

Barriers to Borrowing

About 45 million American consumers face barriers to borrowing because they do not have a credit score, according to the Consumer Financial Protection Bureau. These situations can create difficulties for potential borrowers, but the problem is not insurmountable.

WHY IT HAPPENS

Being “credit invisible” can prevent financially responsible consumers from getting approved for credit. What does it mean? It means that a consumer has no credit data on file with the three major credit bureaus.

According to the CFPB, one in 10 U.S. adults — about 26 million people — are credit invisible. In addition, about 19 million consumers’ credit data is too old or there is too little data to generate a credit score.

These groups make up about 20% of American adults. Black, Hispanic and low-income consumers are more likely to have no credit history or insufficient credit history to produce a score. As many as 67% of credit invisible adults are ages 18-19, consumers who are just starting out in their adult lives and thus, their financial lives.

THE EFFECTS

Without a credit score, consumers are faced with difficul-



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ties in making basic financial transactions, such as opening a bank account, getting a credit card, taking out a loan or mortgage, or leasing an apartment. Other impacts include having difficulties getting a job, being unable to qualify for a cell phone plan or facing barriers to establishing utility services.

This can mean that con-

sumers are relegated to high-cost credit with lower qualifying requirements, such as payday loans.

WHAT TO DO

There are steps you can take to establish and improve your credit score. Experian’s website profiles a previous credit invisible woman who (an Experian employee), who

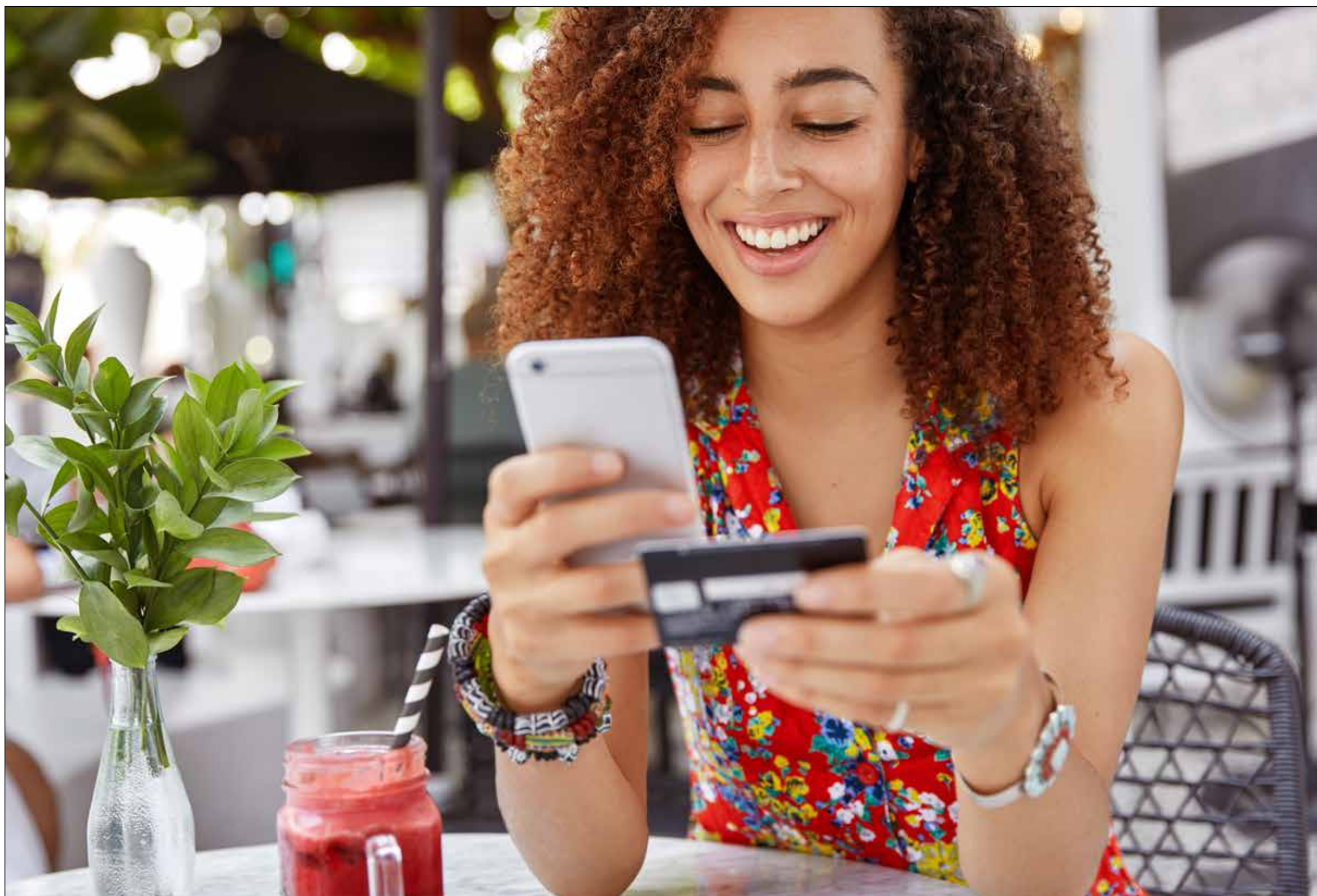
moved to the U.S. after living her entire life in the United Kingdom. For this reason, she had no U.S. credit history. According to Experian, after two years, the woman was able to obtain a credit score of 745.

While you shouldn’t count on this kind of success, making a plan and sticking to it can have big results.

Experian’s recommendations include getting a secured credit card, which requires the borrower to make a deposit equal to their credit limit. After establishing credit with the secured card, Experian recommends applying for new, unsecured credit, keeping the credit utilization low and making on-time payments. The next step is to apply for various kinds of credit to strengthen the diversity of credit types on your credit report, all the while making timely payments and keeping usage low. The CFPB recommends keeping credit usage below 30% of the limit on each card.

The CFPB also recommends taking out a “credit builder loan” from a credit union. These small loans allow consumers to make small payments and boost their credit histories over time.

Consumers also should take advantage of new methods being made available by credit bureaus to boost their scores by reporting on-time payments of bills that typically have not been used to establish credit scores. These include rent, cell phone and utility bill payments. For example, Experian Boost allows consumers to report on-time utility and cell phone payments for an instant boost to their score.



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REAL ESTATE 101



Starting from Scratch

Starting out as a young adult can be financially challenging for Americans. The Consumer Financial Protection Bureau offers a guide called “Building Credit from Scratch.” It includes ways to begin borrowing and establish a good credit history, as well as basic credit facts to help consumers understand their credit reports and scores. It also includes advice for correcting errors in one’s credit file. To read the guide, visit <https://bit.ly/3a15YsR>.

HOMEWISSE GLOSSARY

Jumbo loan: mortgage loans that exceed loan limits set by Fannie Mae, Freddie Mac and their regulator, the Federal Housing Finance Agency. The cost of obtaining a jumbo mortgage may be higher than the cost of obtaining a conforming mortgage.

SOURCE: Consumer Financial Protection Bureau

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