Best Practices: Credit Reports and Credit Score/Debt Management

Step 1: Start with the Credit Reports and Credit Score

The planner's goals should include:

- Teaching the client how credit scores are created and updated.
    - Three credit agencies provide scores: Experian, TransUnion, Equifax
    - Score is based on transactions, history, available credit
- Teaching the client how credit scores are used. Anyone extending credit can use the credit score as an assessment tool.
    - Lenders – including banks, credit card companies, credit unions, retail stores, mortgage lenders – use credit scores in order to asses risk and the ability for the borrower to repay on a timely basis.
    - Cell phone companies use credit scores to determine eligibility for various payment plans.
    - Utility companies and landlords use credit scores to determine whether or not to require a security deposit and, if so, how much.
    - Employers use credit reports (not scores) to assess signs of financial distress.
- Helping the client obtain and analyze credit score.
    - Several services and banks now provide free access to credit scores.
    - Annualcreditreport.com from FTC provides free annual access to complete credit reports from the three reporting agencies. The client can stagger receipt of the three reports so they are spread out throughout the year.
    - Work with client to explain activities that impact the credit score
- Determining if credit score improvement is needed
- If necessary, helping client start a program for improvement – help the client understand why the score is low and encourage a change in behaviors that resulted in the low score
    - Monitor scores regularly
    - Be vigilant about potential identity theft
    - Set KPIs for improvement based on areas of weakness
        - Timely bill payment/set up automatic payments
        - Monitor credit utilization ratio
        - Pay down debt; set up payment plans
        - Prevent bank overdrafts from occurring
        - Open additional credit card (or gas or retail card) if necessary
    - Help client correct errors and outdated credit information
        - Provide documentation of errors to credit company(s)
        - Fill out correction forms
        - Notify credit companies and ask for adjustment
        - Request that outdated information be removed
        - Add personal comment on credit reports

Include in the engagement letter a description of credit improvement services that the planner will provide, and note if the planner is allowed to pull credit reports on behalf of the client.

Step 2: Managing Debt – Addressing Client Concerns

Learn about the type of debt that is concerning the client (mortgage, credit card, student loan, other loan) and why this is causing concern. Find out what client thinks is cause of debt getting to current level of concern. Ask about debt history of client – previous experience with borrowing, payment history. Some typical client questions might be about these topics:

- Understanding interest options (simple/compound)
- Understanding mortgage options (ARM, balloon payments, tax impact)
- Issues concerning borrowing online
- How to (or if one should) consolidate student loans

Step 3: The Planner's Role

- First determine if the debt is manageable – this will likely entail working with the client to create a budget, and then determining how much money is available to pay off debt.
- Next, help the client prioritize which debts will be paid and in which order – typically the higher interest and the short-term loans get addressed first.
- Set up a payment plan that works within the client's budget along with a timetable for eliminating the debt.
- Monitor the debt balances regularly to ensure the plan is working.

If necessary, the planner might be called upon to work with the creditors to negotiate the debt balance, arrive at an acceptable payment plan, or negotiate interest rates.

Step 4: Beyond the Planner

It's possible that the debt can't be paid off, and, in this case, the planner might want to consult with or connect the client an attorney or a debt management company. These are experts that can be part of the planner's community of outsourced service providers.

Should the planner refer the client to an outside expert, the planner can set up agreements with the service providers that there will be regular contact among the parties to ensure the client's interests are being handled appropriately.

Resources:

- Understanding your Credit Score (and Why It Matters): https://www.360financialliteracy.org/Topics/Credit-and-Debt/Credit-Cards-and-Reports/Understanding-Your-Credit-Score-and-Why-It-Matters
- Debt Management Articles: https://www.360financialliteracy.org/Topics/Credit-and-Debt/Debt-Management