context for using and managing it. Keep this in mind when introducing and discussing credit with young adults. Take this American Express commercial.[xxvii] Victoria (pictured) receives her American Express credit card in the mail. Thanks to this card, she can buy a new dress, get a haircut, buy her parents a nice dinner, go to the gym, and experience vacations and concerts. Their tagline is DON'T LIVE LIFE WITHOUT IT™. The lifestyles portrayed are nothing less than aspirational.

At the age of 18, young adults can access financial products in their name and be liable for their use. Without a proper understanding of how credit products should be used, young adults may find themselves in a vulnerable situation. It is easy to fall prey to messages promising exciting, flashy lifestyles or reward points without considering how income and one's financial situation ultimately impact access to products and the ability to make payments. At the end of the day, credit must be repaid on a timely basis for it to have a positive impact.

Considering all the challenges that young people face today and with the prevalence of targeted ads, advising them to avoid the credit market altogether is not the answer, Under the right guidance, credit can be leveraged as an asset. Instead, introduce credit and credit education to young adults as early as possible, ideally paired with an important moment such as applying for a job or receiving a first paycheck. This is an approach preferred by many young adults themselves.

In Their Words: Connecting to Credit

The following sections draw upon reflections and insights shared by young adults who participated in CBA's focus groups. They shed light on initial pathways that connect young adults to credit and finances that help center the content and ensuing recommendations.

When beginning the conversation around credit, consider asking what young adults already know. Ask about their experiences (personal or familial) with credit and recognize that their responses might also touch on savings, spending, and borrowing. With the economic recession occurring while Generation Z was young and recent experiences managing finances during the COVID-19 pandemic, many might have witnessed their parents or guardians making complicated financial decisions.

First Experiences with Credit

Most of the young adults from Native communities who engaged with Tiwa Lending Services in Albuquerque, New Mexico (serving Native youth) were guided by their parents to open their first banking account when they were between the ages of 16 and 18. Parents were instrumental in suggesting these young adults' first credit products including credit builder accounts and secured credit cards, as well as one individual with student loans. When it came to credit scores and understanding of credit reports, only a couple of those surveyed regularly reviewed their credit.

Most of the young people working with MyPath in San Francisco (serving young adults) were connected to a debit card by the age of 13 or 14. A few opened savings or credit accounts with parental assistance. A handful had experience with credit builder loans (Self-Help Credit Union's Fresh Start Loan), credit cards, and a car loan. None of the participants had student loans.

Young adults in foster care in Indianapolis shared their first credit memories and how they began to build their credit scores, with most starting with credit cards (unsecured, retail, and student cards). Their experiences ranged from successful management of numerous credit cards to a soon-to-be car repossession to a mortgage in foreclosure to bankruptcy. Many of these are advanced credit experiences especially for young adults all under age 26. State regulations vary as to when a young adult ages out of the foster care system, and when this happens, some young people are left to navigate the transition to adulthood on their own. Additionally, youth in foster care are more likely to be targets of financial abuse, which may also contribute to why they have seen more extreme credit situations than others surveyed.

Despite Generation Z's high technology use, all who participated in CBA's focus groups connected with products through in-person interactions. Parents were vital in this early engagement, as were staff working at programs that the young adults attended.

What I Wish I Had Known

As the young adults in the focus groups reflected on their financial journeys, they would recommend the following advice to their younger selves:

- Start early
- Find what works best for you
- Think before spending/spend what you can afford
- Save money to pay off your debt so you can have strong credit
- Stay away from retail store credit cards

- You will be inundated with credit card and insurance offers after applying for a credit card
- Protect your credit from others. Protect your credit data like you protect your phone
- Understand the value and purpose of good credit
- Scholarships, scholarships, scholarships – student loans are no joke

Key Considerations for Supporting Young People with Credit Building

Credit can be a confusing topic, especially if this is a newer area for your organization. These key considerations can help inform your programs and services:

- Supporting young adults in building a positive credit history includes an assessment of their situations and readiness. Key components of this assessment include whether the youth's basic needs are being met. If not, those need to be addressed first. If basic needs are in place, other readiness factors may include:
  - ☑ Does the young person have income?
  - ☑ Do they have an interest in discussing credit building and the ability to participate in credit building education?
  - ☑ Will they need credit products in the near or longer-term future?
- **Ability to pay matters.** Those with low and/or inconsistent income streams may struggle to access credit products that work for their already stretched cash flow. One of the basic questions that must be asked is whether the payment would be affordable during the tightest financial month, such as when there are reduced hours during the holidays or due to seasonal work. If the answer is maybe or no, then it is important to caution the young adult on obtaining a credit product. Without on time payment history, the product will risk becoming more of a liability than an asset.
- **Access to financial services matters.** Not all products are options for all young adults even if they can theoretically qualify for a specific product of interest. While there are many products available online, including those from mainstream financial providers, some young adults are still more comfortable having in-person options or are distrustful of these lenders due to their reputations or past interactions. But options are often limited by where you live. Those in rural and tribal areas along with those in banking or credit deserts might have fewer options. This means AFS providers and other predatory lenders often fill gaps and target those most in need of credit. Combatting predatory practices and connecting young adults with relevant, accessible, and safe products is crucial in the march toward equitable access to financial services.
- **Knowledge and support matter.** Understanding how the system works is key, as is having a trusted source to learn from who provides ongoing support. The knowledge source, delivery channel, packaging of the program and product, and stakeholders involved in providing ongoing support are all equally important.

- **Financial education is not enough but remains sought after.** Young adults understand that credit is both complicated and nuanced, and they crave knowledge that is accessible (plain language) and includes simple, direct, and actionable steps. Avoid acronyms, identify ways to connect to young adult participants through cultural references, and ensure that education is presented at a level that is accessible regardless of educational background. Acknowledge that sources like TikTok can have some correct information but also a lot of misinformation.
- **Social media impacts spending habits and brings privacy concerns.** Young adults might feel added pressure to spend money based on the posts of friends or social media influencers, even if they cannot afford something (for fear of missing out). Too many options can lead to decision paralysis, preventing action. Lastly, concerns about privacy and revealing too much personal data, in particular banking information, exist. Privacy issues may be particularly important to address when dealing with fintech providers.
- **Connect the dots to other goals, like housing, education, and finding a job.** Recognize that young adults are balancing many changes, have limited bandwidth, and might not always recognize the importance of building credit, especially in the present moment. Help create the connection to young adults' goals using SMART goals to create a greater sense of urgency. Tie together new knowledge about credit that individuals have learned with an action plan. For example, one focus group participant shared, "One day I want to buy a vehicle, and I want to focus on a high score so I get a lower interest rate." In what ways could you help the participant connect that knowledge to current behaviors to help them meet goals by a specified timeline?
- **Step-by-step guidance is appreciated.** Consider designing a financial milestone checklist [at 18 you should tackle X, at 19 Y]. Ensure that young adults know their rights under the Fair Credit Reporting Act (FCRA) to obtain their annual credit reports for free and emphasize the importance of checking credit reports for fraud or mistakes. Also, discuss the process for disputing inaccurate information.
- **Peer learning is key.** Leverage or plan for opportunities that support young adults in sharing experiences with their peers. Examples may include holding focus groups, having a young adult program liaison, forming youth advisory councils, or hosting regular group discussions or learning sessions so people can encourage and hold each other accountable. Sometimes hearing about a peer's experience can make all the difference.

One young adult shared, "I have a credit card through Discover, it's the student credit card. My roommate has really good credit. She had a similar situation as me. Growing up with the stigma [foster care], she debunked a lot of myths. You can just pay your phone bill using the credit card. Learn what other people do wrong, so you don't make the same mistakes."

SECTION FOUR

Implementation Models

Nonprofits of all types can use CBA's Credit Strength Framework© to design new programs, enhance existing ones, and measure outcomes. Fundamental to the Framework's success is understanding young adults' goals within the context of your organizational mission. The Framework itself is impartial to what those goals are, like renting an apartment, getting a job, reducing debt, starting a business, purchasing a home, or going back to school.

This section will explore three different models of implementation (ranging from light touch to medium undertaking to robust programming) through which practitioners can offer credit building strategies. These models include referrals, partnerships, or in-house. Each model contains general and budgetary considerations; however, specific costs may vary based on location, capacity, and a community's existing credit and lending institutions.

Referrals (Low Touch)

The least expensive and time-consuming method to help young people build credit is to research local organizations that have expertise in credit building and refer young adults interested in participating to that organization. Look for nonprofits that offer financial education or coaching programs, certified credit counseling agencies, or educational institutions that offer programs for their students. CBA has a Find a Member section on its website as a possible starting point.

- Assess the quality of the services being offered by asking about the training/certifications of staff who are assisting people with building credit, finding out what fees are charged, learning whether credit products are being promoted, and how they evaluate the success of their programs.
- Discuss and assess the organization's ability to work with young people by asking how often they work with this population and what strategies they use to engage them.
- Observe a financial education class or one of the organization's programs to get a better idea of what they offer.
- Once you refer a young person to the organization, follow up with the participant to see what they learned and what action(s) they will take from their new knowledge.
- You can supplement referrals with trusted online resources from the Consumer Financial Protection Bureau (CFPB) or Federal Trade Commission (FTC).

Budgetary Considerations:

This referral model is possible at no cost or on a small budget. The main expense will be personnel. Program initiation will require staff time for relevant research, coordination, and creation of a referral system to execute this model, as well as ongoing time to manage the relationship with the referral partner. This last point is particularly important if the financial institution wants to look at formalizing this process if you are sending regular, constant referrals their way (covered in the next option). Other considerations include training, organizational knowledge, staff availability, appropriate space, technology (software), feedback capacity, and future funding sustainability.

Partnerships (Medium Undertaking)

The distinction between a partnership and simply referring young adults to a community-based program is that a referral is sending someone externally to access services while a partnership, as defined here, is integrating those external services into your program in an intentional and defined process. Collaborating with an organization that has credit building content knowledge is an effective way to provide participants with the information they need via a trusted partner. It can also help limit the number of places or people that a young adult has to go to for assistance, which can be an ongoing barrier to accessing products, especially if transportation or schedules are challenges.

Partnership models could include bringing financial educators into your program or providing opportunities for certified credit counselors to come on-site to conduct one-on-one credit reviews with young adults. Search locally to see if organizations like state Jump$tart Coalition or Junior Achievement are active in your community.

Planning for a partnership implementation includes researching what credit building products and/or services potential partners offer:

- Do they provide credit building education, or is it solely financial education?
- Do they have the qualifications and/or experience to offer individual counseling or coaching?
- Do they have experience working with young adults/your target audience?

Create an agreement or memorandum of understanding (MOU) that defines what services will be offered, when, and time commitment expectations for both partner organizations.

Budgetary Considerations:

The budget for implementing this model will mostly cover personnel costs including the responsibility for coordinating ongoing partner support and sessions, financial education classes, and managing the partnership. Marketing, event costs, and other overhead expenses should also be included in a budget for this program design. Organizations may also need to consider if the partner organization will request anything in exchange, or as part of the relationship. For example, they may request presentations, webinars, or support around issues within your expertise, as they relate to their participants, staff, or customers.

In-house (Robust Programming)

Robust credit building programs that incorporate in-house access to credit products can provide a supportive environment for young people while helping to build their financial capability. In-house programming also reduces the number of steps that young adults must navigate to access both credit building and other program resources.

An organization can offer a credit product through a partnership with a financial institution[9] or by directly lending to the young person and reporting that product to at least one of the major credit reporting agencies. The latter model may be particularly attractive to lenders who are already operational and seeking to grow their target market rather than those that would have to start from scratch in planning, coordinating, and launching a lending program.

Dedicated organizational resources, potentially both staff and funding, are needed. Staff will be necessary for program design, credit product implementation, and program evaluation. Pairing a coaching program with a credit product has proven to be very effective because it makes credit building the centerpiece of the program. Consider resources for "train the trainer" programs to bring staff up to speed and if possible, identify peer-to-peer coaching/ education opportunities. Dedicating funds specifically to credit building opportunities for young adults of color and with low incomes is also one promising strategy to negate the racial wealth gap, which may be an additional component of your organization's mission and directly relevant to the young people you serve.

Budgetary Considerations:

The suggested budget for this model should include a full-time staff member in a program management and coordination role, as well as program development and implementation expenses. Examples of expected program expenses include financial capability training to support the creation of the pilot credit product, marketing, and the cost and time to set up to report credit products if this is not something that you already have in place. Organizations should also consider costs around software support, training, and/or any relevant licenses or renewals that are required for lenders. Consider using volunteers, AmeriCorps VISTAs, or SeniorCorps members to offset some costs when possible.

9 Examples of this could include working with a nonprofit lender or credit union that offers a secured card or credit builder loan. They serve as the lender (whose name shows on the young person's credit report) while your organization provides relevant coaching services and support in-house. Compare that to the partnership model where the partner organization is handling all credit building pieces (coaching and product).

Case Studies: Credit Building Programs in Practice

Case Study: Comprehensive Youth Credit Building Programming

MyPath Savings2Credit

MyPath's Savings2Credit program is the nation's first credit building and savings model targeting low-income working young adults. It engages young adults in credit building and saving, opening doors to quality employment, safe and affordable financial products, and access to college, entrepreneurship, and housing.

Integrated into existing youth workforce settings that reach young adults ages 18 to 24 years old, MyPath's Savings2Credit combines financial education, powered by in-person activities and technology, with credit builder loans, savings products, and one-on-one financial coaching.

In a pilot that paired the Fresh Start Loan, a credit builder loan offered by Self-Help Credit Union, with one-on-one coaching into a workforce site managed by Year Up, credit invisible program participants established credit scores between 650 and 700, and those starting with lower scores saw a jump of 30+ points within six months. They were also able to save money and use their improved credit to secure housing, access employment, and participate in post-secondary education.

My Path's Savings2Credit is a replicable and powerful model—embedding both coaching and access to transactional and credit financial products in a workforce setting.

Case Study: Credit Building Programming with Workforce Development

Boston Youth Credit Building Initiative (BYCBI)

The Boston Youth Credit Building Initiative (BYCBI) evolved from the Mayor's Office of Financial Empowerment to develop programming around community wealth building for the residents of Boston (Boston Builds Credit). This program offered a comprehensive credit wellness curriculum to low-income young adults, ages 18 to 29, working or participating in a workforce development program. Led by Working Credit NFP, this initiative combined a financial education workshop on credit with one-on-one financial coaching and the opportunity, if eligible, to apply for a CW-3™ loan, a $300 credit builder loan. Northeastern University's Dukakis Center for Urban and Regional Policy conducted a randomized control trial of 300 young adults, finding:

- Unscored participants were more likely to gain access to credit due partially to movement from credit invisible to visible statuses.
- Scored participants improved their credit scores by an average of 26 points and saw an increased likelihood of achieving a "good" credit rating.

- African American youth and young adults aged 18-24 saw the greatest gains, expanding access and decreasing the rates of credit invisibility. The youngest participants saw a score improvement of 30.5 points on average.
- Participants saw improvements among the key factors affecting their score, including no delinquencies, no collections, and a history of on time payments.
- Beyond improved scores, participants were able to leverage their improved credit for better rates on car loans (as much as a 6.8 percent reduction) and access to larger credit limits on revolving accounts.

Case Study: Financial Coaching in Community Colleges

New York Legal Assistance Group and City University of New York

New York Legal Assistance Group (NYLAG) and the City University of New York (CUNY) have collaborated to integrate financial coaching or counseling into higher education institutions. Coaches for NYLAG work out of CUNY's community college "single-stop shop" office that fields everything from Supplemental Nutritional Assistance Program (SNAP) to legal benefits to student loans to financial questions. CUNY manages the marketing of the office, and students are aware of and regularly engage with it.

NYLAG coaches lead sessions directed by young adults' needs (such as crisis intervention and focused credit support). With the young adult's written consent, staff can pull credit reports to review with the student while discussing financial goal setting. A NYLAG staffer shared an anecdotal observation that highlights two contradictory dynamics characterizing these young adults:

> **"Students today approach the office with substantive knowledge [If I pay my bill on time, this influences my credit score]. However, they seek more guidance, in person, from a professional or advisor, and crave step-by-step support."**

NYLAG defines success as students supplementing their coaching with recommended financial apps that reinforce the learnings. They find that students engaging across a variety of mediums become more confident in their knowledge of finances and empowered to take the actions most appropriate to them. At the time of the interview, NYLAG did not offer credit product recommendations, nor did they track credit outcomes, but they may do so in the future.[10]

This cross-sector partnership model is growing in popularity and holds promise. Numerous organizations interviewed were considering or preparing to implement something similar, including Boston Builds Credit with Bunker Hill Community College and Project 44 Billion, a virtual coaching initiative for current and former college students (a program of Change Machine) at Durham Technical Community College. One of the groups interviewed, Portland State University's Financial Wellness Center, has taken its work to another level, turning its collection agents into financial coaches. In this role, the staffers are better able to holistically understand and address the financial challenges faced by young adults.

10 This interview occurred in 2019. The information was accurate at the time of the interview.

SECTION FIVE

Best Practices and Emerging Strategies

Throughout CBA's research into helping young adults build credit, five lessons emerged as common themes among the participating organizations:

1. **Center youth voices in the program design process**
2. **Build the capacity of staff to provide resources to participants with credit and debt goals or challenges**
3. **Identify partners and build relationships to deliver services**
4. **Bring the products and services to young adults**
5. **Incorporate support and safety measures into product use.**

1. Center Youth Voices

A program that effectively responds to the needs of young people incorporates their input throughout the design process. This can be done through pre-program surveys, research, focus groups, and/or direct youth participation in the program design process. Nonprofit youth-facing organizations had some form of youth advisory council that brought young adults together for feedback.

Below are several ways to consider this integration:

- Help young adults identify all the barriers they face, particularly those who have experienced situational circumstances like foster care and the justice system.
- Avoid industry jargon and unappealing names including phrases like financial literacy, financial capability, budgeting, and the importance of credit.
- Call out the systemic/structural barriers affecting young adults, particularly youth of color, and design to provide appropriate support.
- Build training and support around diversity, equity, justice, and inclusion (DEJI), considering topics such as cultural competency, anti-racism, and trauma awareness.
- Avoid curriculum and presenters that will speak down to or over the heads of young people.
- Acknowledge bandwidth; young adults juggle a lot, logistically and emotionally.

- Remember that young adults might be reluctant to practice financial strategies that are not common or widely understood in their communities; for example, there is a reason some young people hide their money under the mattress.
- When possible, consider incentives for attending sessions or meetings such as stipends, gift cards, and food.
- Consider timing and locations when offering coaching sessions or training. Make it convenient or embed activities into locations where there is already youth engagement.

2. Build Staff Capacity

Support the credit building knowledge and skills of those who serve and support young adults through coaching and professional development. Personal life experience is not enough, nor is personal financial success. Offering ongoing professional development and building a culture of peer review and support strengthens programs by allowing them to provide support around credit issues in the course of their work. It also equips the practitioner with the skills to know their limits and when and how to refer more complex cases to other professionals.

Survey your staff to see what trainings and resources would support them in their work. This could range from the basics in financial education to more intensive credit building training to a better understanding of student loans to DEJI and anti-racism practices. You might find that there is some level of overlap with the trainings that benefit the young people you want to serve. Further dedication to staff training means staff can better assist and support participants.

3. Identify Partners

Partnering with a local service provider like a lender, financial coaching program, or others doing similar work allows organizations to build connections in the community and manage their own staff capacity by leveraging peers' core competencies. Partnerships often require internal champions to carry the work forward, in addition to leadership buy-in. Identify clear points of contact at each organization who will serve as the go-to for any programmatic questions. Consider scheduling regular check-ins between partner agencies to ensure continued alignment. Potentially collaborate on joint marketing materials and educational workshops. Building a partnership requires dedicated liaisons and patience. Document the roles of each partner and train staff on what the partnership entails. Ensure continuity during staff transitions so that there is always a person managing the relationship.

4. Bring Products and Services to Young Adults

Young adults often must juggle multiple obligations. They might be enrolled in school, working, and using other social services and programs. Asking young people to go to yet another place to receive services might be a tall order, especially if facing transportation barriers and insufficient income. Furthermore, young people might have negative associations with certain types of organizations because of past mistreatment or neglect, making them hesitant to work with an unknown entity. The partnerships and in-house credit building models mentioned above allow products and services to be brought directly to young people through programs they already interact with and trust.

Incentivize community lenders with seed money to lower their perceived risk while yielding more creative, accommodating loan products and underwriting. For example, many nonprofit lenders and smaller community financial institutions may support creative products if they have loan loss reserves that allow them to take a greater risk. The National Bank of Indianapolis, for instance, designed a savings account and credit builder product for youth in foster care at Indianapolis-based nonprofit Foster Success with fewer access restrictions. This product would not have been possible without the funds set aside by funders to guarantee missed payments would be covered.[xv]

5. Incorporate Support and Safety

Credit building products can be a transformational tool. Organizations embedding credit building products into their programs have a unique opportunity to support young people in using products safely and appropriately. This can include providing opportunities for young people to struggle or fail in a safe space, such as with a secured loan or credit card that include a security deposit in case of inability to pay. Beyond introducing safe and responsible products, support also includes helping young people build credit knowledge and understanding about what steps to take if things go wrong. For example, this could include learning how to deal with debt in the best manner possible and how to communicate with lenders if the young adult has a problem with their account.

Consider engagements that allow for bringing a friend or a sibling to help reduce stress and encourage mutual support. Make sure to emphasize talking with youth and not at them. During sessions, prioritize appropriate peer sharing over rushing to cover every topic.

These lessons led CBA to identify some promising strategies, practices, and investments that can move some of these ideas into action. If capacity allows, consider how to leverage partnerships, networks, and funds to:

- **Incorporate behavioral design principles into product and program experimentation and testing.** This may yield insights leading to successful product design and integration. Ideas42 and Common Cents Lab are two organizations that offer nonprofits the opportunity to test interventions through a behavioral design lens. Often, organizations face monetary or capacity challenges in setting up and properly evaluating pilot experiments. Funders might consider supporting connections between nonprofits and organizations that offer behavioral design research.
- **Initiate demonstration projects to test products and pathways that do not require young adults to take on additional debt to build credit.** Examples such as rent reporting, consumer-permissioned data sharing, social loans, and credit builder loans can be offered in relatively secure environments, which can support even the most debt-adverse young adult with the appropriate safety nets. Programs could collaborate with local lenders or non-traditional data furnishers, and funders can support connections both in and across markets.
- **Tweak existing credit products for young adults engaged with various systems. This could be as simple as relabeling an existing product so it more clearly connects to young adults' goals.** A secured credit card specifically for youth in foster care or an education-focused loan could be options. Alternatively, more flexible lenders could consider modifying the terms of products they offer to make them more accessible to the needs and realities of young adults. For example, a secured credit card might not require a full deposit up front but rather permit monthly installments as a young adult learns to successfully use the card. It might also incentivize full, on time payments by lowering the interest rate to reward such activity.

SECTION SIX

Next Steps

Now that you have a clearer picture of how credit building affects young people and how you can help them learn, grow, and prepare for successful credit futures, it is time to act. The following steps will start you on the path toward incorporating credit building programming to best support the youth you serve.

Create Community Level Change

Step 1:

Start by researching existing organizations that offer credit building programs to young adults in your area. Watch out for anything billed as "credit repair"[11] as these programs are often predatory. Look outside your area, as well, for ideas on how others have adopted credit building for their youth-facing programs.

Step 2:

Discuss ideas with your immediate colleagues to gauge their commitment to credit building work. Conversations might include reflection on your own experiences, such as things you wish you had known about credit earlier.

Step 3:

Have conversations with the young adults you serve about their needs and ideas regarding credit building programs. Programming should be designed with their voices and needs in mind. Consider a mix of one-on-one and group conversations because young people are often highly collaborative.

Step 4:

Review your notes. What additional resources did you call out as needs? Revisit your community research and funding sources, identifying additional resources and partners as needed.

Step 5:

Develop a draft plan for your leadership team and present the value proposition of helping young adults build credit. Include budget and staff capacity needs, an overview of the outcomes you hope to achieve, and feedback received from your participants.

11 Credit repair companies often charge one-time application or service fees before services begin, which is a violation of the Credit Repair Organizations Act (CROA). Additionally, individuals typically pay for monthly packages based on services. Credit repair companies frequently dispute all delinquent information on a credit report, often repetitively, hoping that the lender does not respond, and the data falls off the report. Accurately reported data will be verified and repopulate on the credit report, despite the attempts at having the account removed.

Step 6:

Revise the plan as needed and determine actions you can take to start the credit building work, even if it is not as robust as you hope it will eventually become. Getting started is the most important thing, and you may find that results from small initial efforts lead to additional funding and resources over time.

Step 7:

Build feedback loops through surveys, focus groups, and youth advisory councils. Use this feedback to assess and refine your program to best serve your participants. It can also help you plan for potential future growth. Keep in mind that integrating credit building takes time, so consider incorporating credit building metrics into outcome tracking as you go so the metrics are available when needed.

Be a Part of the National Movement

You can also become an important part of the broader effort to raise awareness and provide education to help more young people access credit in safe, beneficial ways. Some things you can start doing today include:

Spreading the word

Engage in both internal and external communications to raise awareness of credit building and its key elements, including low-barrier product pathways and policy initiatives, such as efforts to regulate or remove predatory products that have implications for young adults.

Reaching out to stakeholders

Conduct active outreach to stakeholders already within your ecosystem, including those who work directly on/in child welfare, juvenile justice, workforce development, and post-secondary education on the economic opportunity to replicate and scale credit building work to reach a broader spectrum of young adults through different delivery channels.

Investing in new initiatives

Consider participating in national pilots to test and promote innovative credit building products. These could include credit builder loans, social loans, and non-traditional credit data reporting. These initiatives could be tailored to young adults' situations (such as foster care, juvenile justice, or transitional housing). Examples could include a social loan for those living in or exiting foster care, credit builder loans offered on Native reservations that are paired with Individual Development Accounts, or rent, utility, and telecom reporting options made available to young adults living in low-income student housing.[12]

12 Consider opportunities for private or state funding for match-savings programs.

Focusing on student loans

Consider a pointed focus on student loans and collaborating with groups such as the Student Borrower Protection Center and/or the Center for Responsible Lending to quantify the true cost of the student debt crisis on society and seek solutions to reduce the spread of bad loans and servicing. Support could include robust research into understanding student loan debt as not just an individualized problem but also as an inter-generational and community-wide one.[13] Support initiatives that educate post-secondary students, especially first-generation students, about credit building and student loan repayment obligations upon graduation.

Engaging in advocacy

Community-based organizations have an opportunity to impact advocacy. Lift the stories and voices of the young people you work with to community advocates and elected officials if legislation is needed. Sharing stories helps personalize the challenges young people face in building credit and can encourage other groups and those in positions of power to act.

Conclusion

Too often deep-rooted issues are tackled with surface-level solutions. The socioeconomic barriers faced by young adults are complex and multi-faceted. Credit building alone will not be the answer to helping young adults and families overcome poverty and economic instability. People need good jobs with living wages, quality housing, and a safety net to catch them if they fall. However, armed with basic needs met, a good credit score and access to safe and affordable financial products can be the essential ingredients that launch a young person towards economic resilience, prosperity, and generational success.

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