

# Lesson 1: My Credit Report Card

## Lesson Overview:

This lesson will provide students with an overview of elements that are included in their credit report. Students will examine how various behaviors affect their credit score and how that score affects their ability to acquire credit. The lesson will also teach students how to obtain free copies of their credit report.



## Pacing:

Approximately 120 minutes will be needed to complete this lesson.

## Materials:

- Copies for each student or an overhead of *Credit Report Quiz*
- Overhead of answer key for *Credit Report Quiz*
- Copies of *Why Credit Is Important*, *FICO Score/How to Get Your Credit Report*, *What's In Your Score?*, and *Duration of Credit Report* for students
- Power Point presentation from the following website:  
[http://www.consumerjungle.org/images/stories/documents/credit/5\\_Credit%20Scores%20and%20Reports.ppt#1](http://www.consumerjungle.org/images/stories/documents/credit/5_Credit%20Scores%20and%20Reports.ppt#1) (or transparencies of slides from presentation)
- Copies of Credit Report Card scenarios worksheet for students

## Background Information:

Students should already be familiar with the concept of using credit to make payments on purchases over time. Students should also be familiar with the “three C’s” (character, capital, and capacity) for determining credit. It is recommended that this activity be used following the *Credit: Friend or Foe?* and *Uh oh, What should I do?* lessons also contained in this PFL document. Students should already be familiar with the terms: borrower, lender, lease, mortgage, repossession, bankruptcy, balance, and credit card.

## Student Outcomes:

- Students will know the key factors used in determining credit score.
- Students will know how to obtain a copy of a credit report.

- Students will examine various scenarios and determine how the person's credit score will be affected by his/her decisions.

## Essential Questions:

1. How can I maintain a good credit report?
2. What are the major factors in my credit score?
3. How can I get a copy of my credit report?

## Vocabulary:

### *Credit report*

A compilation of information collected by credit bureaus provided by banks, mortgage companies, department stores, and other creditors about a person's credit accounts.

### *Credit score*

A numerical value that ranks a borrower's credit risk at a given point in time based on a statistical evaluation of information in the individual's credit file that has been proven to be predictive of loan performance.

### *Delinquency*

Failure to make payment when it is due. The condition of a loan when a scheduled payment has not been received by the due date, but generally used to refer to a loan for which payment is 30 or more days past due.

## Instructional Steps:

**Step 1:** Put a copy of the *Credit Report Quiz* on the overhead or give each student a copy. Give students a few minutes to answer the questions. Go over answers with students.

**Step 2:** Present slide show (or overheads) with information about credit reports and how credit scores are calculated. As the teacher is presenting, students will fill in the *Why Credit Is Important*, *FICO Score/How to Get Your Credit Report*, *What's in Your Score?*, and *Duration of Credit Reports* handouts with information from the presentation.

**Step 3:** Independent Practice: Place students in small groups. Give each group a copy of the *Credit Report Card* handout. Have students discuss what credit score they would assign to each person in the scenario and explain their reasoning. (You may want to display the graphic showing how credit scores are calculated for students to use as a reference while working with their groups.)

**Step 4:** Have groups present their responses to the class. Share answers from the key after students have presented their reasoning for each person's score.

## **Enrichment/Differentiation Ideas:**

Have students create an imaginary credit score for a celebrity. Students should include examples and reasons for creating this score that reflect an understanding of what goes into a credit score.

## **Assessment Ideas:**

Responses to *Credit Report Card* handout

## **Additional Resources:**

Online Quiz for understanding your credit report sponsored by the Centers for Financial Education

[www.crediteducation.org/quiz.php?quizid=2](http://www.crediteducation.org/quiz.php?quizid=2)

Consumer Credit Counseling Services is a non-profit community service organization dedicated to assisting consumers in financial difficulty by offering credit counseling, consumer education and personalized debt management solutions. This site contains lesson plans, articles regarding credit and credit repair, and other resources.

[www.cccsswva.org](http://www.cccsswva.org)

PowerPoint presentation that provides information about credit scores and reports.

[www.consumerjungle.org/images/stories/documents/credit/5\\_Credit%20Scores%20and%20Reports.ppt#1](http://www.consumerjungle.org/images/stories/documents/credit/5_Credit%20Scores%20and%20Reports.ppt#1)

# Credit Report Quiz

Respond to the following items using True or False.

1. If I find incorrect information on my credit report, I must hire an attorney to fix it.
2. Anyone who has my permission and a good reason can access my credit report.
3. Credit reporting bureaus decide whether or not I can get credit.
4. It is my responsibility to make sure that my credit report is correct and up to date.
5. I need to pay my bills on time to maintain a good credit history.
6. The 3 C's that are used to determine credit are character, capacity, and collateral.
7. Information, both good and bad, can stay on my credit report for 10 years.
8. If I can't pay my bills on time, I need to just stop answering the phone or screen my calls.
9. Credit companies only report to reporting bureaus when I apply for credit.
10. My credit information contains information about my high school, where I work, how many kids I have, and how much money I make.

## Credit Report Quiz Answers

1. False- You have the right to question any information in your credit report that you believe is incorrect. The credit reporting bureau is responsible for researching it—at no cost to you.
2. True
3. False- Reporting agencies just provide your information; the credit provider makes the decision about whether or not they give you credit.
4. True
5. True- Delinquent or late payments have the biggest negative impact on your credit score.
6. True
7. True- Bankruptcy will stay on your credit report for 10 years. Also, other negative credit activity (late payments, etc.) can stay on your report as long as 7 years.
8. False- You are responsible for paying your bills on time. If you find that you are having trouble, call your creditors and try to work out something with them.
9. False- Credit companies generally send information to the reporting companies monthly, so it is possible for your score to change monthly.
10. False- You might see some information about where you have worked and how much money you have made on your credit report, but you will not see personal information about your family. You will see accounts that you have opened (even if they have been closed), how much credit is available on any open accounts, interest rates, loan terms, and balances owed. Your credit report also contains information about any late payments you have made, or any accounts on which you have not made payments.

# Credit Report Card

Your grade in a class is based on the quality of work that you complete (or don't complete) during the term. Just like you get a grade, you will receive a credit score based upon what you have done (or not done) with your credit. Your credit report is a list of what you have available and what you have done with your credit accounts. Your credit score, like your grade in a class, is based on the items in your credit report. Just like tests in a class can have a bigger effect on your grade than homework, late payments can have a bigger effect on your credit score than new accounts.

Use the rubric below to assign each person a credit score based on the information provided. Credit scores range from 330 to 830. Keep in mind what elements factor into calculating a score and how much weight they hold.

760-850: Excellent  
700-759: Very Good  
660-699: Good  
620-659: Fair  
300-619: Poor

Mark is a professional athlete, who makes \$360,000 per year. He has 12 open accounts. Three of these are mortgages for his houses. A year and a half ago, he had a late payment on one of those mortgages. The others have all been paid on time. Four of his open accounts are car leases which have all been paid on time. The other 5 accounts are credit cards. He made two late payments on one of those cards within the past 6 months, but he has paid the others on time. All of the cards carry a balance of more than 50% of the limit.

Chris is a computer technician making \$50,000 a year. He only has one credit card that has been open for just over a year. He has paid this on time every month. It currently has no balance. He has two collections from medical bills from over two years ago, but they have been paid off.

Jessica is a nurse who makes \$60,000 a year. She has six open accounts. One is a mortgage that she has had for two years and always pays it on time. The other five accounts are credit cards that she has had for at least four years. She had one late payment on one of those cards 3 years ago, but otherwise, all are paid on time. One of the credit cards has a balance of 10% of the limit; the others have no balance.

Steve works for the city making \$40,000 a year. He has two credit cards. He has had each one for three years. He made a payment on one of the credit cards more than 60 days late within the past year. That credit card currently has a balance of 80% of its limit. He made two payments more than 60 days late on the other credit card within the past two years. The second card currently has a balance of 75% of its limit. He used to have a car loan, but he could not afford the payments, so he let it get repossessed nine months ago.

Yolanda is in pharmaceutical sales making \$70,000 a year. She has five open accounts. One is a mortgage that she has had for five months and pays on time every month. She also has a car loan that she has paid on time every month for two and a half years. The other three accounts are student loans that she has had for six years. One of those student loans had a payment that was 30 days late, but all other payments have been on time.

# Credit Report Card Answer Key

Allow students flexibility for the actual number score.

Mark: 660-699. He has never had any repossessions or collections. He has established credit history, but his high credit card balances and late payments have pulled down his score.

Chris: 620-659. His one account is currently in good standing, but he has not had it very long. He has only had a total of three credit accounts which have not been enough to establish a strong credit history. His medical collections from two years ago have severely hurt his score.

Jessica: 760-850. She has several accounts that she has had for quite some time, establishing a strong history. Her one late payment over three years ago has not hurt her score drastically. Her credit balance is less than 30% of her limit, which does not hurt her score.

Steve: 300-619. He has only had three credit accounts and all three have had a poor history. His car was repossessed and he has recently gone more than 60 days without making his assigned payments. His two credit cards carry a balance of more than 70% of their limit. All of these factors have had a strong negative impact on his score.

Yolanda: 700-759: She has been consistent about making all but one of her payments on time. Her late payment was not recent. She has only had her mortgage for five months; however, this has not been long enough for her to increase her credit score into the next range.

## Lesson 2:

## Uh oh...what should I do?

### Lesson Overview:

In this lesson, students will examine problems that can result from credit, either as a result of their own actions or due to circumstances beyond their control. They will learn about strategies and skills that can be used to repair bad credit.



### Pacing:

Approximately 180 minutes will be needed to complete this lesson.

### Materials:

- One copy of each of the following: *Why Consumers Don't Pay*, *Consolidating Your Debts*, *Credit Counseling*, *Wage Garnishment*, *Wage Assignment*, *Car Repossession*, *Wage Earner Bankruptcy*, and *Straight Bankruptcy* available at the following website: [http://www.practicalmoneyskills.com/english/at\\_school/teachers/lesson\\_index.php?id=48](http://www.practicalmoneyskills.com/english/at_school/teachers/lesson_index.php?id=48)
- Copies of *Test Your Knowledge of Trouble* for each student, available at the following: [http://www.practicalmoneyskills.com/english/pdf/teachers/lev\\_3/lesson\\_13/13\\_1.pdf](http://www.practicalmoneyskills.com/english/pdf/teachers/lev_3/lesson_13/13_1.pdf)
- Copies of *Are They In Trouble?* for each student

### Background Information:

Students should already be familiar with the idea of using credit to make purchases. Students should also be familiar with the information contained on a credit report, budgeting, and credit score calculation.

### Student Outcomes:

1. Students will know the causes—both controllable and uncontrollable—of excess debt.
2. Students will know that bad credit cannot be erased, but it can be repaired.
3. Students will know steps available to help reduce excess debt and repair bad credit.
4. Students will analyze a difficult financial situation and determine the best method for financial recovery.

### Essential Questions:

1. If I get in over my head with debt, what can I do to get out of it?

2. Can I get rid of bad credit?
3. What are some causes of excessive debt?
4. What methods are available to consolidate debt and repair credit?
5. In a given situation, what is the best way to consolidate debt and/or repair credit?

## **Vocabulary:**

### ***Credit counseling***

A process offering education to consumers about how to avoid incurring debts that cannot be repaid. It also helps people learn to budget carefully, manage their money, and repay their debt.

### ***Bankruptcy***

The legal process in which a person declares their inability to pay debts.

### ***Loan consolidation***

A debt management program that replaces multiple unsecured loans with a single loan, often with a lower monthly payment and a longer repayment period.

### ***Wage garnishment***

A process by which a creditor can obtain some of the assets of a debtor. A court-ordered garnishment of salary requires an employer to deduct and pay to the creditor a percentage of the debtor's salary until the debt is satisfied.

### ***Wage assignment***

A legal agreement between a lender and a debtor that permits the lender to collect part of the debtor's wages from an employer if the debtor fails to make regular payments. The employer is not legally compelled to honor a wage assignment arrangement. Wage assignment does not have the legal force from a court as does a wage garnishment.

### ***Repossession***

Generally used to refer to a financial institution taking back an object that was either used as collateral, rented, or leased in a transaction.

## **Instructional Steps:**

**Step 1:** Have students brainstorm reasons why people might have large amounts of debt. Record students' ideas on poster paper or on the overhead.

**Step 2:** Display the *Why Consumers Don't Pay* transparency. Compare student responses.

**Step 3:** Have students form small groups (4 or fewer). Give each student a copy of the *Are They in Trouble?* worksheet. Have students complete the worksheet by brainstorming a solution for each scenario based on their current knowledge.

**Step 4:** Place students into seven heterogeneous groups. Give each group one of the following handouts: *Consolidating Your Debts*, *Credit Counseling*, *Wage Garnishment*, *Wage Assignment*, *Car Repossession*, *Wage Earner Bankruptcy*, or *Straight Bankruptcy*. Have students work together to create a brief skit to present to their classmates. The teacher should monitor students' progress in the groups to ensure that groups understand their topic and are able to present the information accurately.

**Step 5:** Have students create a chart with three columns. The first column should contain a list of the topics from the skits. While skits are being performed, have the audience members write a brief description of what is happening in the second column of the chart, and create a visual to help them remember the term in the third column of the chart. After each skit, the teacher should clarify any points, respond to any questions, and correct any errors in the presentations.

**Step 6:** Individually, have each student complete the *Test Your Knowledge of Trouble* handout to assess student understanding before moving on to the small group activity.

**Step 7:** Have students re-evaluate the responses they gave in the “*Are They In Trouble?*” activity. Have groups discuss what each person in the scenarios should do about their debt. Encourage groups to share their responses with the class.

### **Enrichment/Differentiation Ideas:**

Use the Internet to research for-profit organizations that claim to “erase” bad credit. What promises does this company make to consumers? How much does this program cost?

Find a website for a non-profit credit counseling organization. What services do they offer to help people reduce their daily spending and debt?

Research the bankruptcy process. What are the steps for filing bankruptcy in your area? Can this be done without an attorney? If an attorney is used, how much will you pay in attorney fees?

### **Assessment Ideas:**

- Skits
- Test Your Knowledge of Trouble responses
- Student Responses to group activity
- Have students write a script in which they play the role of a credit counselor to either Todd, Carmen, or John. This script should include questions that the counselor would ask, the interviewee's responses, and the solution provided by the counselor.

### **Additional Resources:**

[http://www.practicalmoneyskills.com/english/at\\_school/teachers/lesson.php?id=466&o=1#activities](http://www.practicalmoneyskills.com/english/at_school/teachers/lesson.php?id=466&o=1#activities)

Link to copies of handouts, plus a quiz and pre-assessment items.