CREDIT BUILDER LOAN FAQs

PURPOSE OF CREDIT BUILDER LOAN

Credit builder loans are designed to help members new to credit establish a credit score and those with lower scores and little to no debt improve their score. As an added bonus, credit builder loans also help the member save money and help build the habit of savings.

HOW DOES A CREDIT BUILDER LOAN WORK?

When a Self-Help member opens a Credit Builder Loan, we (Self-Help) deposit the full amount of the loan into a locked savings account, to serve as collateral, until the loan is paid in full. The member then makes installment loan payments over a period of 6-24 mos. As the member makes the payments, Self-Help reports these payments to the credit bureaus – thus creating a new installment trade line on the member's credit report. It typically takes at least 8 months of on-time payments to start seeing your score increase. At the end of the loan term, the member receives access to the savings account with the full amount of the loan.

TERMS OF CREDIT BUILDER LOANS	
Loan Amounts:	$500, $1,000, $1,500, or $2,000
Loan Terms:	6-24 months
Interest rate:	4% + dividend rate of share account
Origination Fees:	None

Who is MOST likely to benefit from a credit builder loan?

- Members without a credit score or with a low score and little to no outstanding debts.

Who is LEAST likely to benefit from a credit builder loan?

- Members who already have a good credit score
    - Does this member have a credit score >680? If yes, they may not benefit from this product.
- Members who already have existing debt
    - Does this member already have an installment loan that they are paying on? If yes, consider advising that they pay their current loan on time and/or open a Secured Credit Card instead of taking out a Credit Builder Loan. Adding an additional tradeline for someone with existing debt may ***decrease*** a member's credit score.
- Members who pay off their credit builder loans early
    - Explain the importance of making on-time payments and keeping the loan open for the full term in order to gain credit building advantages.
- Members who don't have enough monthly income to cover monthly payments

What if I want to learn more and/or provide additional information to members about credit building?

- Visit the Credit Building Tools page on Connect for helpful videos, tips, and handouts!

NOTE: *Use next page as Credit Builder Loan member handout*

HOW A SELF-HELP CREDIT BUILDER LOAN WORKS

STEP 1

You apply for a credit builder loan when you need to establish your credit history or improve your credit rating.

STEP 2

Self-Help will hold the borrowed funds in your locked savings account until you successfully pay off the loan.

STEP 3

Over a 6-24-month period, you make monthly payments on time, each month until the loan is paid in full. Make the ***full payment on time every month*** to build a positive credit payment history.

STEP 4

During this time, we will report your on-time payments to the credit bureaus. This helps you build credit because you are creating a history of on-time loan payments.

STEP 5

Once the loan has been paid in full, we will release the full amount of the loan in your savings account. The funds are then available for you to use in any way you see fit. Many use the funds to jumpstart their savings plans. If you need additional credit building support, you might consider transitioning the funds into a Secured Credit Card.

TIPS FOR SUCCESS

- Look at your budget to make sure you have enough money to make the monthly payments each month.
- Write down the day of the month you will be making your payments and make your payments on time, every month. Positive payment history is the #1 way to build your credit score!
- Set up an automatic draft for this payment to be made monthly from your checking account. Automatic payments are the easiest way to make sure your payments are made on time each month.
- Don't pay the credit builder loan off early. With most loans, it is a good idea to pay extra if you can or pay off the loan early, but this one is different.
    - You should keep the loan open for the whole payment term, making only the normal monthly payment (not more!) because this is building your payment history and helping your credit score. Once the loan is paid off, the payment history will stop so it won't continue to build your credit score. It typically takes at least 8 months of on-time payments to start seeing your score increase.
- Ask for help if you need it. If things change and you are having trouble making your payments, tell the Credit Union what is going on and ask about what options you have. And ask us about our free financial coaching services available to all members!

Self-Help® Credit Union