CREDIT ABUSE RESISTANCE EDUCATION CHICAGO

New to Credit Tips for "Credit Invisibles"

January 2022

Access to first-time credit usually starts by establishing a relationship with a reputable financial institution, preferably one that offers **demand deposit accounts (DDA)**, such as checking or savings. Many of these institutions will open a new account without the presence of a Social Security Number (SSN), particularly if proof of employment and / or residence can be provided. If undocumented, or an SSN is not available, an **Individual Taxpayer Identification Number (ITIN)** may be accepted instead. In the absence of a credit history, a financial institution is more likely to open a DDA with ITIN and proof of residence and income.

Oftentimes, a DDA is preferred because it can be a means to securing credit, such as opening a new **credit card** account. Credit cards can be a gateway to establishing a credit history with one of the national **Credit Reporting Agencies (CRA's)** in the United States. If a credit history does not exist, the consumer is referred to as "*credit invisible*" and typically, a financial institution is unlikely to approve a credit card application without a "credit visible" co-signer. A **co-signer** is an adult who shares legal responsibility for repayment on a credit obligation.

Most credit cards represent an **unsecured** form of credit. That is, no collateral (such as title to a building or automobile) is required. Therefore, financial institutions commonly deem unsecured credit as higher business risk (in other words, there is a greater risk that the institution will not get fully repaid by a defaulting consumer) compared to secured credit (such as mortgage to finance a home or the title on an automobile loan). However, many credit card issuing institutions, which also offer DDA's, are more apt to approve a **secured credit card** for their "credit invisible" customers. These specialty credit cards are granted by virtue of the security deposit (hence, secured) provided by the consumer from their DDA. Moreover, secured credit card accounts are typically reported to the CRA's. It is important to confirm with the institution that this is indeed the case, as some secured credit card accounts are not reported to the CRA's. Therefore, because DDA's alone, or debit cards, are not reported to the CRA's, they do not help in establishing a credit history.

Secured credit cards work the same way as unsecured cards, except that the credit limit assigned by the lender is determined by the security deposit amount required by the financial institution. For example, a $500 security deposit drawn from the consumer's DDA would allow that consumer a maximum credit limit of $500 per monthly cycle on the secured card account. Many secured credit card issuers offer what they commonly refer to as "*graduation*" products. This usually means that, after demonstrating successive on-time payments (such as for 6 months) with the secured card, the issuer will "graduate" the account into an unsecured status by returning the deposit back to the consumer. For all these reasons, secured credit cards are usually the best route to establishing a credit history for consumers who are new to credit, particularly the undocumented.

As with many financial products, it is important to read and understand the terms and conditions and to be aware of fees (such as annual or over-limit fees) that an issuer may assess. Therefore, it is imperative to shop around and compare products from competing financial institutions. Even though credit cards are the most accessible, and frequently the most cost-effective, financial products to establish a credit history, other **credit-builder loans** exist, including **personal loans**. Personal loans are paid in fixed installments, and they are typically reported to the CRA's. However, unlike with a credit card, the consumer would need to have a specific borrowing designation at loan origination, and be prepared to make on-time monthly payments at a relatively high cost (interest rate) on the amount borrowed.

A **private label credit card** is another type of a specialty credit card. These cards are typically associated with a retailer or merchant whose brand is displayed on the credit card, but a financial institution issues these cards as a "private label" for that particular merchant. Amazon, Home Depot, Target and Wal-Mart are some examples of retailers who have credit cards that are issued by financial institutions. These private label credit card issuers are typically more lenient in their risk assessment of consumers who are new to credit, and therefore, chances for getting approved for the first credit card are higher through these channels. As traditional credit card issuers, private label issuers may also insist on SSN, but some may make exceptions to ITIN applicants, especially if the application for credit is made directly with the retailer. After all, their primary interest is to make a retail sale and secure loyalty from a new shopper.

Consumer financial products continuously evolve and when emerging credit products are introduced they represent more opportunities for inclusion into the credit ecosystem. Examples of these include "secured card-like" products offered by online only financial institutions (or "**neobanks**"), which are also popular with adolescent and young adult populations who tend to be "digital native," as well as **Buy-Now-Pay-Later (BNPL)** forms of credit. Both of these come with similar pitfalls as previously described, namely, potential hidden fees and the fact that research is required with each institution to know whether the payment information is reported to the CRA's.

In addition to these direct paths, a more indirect method to establishing a credit history in the U.S. is by becoming an **authorized user** on a credit card account. Unlike a co-signer, an authorized user is not legally responsible for the account. The information about that account, however, is reported to the CRA's. Usually, the primary account holder is a parent designating their child (who is otherwise credit invisible) as an authorized user on an existing account. However, an authorized user can be any adult, including those unrelated to the account owner. For example, the primary account holder could be an already documented individual in the U.S, and the undocumented individual can be the authorized user. Therefore, a new credit bureau file can be established for the undocumented individual through an authorized user account. Some credit card issuers may still require an SSN for the authorized user, so the same research for ITIN applicants may be necessary as previously described. Once a credit bureau file is established with a CRA, it then becomes easier for those new to credit to apply for and establish a **credit score**, because "visibility" has been established.

Rent and utility payments are rarely reported to the CRA's, even though they typically constitute a rather large portion of a consumer's monthly debt load. However, consumers are becoming ever more empowered, which can be particularly important for the credit invisible populations. There are **rent-reporting services** and entities such as eCredable, which enable the reporting of rent and utility payments to some of the CRA's. As with all forms of credit obligations, it is imperative to establish on-time payments, as negative information, such as past due bills on rent, will not aide in building a credit-worthy history.

More Resources

Credit Builders Alliance's (CBA's) mission is to "help organizations move people from poverty to prosperity through credit building."

Nova Credit is a cross-border credit bureau service company which helps newcomers to the U.S. apply for financial services using their international credit history from countries including Australia, Brazil, Canada, India, Mexico, Nigeria, South Korea, and the UK by "translating international credit data into a U.S.-equivalent score and report" in a format familiar to U.S. lenders.

The Community Development Financial Institutions Fund (CDFI Fund) "plays an important role in generating economic growth and opportunity in some of our nation's most distressed communities." The Illinois institutions listed here have been awarded funds specifically designated for the underserved communities. Therefore, they are more likely to approve new-to-credit and underserved applicants.

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