



## United Way *Financial Stability Partnership™ FastFacts*

step 1: Increase Income

# Credit Repair/Debt Reduction

## What Is It

Credit repair and debt reduction strategies, while often linked to financial education, are powerful strategies that can dramatically impact household income.

Credit repair refers to those strategies that help individuals improve their credit history and credit score, which is used by lenders, landlords, and increasingly by employers, to assess one's worthiness for credit, a loan, an apartment, or a job, and to determine how much they will pay in interest and fees. Individuals with lower credit scores pay significantly more for financial services than individuals with higher scores.

Debt reduction is directly linked to credit repair. Reducing household debt through regular payments can reduce the amount of interest paid on loans. It also allows families to access additional credit at a lower interest rate, which provides a safety net for unexpected emergencies, as well as a means of purchasing assets.

## Why Is It Important

For many lower-income individuals and families, the credit score is a significant barrier to accessing resources that could help them to become more financially stable. For example, someone with a high credit score might pay 5.9 percent interest for a 30-year fixed rate mortgage, while someone with a lower score might pay as much as 10.5 percent. On a \$200,000 loan, that's a difference of almost \$231,556 in interest payments over the life of the loan.

Rising levels of debt are also negatively impacting households across the country. The average family with a credit card carries \$9,000 in debt, leaving them vulnerable to serious financial difficulties in the event of job loss, an unexpected illness, or costly repair.

## The Role of United Way

In its role as community convener, United Ways are connecting community members to nonprofits and community agencies that provide credit repair and debt reduction services. They are also working with financial institutions to create alternate methods for determining eligibility for financial services that go beyond the credit score.

## Resources

- The National Foundation for Credit Counseling sets the national standard for quality credit counseling, debt reduction services, and education for financial wellness: [www.nfcc.org](http://www.nfcc.org)
- Demos: [www.demos.org](http://www.demos.org)
- FDIC: [www.fdic.gov/consumers/consumer/ccc/repair.html](http://www.fdic.gov/consumers/consumer/ccc/repair.html)
- US Treasury Office of Financial Education, National Strategy on Financial Literacy: [www.mymoney.gov/credit.shtml](http://www.mymoney.gov/credit.shtml)
- The Federal Reserve Bank of Dallas: [www.dallasfed.org/ca/wealth/4.html](http://www.dallasfed.org/ca/wealth/4.html)
- The three main companies providing credit reports, scores, and checks are:
  - Equifax, [www.equifax.com](http://www.equifax.com)
  - Experian, [www.experian.com](http://www.experian.com), and
  - TransUnion, [www.transunion.com](http://www.transunion.com)

## For More Information

For more information about United Way's Financial Stability Partnership™, and financial stability strategies, visit the Knowledge Café at <http://online.unitedway.org/café>, join the financial stability listserv or send an email to [fsp@uwa.unitedway.org](mailto:fsp@uwa.unitedway.org).