The ABCs of Credit Reporting

Lesson plan, participant materials and answer keys

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The ABCs of Credit Reporting: Lesson plan

Overview

A credit report is an important part of a teenager's financial future. This record can affect everything from the rate paid for automobile insurance to finding employment. Learn how credit reporting works, what's in a credit report and how financial decisions can affect this record for years to come.

Lesson objectives

- Understand the importance of a credit report and the function of credit reporting agencies.
- Summarize the effects of negative and positive credit reports on financial transactions.

Time

1 to 3 class periods

Materials

Participant materials

- P1 — Credit reporting vocabulary worksheet
- P2 — Pre/post assessment
- P3 — Alphabet activity
- P4 — PowerPoint scorecard
- P5 — Sort it out worksheet/activity
- P6 — Course overview

Leader materials

- L1 — Credit reporting vocabulary worksheet answer key
- L2 — Pre/post assessment answer key
- L3 — Alphabet activity answer key (examples)
- L4 — PowerPoint scorecard answer key
- L5 — Sort it out worksheet answer key
- L6 — Course overview answer key and presenter notes
- PowerPoint presentation — The ABCs of Credit Reporting
- Crosswalk

Open-ended discussion questions

1. How can understanding credit reporting agencies and credit reports help you be a smarter consumer?
2. Why is it easier to spend money than to save money?
3. How are finances like a soccer game?
4. Thomas Jefferson said, "Never spend your money before you have it." Is that realistic financial advice today?
5. Balki Bartokomous (from the '80s sitcom *Perfect Strangers*) said, "I am in debt. I am a true American." What do you think about this quote?
6. What do you think most teenagers understand about the responsibility of using of credit wisely? Explain your answer.
7. How is a credit report similar to a report card? How is it different?
8. To "get" credit you have to have "had" credit. How is this problematic for most young adults?

Procedures — option one

Single day module

1. Introduction — Select one or two discussion questions to open the lesson.
2. Divide participants into pairs and distribute the credit reporting vocabulary worksheets (P1) and the PowerPoint scorecards (P4).
3. Allow a limited time for participants to define the vocabulary in their own words. Ask them to define only the terms they know.
4. Prepare participants for the PowerPoint presentation:
   - Using the scorecard, participants will choose answers to the presentation questions and correct their responses after each question. Pairs may discuss the answer choices before the answer appears on the screen.
   - Participants will also add definitions to the credit reporting vocabulary worksheet (P1) during the presentation.
5. Show the PowerPoint presentation, using the course overview and presenter notes (L6) to provide additional information.
6. Clarify vocabulary using the credit reporting vocabulary worksheet key (L1) throughout the presentation, calling for questions when the presentation is complete.
7. Summarize the lesson by discussing the reflection question on the PowerPoint scorecard (P4) — "Explain three concepts about credit reporting that are important for teenagers to understand."

Procedures — option two

Two-day module — day one

1. Introduction — Select one or two discussion questions to open the lesson.
   – Distribute the pre/post assessment (P2). Collect the assessments when participants have completed them.
   – Divide participants into pairs and distribute the credit reporting vocabulary worksheets (P1). Allow time for students to complete the worksheets. As they finish, conduct a group discussion of the terms and their definitions.
2. Conclude day one with one or two discussion questions in a think-pair-share activity. Present a question, ask participants to think of an answer or comment and discuss it with their partner, then ask several volunteers to share their thoughts with the whole group.

Two-day module — day two

1. Introduction — Ask participants to briefly share facts or concepts they learned in the day one module.
2. Divide participants into pairs and distribute the PowerPoint scorecards (P4).
3. Prepare participants for the PowerPoint presentation.
   – Using the scorecard, participants will choose answers to the presentation questions and correct their responses after each question. Pairs may discuss the answer choices before the answer appears on the screen.

5. Show the PowerPoint presentation, using the course overview and presenter notes (L6) to provide additional information.
6. Ask participants to tally their scores and complete the reflection question on the PowerPoint scorecard (P4). Briefly discuss their reflections about what they have learned.
7. Return the pre/post assessment (P2) to each participant and allow them to change their answers, indicating those changes by underlining their additions or new answers.
8. Allow participants to correct their assessments and discuss the reasoning behind the correct answers.

Procedures — option three

Three-day module — days one and two

Follow the day one and day two modules in option two, adding day three.

Three-day module — day three

1. Divide participants into pairs or trios. *Note: Participants don't need to work in the same groups each day.*
2. Introduction — Distribute the sort it out worksheet (P5) or the sort it out card activity (L5) and use it to review credit report content.
3. Distribute the alphabet activity (P3) and ask participants to use their vocabulary and assessment handouts (P1 and P2) to help complete the activity. Allow adequate time for instructions and use examples from the alphabet activity examples (L3) for this exercise. Provide work time, circulating to assist participants if they get stuck on a particular letter.
4. Ask volunteers to share their examples as time permits.
5. Summarize the modules using the reflection question on the PowerPoint scorecard (P4) — "Explain three concepts about credit reporting that are important for teenagers to understand."

Module extensions/modifications

1. Use a word bank for questions 1 to 10 on the pre/post assessment (P2).
2. Provide the alphabet activity (P3) and the alphabet activity examples (L3) for follow-up instruction.
3. Provide the credit reporting vocabulary worksheet (P1) and key (L1) to the classroom instructor to be completed before module one.
4. Assign small groups of participants a discussion question. Allow time for the groups to formulate a response and then present to the whole group. If time allows, encourage group comment.

National standards

Jump$tart Coalition for Personal Financial Literacy's *National Standards in K-12 Personal Finance Education* (Washington, D.C., 2015).

Credit and debt

Standard 2. Summarize a borrower's rights and responsibilities related to credit reports.

12th grade benchmarks:

a. Explain the value of credit reports to borrowers and to lenders.

b. Identify the primary organizations that maintain and provide consumer credit records.

c. Investigate ways that a negative credit report can affect a consumer's financial options.

Financial decision-making

Standard 1. Recognize the responsibilities associated with personal financial decisions.

8th grade benchmarks:

a. Analyze money-handling decisions that young adults commonly face.

b. Compare the benefits of financial responsibility with the consequences of financial irresponsibility.

The ABCs of Credit Reporting:
Crosswalk

Content vocabulary Activity reference	PPT slide	Vocabulary	Include/ Exclude (check or sort)	ABCs	Assess	Text[1]	Text[2]	Notes
Credit reporting key content:								
Credit bureau/CRA	√	√		Student answers will reflect a variety of content vocabulary.	√	√	√	
Credit limit		√			√			
Credit report	√	√	√		√	√	√	
Credit score	√	√			√	√	√	
Creditworthiness		√			√			
Default	√	√			√			
Delinquent	√	√			√			
FCRA	√	√	√		√	√	√	
Inquiry	√	√			√			
Installment credit	√	√			√			
Revolving credit	√	√			√			
Risk	√	√			√			
Secured credit	√	√			√			
Service credit	√	√			√			
Utilization	√	√			√			
Jump$tart standards	√	√	√		√	√	√	

[1]*Ryan, Joan and Christie Ryan.* Managing Your Personal Finances. *South-Western Educational Publishers, 2015.*

[2]*Kapoor, Jack R., Les R. Dlabay and Robert J. Hughes.* Business and Personal Finance. *McGraw-Hill/Glencoe, 2011.*

P1

The ABCs of Credit Reporting:

Credit reporting vocabulary worksheet

Handout 1

Key term	Definition
Credit bureau/credit reporting agency (CRA)	
Credit limit	
Credit report	
Credit score	
Creditworthiness	
Default	
Delinquent	
Equal Credit Opportunity Act (ECOA)	
Fair Credit Reporting Act (FCRA)	
Inquiry	
Installment credit (closed)	
Revolving credit (open)	
Secured credit	
Service credit	
Utilization	

P2

The ABCs of Credit Reporting:
Pre/post assessment

Handout 2

Short answer questions	Answers
1. Which of the following do not have access to your credit report without written permission? • Employers. • Auto lenders. • Credit card issuers. • Collection agencies.	
2. An algorithm that measures credit risk is also called a ____.	
3. How often can consumers access a free copy of their credit report?	
4. The ratio of credit card balances to credit limits is called ____.	
5. How long does data about debt repayment stay in a credit report?	
6. Which of the following is not part of a credit report? • Creditors. • Payment history. • Credit scores. • Credit limits.	
7. Opening and maintaining a credit account and/or repaying a small loan are ways to ____.	
8. Which, if any, of the following can be considered in a credit scoring system? • Race. • Marital status. • National origin. • Age.	
9. List two advantages of a good credit score.	

The ABCs of Credit Reporting: Pre/post assessment

Short answer questions	Answers
10. List two disadvantages of a poor credit history.	
11. Chris defaulted on a cable television bill, service was discontinued and the bill went to collection. What possible credit reporting consequences might this have?	
12. Which of the following is not a valid reason to deny credit? • Not enough time on the job. • Receiving public assistance. • A low income. • Late payments.	

True/false questions	Answers
Directions: If the statement is true, circle **T**, then move to the next question. If the statement is false, circle **F** and rewrite the incorrect portion to make it factual and true. **Sample false question response:** T or F There are 27 hours in a day. Inadequate response — There are not 27 hours in a day. Adequate response — There are 24 hours in a day. **Note:** Answers may vary; answers given are examples of probable responses.	
13. Subscribe to a credit monitoring service to obtain a free credit report.	T or F
14. Consumers denied credit can ask why their application was refused.	T or F
15. The Consumer Financial Protection Bureau calculates a consumer's credit score.	T or F
16. Submitting a payment more than 30 days late has no effect on a credit score.	T or F

The ABCs of Credit Reporting: Pre/post assessment

True/false questions	Answers
17. Prospective employers must ask for written permission to view your credit report.	T or F
18. Financial risk is the probability of financial loss.	T or F
19. One way to maintain good credit is to apply for a variety of credit cards.	T or F
20. A “credit inquiry” is a request to receive an explanation of denied credit.	T or F

Short essay question	Answers
21. More than 70 percent of purchases in the United States are made by using one of the four types of credit. List the four types and give an example or definition for each.	

Reflection (discussion)	Answers
22. What’s the most interesting or important thing you learned from The ABCs of Credit Reporting?	

The ABCs of Credit Reporting: Alphabet activity

Handout 3

Directions: Using your knowledge of credit and credit reporting, create the ABCs of credit reporting. Use one credit reporting vocabulary word and definition or a related fact for each letter below. Omit the letters Q and X.

A –	I –	R –
B –	J –	S –
C –	K –	T –
D –	L –	U –
E –	M –	V –
F –	N –	W –
G –	O –	Y –
H –	P –	Z –

The ABCs of Credit Reporting:
PowerPoint scorecard
Handout 4

Directions: As you view the PowerPoint presentation, write the letter(s) that correspond with the correct answer(s) for each question. Each correct answer is worth two points. No points will be deducted for incorrect answers.

1.	6.	11.	16.	21.
2.	7.	12.	17.	22.
3.	8.	13.	18.	23.
4.	9.	14.	19.	Score:
5.	10.	15.	20.	

Reflection: Explain three concepts about credit reporting that are important for teenagers to understand.

1.

2.

3.

The ABCs of Credit Reporting:

Sort it out — What's in your credit report?

Handout 5

Directions: The Fair Credit Reporting Act (FCRA) clearly outlines what is and is not allowed to be included in a credit report. Check the appropriate box — Include or Exclude — for the 24 items listed below.

	Include	Exclude
1. Social Security number		
2. Medical history		
3. Credit score		
4. Lifestyle preference		
5. Recent credit activity		
6. Credit accounts and balances		
7. Phone number		
8. Household income		
9. Legal names and aliases		
10. Library fines		
11. Names of those who have obtained your credit report		
12. On-time rental payments		
13. Speeding tickets		
14. Record of student loan repayment		
15. Spouse's credit history		
16. Net worth		
17. Debt referred for collection		
18. Employers, current and previous		
19. Ethnicity		
20. Credit limits on accounts		
21. Parking tickets		
22. Political and religious preferences		
23. All public criminal records		
24. Debt owed through the courts		

The ABCs of Credit Reporting: Sort it out — What's in your credit report?

Handout 5 activity

Directions: The Fair Credit Reporting Act (FCRA) clearly outlines what is and is not permitted in a credit report. Cut out the 24 cards and sort them into two boxes. Use the Include box for the information that can be in a credit report and the Exclude box for information that is not allowed.

Include

Exclude

Sort it out — What's in your credit report?

Social Security number	Medical history	Credit score
Lifestyle preference	Recent credit activity	Credit accounts and balances
Phone number	Household income	Legal names and aliases
Library fines	Names of those who have obtained your credit report	Debt owed though the courts

Sort it out — What's in your credit report?

On-time rental payments	Speeding tickets	Record of student loan repayment
Spouse's credit history	Net worth	Debt referred for collection
Employers, current and previous	Ethnicity	Credit limits on accounts
Political and religious preferences	All public criminal records	Parking tickets

The ABCs of Credit Reporting:
Course overview

Handout 6

Question	Possible answers	Notes
It's a fact: More than 70 percent of purchases in the United States are made with credit. There are four types of credit: revolving, charge cards, installment and service credit. **Notes:** Review the types of credit if they are unfamiliar to participants. • **Revolving credit —** A credit agreement that allows the consumer to pay all or part of the outstanding balance on an account each month. Carrying part of the balance from one month to the next is called "revolving. • **Charge card —** A credit account that must be paid in full each billing cycle; local businesses often offer customers the ability to charge and pay monthly. • **Service credit —** A credit agreement to pay after you receive a service; examples include cell phone service, utilities or medical treatment. • **Installment credit —** A contract for the loan of a specified amount.		
1. What is true about credit?	a. Credit is borrowing money to pay for goods and services. b. Credit carries an agreement to pay later. c. The average consumer uses four bankcards.	
It's a fact: When a consumer applies for credit, the credit grantor usually contacts a credit reporting agency.		
2. What is a credit reporting agency (CRA)?	a. A business that sells information to a credit bureau. b. A federal agency that regulates consumer loans. c. A company that gathers, stores and sells information to potential credit grantors.	
It's a fact: There are three major credit reporting agencies: Experian, Equifax and TransUnion.		
3. A credit report is:	a. A record of an individual's borrowing and debt repayment habits. b. Important in the process of securing credit. c. Public, not private, information	

Question	Possible answers	Notes
4. Information in a credit report includes:	a. Medical history and all criminal convictions. b. Name, Social Security number and birth date. c. Some public records and employment history.	
It's a fact: The Fair Credit Reporting Act (FCRA) outlines what can and cannot be included in a credit report.		
5. What else is true about credit reports?	a. Credit bureaus use them to make credit granting decisions. b. They serve as your credit references. c. They contain a variety of credit scores.	
6. Information that is not included in a credit report:	a. Ethnicity and religious preference. b. Speeding and parking tickets. c. Public records related to financial obligations.	
It's a fact: A request to view your credit report is called a credit inquiry.		
7. Who has access to a credit report? Examples include:	a. Telephone, cell phone and utility companies. b. Only those who have written permission. c. Creditors and insurers.	
It's a fact: Prospective employers may ask to view your credit report to determine if you would be a reliable employee.		
8. Why is my credit report important?	a. It includes your final credit score. b. Negative information stays on your report for 15 years. c. It helps potential creditors assess creditworthiness.	
9. A credit score is a number:	a. To help lenders and others predict risk. b. That indicates debt-to-asset ratio. c. Calculated by a standardized formula.	

The ABCs of Credit Reporting: Course overview

Question	Possible answers	Notes
10. Who calculates a credit score?	a. The Consumer Financial Protection Bureau (CFPB). b. Individual lenders and credit reporting agencies. c. Collection agencies.	
It's a fact: Many people don't know that their credit scores are not part of their credit history and that scores don't appear as part of their credit report.		
11. Possible consequences of a poor credit score include:	a. Lower interest rate on a savings account. b. Difficulty renting an apartment. c. Denied employment.	
12. Possible consequences of a good credit score include:	a. Lower interest rate on loans and credit cards. b. Reduced insurance premiums. c. Fewer installment payments.	
It's a fact: Late payments are called delinquencies. Default is the total failure to pay a debt.		
13. Submitting a payment more than 30 days late:	a. Has no effect on credit because of the grace period. b. Will result in a delinquency that remains on your credit report up to seven years. c. May cause your credit score to drop.	
It's a fact: Financial mistakes can have long-term consequences. Negative information stays on your credit report for seven to 10 years.		
14. How can you improve a poor credit score?	a. Hire a credit repair service. b. Close all existing credit accounts and start over. c. File Chapter 13 bankruptcy.	
It's a fact: OK, that last question was tricky, but credit repair services are, too. There is nothing that a credit repair company can do for you that you can't do yourself for free!		
15. Maintain good credit by:	a. Paying bills on time. b. Opening a variety of credit accounts. c. Using credit cards responsibly.	

The ABCs of Credit Reporting: Course overview

Question	Possible answers	Notes
16. How does utilization affect my credit score?	a. High utilization helps a credit score. b. Low utilization hurts a credit score. c. Low utilization helps a credit score.	
It's a fact: Utilization measures how much available credit is being used. If the balances on credit accounts are low, it shows that you are using credit responsibly, which helps your credit score.		
17. What are some ways to build a credit history?	a. Opening and maintaining a checking and/or savings account. b. Paying rent on time. c. Having one or two credit cards and paying the balance in full each month.	
It's a fact: Creditworthiness is the ability to receive approval for the use of credit you need or want.		
18. What is financial risk?	a. Taking chances. b. Having too many credit cards. c. The probability of financial loss.	
19. Legal reasons credit may be denied include:	a. Receiving public assistance. b. Having an income that's too low. c. Not being employed long enough.	
20. Consumers who are denied credit should:	a. Ask the creditor why their application was denied. b. Boycott the business on social media. c. Complain to the Better Business Bureau.	
It's a fact: The Fair Credit Reporting Act (FCRA) requires a creditor to give specific reasons if credit is denied.		
21. Why is knowing about credit reporting important for teenagers?	a. A credit report is required for college financial aid. b. It affects your financial future. c. A credit report can reveal identity theft.	

The ABCs of Credit Reporting: Course overview

Question	Possible answers	Notes
It's a fact: With some exceptions, most teenagers don't have a credit report.		
22. It is a good idea to check your credit report:	a. At least once every 12 months. b. Before making a major purchase. c. Once a month.	
23. What is the process for obtaining a free credit report?	a. Subscribe to a credit monitoring service. b. Request a report at www.annualcreditreport.com. c. Ask the Consumer Financial Protection Bureau (CFPB) to send a report.	

Discussion questions:

1. How can understanding credit reporting agencies and credit reports help you be a smarter consumer?

2. Why is it easier to spend money than to save money?

3. How are finances like a soccer game?

4. Thomas Jefferson said, "Never spend your money before you have it." Is that realistic financial advice today?

5. Balki Bartokomous (from the '80s sitcom *Perfect Strangers*) said, "I am in debt. I am a true American." What do you think about this quote?

6. What do you think most teenagers understand about the responsibility of using of credit wisely? Explain your answer.

7. How is a credit report similar to a report card? How is it different?

8. To "get" credit you have to have "had" credit. How is this problematic for most young adults?

The ABCs of Credit Reporting:
Credit reporting vocabulary worksheet
Answer key: Handout 1

Key term	Definition
Credit bureau/credit reporting agency (CRA)	A for-profit company that collects, stores and distributes information about your payment habits.
Credit limit	The maximum dollar amount you can borrow, or the maximum an account can show as an outstanding balance.
Credit report	A record of your information, including payment habits, as reported by your creditors to a credit reporting agency. It serves as a financial reference when you apply for credit or other services.
Credit score	A financial number — a "grade" — that indicates how likely you are to repay debt and make payments on time.
Creditworthiness	Your ability to borrow money and get approval when you apply for credit.
Default	The failure to meet a financial obligation.
Delinquent	Account past due — a missed payment to a creditor.
Equal Credit Opportunity Act (ECOA)	Federal legislation prohibiting creditors from discriminating against applicants on the basis of sex, marital status, race, color, religion, age and/or receipt of public assistance.
Fair Credit Reporting Act (FCRA)	Federal legislation governing the actions of credit reporting agencies, which also protects the privacy of information contained in credit reports.
Inquiry	A record of a request by a business, a potential lender or another entity with a legal purpose to review your credit report.
Installment credit (closed)	A contract for a loan of a specified amount. The contract details the purchase amount, the total finance charge and the amount of each payment.
Revolving credit (open)	A credit agreement that allows you to pay all or part of the outstanding balance on a loan or credit card each month. As the balance is paid off, credit becomes available to use again.
Secured credit	A loan for which you have pledged some form of collateral, such as a house or an automobile.
Service credit	An agreement to pay after you receive a service. Examples include cell phone service or utilities.
Utilization	The ratio of your credit card balances to your credit limit. Lower balances help credit scores. High balances hurt credit scores.

The ABCs of Credit Reporting:
Pre/post assessment
Answer key: Handout 2

Short answer questions	Answers
1. Which of the following do not have access to your credit report without written permission? • Employers. • Auto lenders. • Credit card issuers. • Collection agencies.	Employers
2. An algorithm that measures credit risk is also called a ____.	Credit score
3. How often can consumers access a free copy of their credit report?	Once a year (from each CRA)
4. The ratio of credit card balances to credit limits is called ____.	Utilization
5. How long does data about debt repayment stay in a credit report?	7 to 10 years
6. Which of the following is not part of a credit report? • Creditors. • Payment history. • Credit scores. • Credit limits.	Credit scores
7. Opening and maintaining a credit account and/or repaying a small loan are ways to ____.	Build credit history
8. Which, if any, of the following can be considered in a credit scoring system? • Race. • Marital status. • National origin. • Age.	None of the above
9. List two advantages of a good credit score.	**Possible answers:** • Lower interest rates on loans and credit cards. • It's easier to obtain credit. • Lower insurance rates.

The ABCs of Credit Reporting: Pre/post assessment

Short answer questions	Answers
10. List two disadvantages of a poor credit history.	**Possible answers:** • Difficulty getting credit. • Higher interest rates on loans and credit cards. • Higher insurance rates. • Difficulty renting an apartment. • Could be denied employment.
11. Chris defaulted on a cable television bill, service was discontinued and the bill went to collection. What possible credit reporting consequences might this have?	**Possible answers:** • Lowered credit score. • Stays on credit report for seven years. • Shows lack of responsibility. • Makes it difficult to get additional credit in the future.
12. Which of the following is not a valid reason to deny credit? • Not enough time on the job. • Receiving public assistance. • A low income. • Late payments.	Receiving public assistance

True/false questions	Answers
Directions: If the statement is true, circle **T**, then move to the next question. If the statement is false, circle **F** and rewrite the incorrect portion to make it factual and true. **Sample false question response:** T or F — There are 27 hours in a day. Inadequate response — There are not 27 hours in a day. Adequate response — There are 24 hours in a day. **Note:** Answers may vary; answers given are examples of probable responses.	
13. Subscribe to a credit monitoring service to obtain a free credit report.	T or F — Request a free credit report from AnnualCreditReport.com; credit monitoring services charge for access for credit scores and reports.
14. Consumers denied credit can ask why their application was refused.	T or F
15. The Consumer Financial Protection Bureau calculates a consumer's credit score.	T or F — **Credit scores are calculated by (possible answers)**: • Lenders. • Credit reporting agencies. • Businesses such as FICO.
16. Submitting a payment more than 30 days late has no effect on a credit score.	T or F — **Possible answers:** • A late payment can stay on a credit report for seven years. • A late payment could lower a credit score.

The ABCs of Credit Reporting: Pre/post assessment

True/false questions	Answers
17. Prospective employers must ask for written permission to view your credit report.	T or F
18. Financial risk is the probability of financial loss.	T or F
19. One way to maintain good credit is to apply for a variety of credit cards.	T or F — **To maintain good credit (possible answers)**: • Pay bills on time. • Use credit responsibly. • Keep balances low on credit cards.
20. A "credit inquiry" is a request to receive an explanation of denied credit.	T or F — **Possible answer:** • A "credit inquiry" is a request by a potential lender to view your credit report.

Short essay question	Answers
21. More than 70 percent of purchases in the United States are made by using one of the four types of credit. List the four types and give an example or definition for each.	• **Revolving (open) credit:** – Examples: Bank cards, business credit cards. – Definition: Consumers can charge up to the limit and do not need to pay the full balance at the end of the billing cycle. • **Charge cards:** – Example: Diner's Club, American Express. – Definition: Balance must be paid in full each billing cycle. • **Installment (closed) credit:** – Examples: Car loan, mortgage, student loan. – Definition: A predetermined monthly payment to reduce balance in a predetermined time period. • **Service credit:** – Examples: Utilities, cell phone. – Definition: Services are performed before payment.

Reflection (discussion)	Answers
22. What's the most interesting or important thing you learned from The ABCs of Credit Reporting?	Answers will vary.

The ABCs of Credit Reporting: Alphabet activity

L3

Answer key: Handout 3

Directions: Using your knowledge of credit and credit reporting, create the ABCs of credit reporting. Use one credit reporting vocabulary word and definition or a related fact for each letter below. Omit the letters Q and X.

A — **Applying** for credit will trigger a credit inquiry.

B — **Borrowing** and repaying a small loan is one way to build credit history.

C — A **credit reporting agency (CRA)** gathers, stores and sells data to potential creditors.

D — **Delinquent** is being past due on a debt payment, while default is the total failure to pay.

E — Prospective **employers** may ask to check your credit report.

F — **Free** credit reports are available to consumers once every twelve months from each of the three CRAs.

G — A credit score is a "**grade**" that indicates how likely a consumer is to repay debts on time.

H — Your payment **history** is a major component of your credit report.

I — The Fair Credit Reporting Act outlines what can and can't be **included** in a credit report.

J — **Joint** account holders are responsible for the repayment of debt.

K — **Know** that your credit history will affect your financial future for many years.

L — **Landlords** often ask for a credit report to determine if a potential tenant is financially responsible.

M — **Many** people don't know that their credit score is not part of their credit report.

N — **Negative** information can stay on your credit report for 7 to 10 years.

O — A payment **only** 30 days late can negatively affect your credit score.

P — **Personal** information such as date of birth, Social Security number and past employers are listed in credit reports.

R — Paying your **rent** on time is one way to build credit.

S — Your credit **score** is not included in your credit report.

T — Most **teenagers** don't have a credit report.

U — **Using** credit wisely is part of becoming a financially responsible adult.

V — It's **very** important to understand how a credit report can affect your future.

W — An employer or landlord requires your **written** permission to access your credit report.

Y — **You** have the right to know why you are denied credit.

Z — **Zero** medical history can be included in a credit report. However, collection accounts for past due medical debts may appear.

The ABCs of Credit Reporting:
PowerPoint scorecard

Answer key: Handout 4

Directions: As you view the PowerPoint presentation, write the letter(s) that correspond with the correct answer(s) for each question. Each correct answer is worth two points. No points will be deducted for incorrect answers.

1. A and B	**6.** A and B	**11.** B	**16.** C	**21.** B and C
2. C	**7.** A and C	**12.** A and B	**17.** B and C	**22.** A and B
3. A and B	**8.** C	**13.** B and C	**18.** C	**23.** B
4. B and C	**9.** A	**14.** No correct answer listed	**19.** B and C	**Score:** Possible: 46.
5. B	**10.** B	**15.** A and C	**20.** A	

Reflection: Explain three concepts about credit reporting that are important for teenagers to understand.

1. Answers will vary

2. Answers will vary

3. Answers will vary

L5

The ABCs of Credit Reporting:

Sort it out — What's in your credit report?

Answer key: Handout 5

Directions: The Fair Credit Reporting Act (FCRA) clearly outlines what is and is not allowed to be included in a credit report. Check the appropriate box — Include or Exclude — for the 24 items listed below.

	Include	Exclude
1. Social Security number	√	
2. Medical history		√
3. Credit score		√
4. Lifestyle preference		√
5. Recent credit activity	√	
6. Credit accounts and balances	√	
7. Phone number	√	
8. Household income		√
9. Legal names and aliases	√	
10. Library fines		√
11. Names of those who have obtained your credit report	√	
12. On-time rental payments	√	
13. Speeding tickets		√
14. Record of student loan repayment	√	
15. Spouse's credit history		√
16. Net worth		√
17. Debt referred for collection	√	
18. Employers, current and previous	√	
19. Ethnicity		√
20. Credit limits on accounts	√	
21. Parking tickets		√
22. Political and religious preferences		√
23. All public criminal records		√
24. Debt owed through the courts	√	

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The ABCs of Credit Reporting:
Course overview and presenter notes
Answer key: Handout 6

Stem	Answer(s) + distracters	Notes
It's a fact: More than 70 percent of purchases in the United States are made with credit. There are four types of credit: revolving, charge cards, installment and service credit. **Notes:** Review the types of credit if they are unfamiliar to participants. • **Revolving credit —** A credit agreement that allows the consumer to pay all or part of the outstanding balance on an account each month. Carrying part of the balance from one month to the next is called "revolving. • **Charge card —** A credit account that must be paid in full each billing cycle; local businesses often offer customers the ability to charge and pay monthly. • **Service credit —** A credit agreement to pay after you receive a service; examples include cell phone service, utilities or medical treatment. • **Installment credit —** A contract for the loan of a specified amount.		
1. What is true about credit?	a. Credit is borrowing money to pay for goods and services. b. Credit carries an agreement to pay later. c. The average consumer uses four bankcards.	Credit is borrowing money to pay for goods and services at a later date. A legal contract specifies your responsibility for repaying the debt, including any interest and fees you owe in addition to the principle amount of the loan. While the average consumer has only two bankcards, it's also true that the average graduate from a four-year college or university borrows almost $30,000 for school-related expenses.
It's a fact: When a consumer applies for credit, the credit grantor usually contacts a credit reporting agency.		
2. What is a credit reporting agency (CRA)?	a. A business that sells information to a credit bureau. b. A federal agency that regulates consumer loans. c. A company that gathers, stores and sells information to potential credit grantors.	"Credit reporting agency (CRA)" and "credit bureau" are just different names for the same business.
It's a fact: There are three major credit reporting agencies: Experian, Equifax and TransUnion.		
3. A credit report is:	a. A record of an individual's borrowing and debt repayment habits. b. Important in the process of securing credit. c. Public, not private, information	A credit report shows a record of a person's debt repayment and borrowing habits. It's an important part of the process of securing credit. But not just anyone can get your credit report. Federal law strictly governs who can access a credit report and how it's used. The Consumer Financial Protection Bureau (CFPB) supervises credit reporting agencies.

The ABCs of Credit Reporting: Course overview and presenter notes

Stem	**Answer(s)** + distracters	Notes
4. Information in a credit report includes:	a. Medical history and all criminal convictions. b. Name, Social Security number and birth date. c. Some public records and employment history.	Your credit report only includes information about the debts you owe, along with identifying information, inquiries, certain public records and a list of employers that have been reported to the credit bureau. Medical history and criminal records are not part of a credit report.
It's a fact: The Fair Credit Reporting Act (FCRA) outlines what can and cannot be included in a credit report.		
5. What else is true about credit reports?	a. Credit bureaus use them to make credit granting decisions. b. They serve as your credit references. c. They contain a variety of credit scores.	Credit reports provide a reference for lenders and other businesses to make decisions. Credit bureaus don't make credit granting decisions. Credit scores aren't part of a credit report. They are a separate tool used to analyze the information from a credit report to identify credit risk.
6. Information that is not included in a credit report:	a. Ethnicity and religious preference. b. Speeding and parking tickets. c. Public records related to financial obligations.	Credit reports don't include information about ethnicity or religious preference or fines for things like parking tickets and speeding tickets. But if you haven't paid your taxes, a tax lien could be added to your credit report.
It's a fact: A request to view your credit report is called a credit inquiry.		
7. Who has access to a credit report? Examples include:	a. Telephone, cell phone and utility companies. b. Only those who have written permission. c. Creditors and insurers.	Telephone, cellular phone and utility services are financial agreements, and the application process might include reviewing your credit report. And landlords often ask for a credit report to determine if a potential tenant is financially responsible. Creditors are the most common users of credit reports, but insurance companies might also review your credit history. Anyone who requests to view your credit report must have permissible purpose under the law.
It's a fact: Prospective employers may ask to view your credit report to determine if you would be a reliable employee.		
8. Why is my credit report important?	a. It includes your final credit score. b. Negative information stays on your report for 15 years. c. It helps potential creditors assess creditworthiness.	A good credit report tells potential creditors that you will repay a debt with them as agreed. It shows you are a good credit risk, which will help you get credit when you need it and save you money by lowering the interest rates and fees you have to pay.
9. A credit score is a number:	a. To help lenders and others predict risk. b. That indicates debt-to-asset ratio. c. Calculated by a standardized formula.	Credit scores help lenders analyze the information in your credit report to predict the risk that you won't repay them as agreed. There are hundreds of different models used to calculate credit scores. Credit reports and credit scores are a bit like school papers and the grades the teacher gives you for your work.

Stem	Answer(s) + distracters	Notes
10. Who calculates a credit score?	a. The Consumer Financial Protection Bureau (CFPB). b. Individual lenders and credit reporting agencies. c. Collection agencies.	Credit scores may be calculated in several ways. The credit bureaus might route a credit report through a scoring system when the report is requested, or the lender may calculate a score after getting the credit report. There are two most well-known companies that create the credit score formulas — FICO and VantageScore.®
It's a fact: Many people don't know that their credit scores are not part of their credit history and that scores don't appear as part of their credit report.		
11. Possible consequences of a poor credit score include:	a. Lower interest on a savings account. b. Difficulty renting an apartment. c. Denied employment.	Poor credit scores indicate a greater chance that a person will default on their payments. That means it may be harder to rent an apartment.
12. Possible consequences of a good credit score include:	a. Lower interest rate on loans and credit cards. b. Reduced insurance premiums. c. Fewer installment payments.	Good credit scores show that you will repay your debt as agreed. That means you may get lower interest rates on loans or credit cards, and you may qualify for lower monthly insurance premiums. You'll still have to make payments for the same amount of months, though.
It's a fact: Late payments are called delinquencies. Default is the total failure to pay a debt.		
13. Submitting a payment more than 30 days late:	a. Has no effect on credit because of the grace period. b. Will result in a delinquency that remains on your credit report up to seven years. c. May cause your credit score to drop.	A late payment is reported only after a full billing cycle is missed, which is usually 30 days. The late payment will be shown as a delinquency, and it will remain on your credit report for seven years. Payment history is the most important factor in credit scores. If payment is made before the 30-day period ends, it might not appear in your credit report because it was made during the "grace period." But you might still have to pay late fees to the lender, and your lender could also increase your interest rate.
It's a fact: Financial mistakes can have long-term consequences. Negative information stays on your credit report for seven to 10 years.		
14. How can you improve a poor credit score?	a. Hire a credit repair service. b. Close all existing credit accounts and start over. c. File Chapter 13 bankruptcy.	**No correct answer listed.** Generally, negative but accurate information can't be removed from a credit report. To improve your credit score you need to catch up on late payments, reduce your credit balances and always pay on time.
It's a fact: OK, that last question was tricky, but credit repair services are, too. There is nothing that a credit repair company can do for you that you can't do yourself for free!		
15. Maintain good credit by:	a. Paying bills on time. b. Opening a variety of credit accounts. c. Using credit cards responsibly.	Remember, it takes time to establish good credit.

Stem	Answer(s) + distracters	Notes
16. How does utilization affect my credit score?	a. High utilization helps a credit score. b. Low utilization hurts a credit score. c. Low utilization helps a credit score.	Utilization is a term used to describe your credit card balance-to-limit ratio. When your balance is high compared to your credit limits, it's a strong sign of credit risk. You never want to have a utilization rate higher than 30 percent, and the lower you keep your utilization, the better. Paying the balance in full each month is the best thing you can do.
It's a fact: Utilization measures how much available credit is being used. If the balances on credit accounts are low, it shows that you are using credit responsibly, which helps your credit score.		
17. What are some ways to build a credit history?	a. Opening and maintaining a checking and/or savings account. b. Paying rent on time. c. Having one or two credit cards and paying the balance in full each month.	Your credit report only shows information about the debts you owe, so opening a savings or checking account doesn't help you build credit. Your landlord can report your rent payments, which will help build credit. Having one or two credit cards, making small purchases and then paying the balance in full each month is another good way to build credit. You can also apply for and repay a small loan from your financial institution.
It's a fact: Creditworthiness is the ability to receive approval for the use of credit you need or want.		
18. What is financial risk?	a. Taking chances. b. Having too many credit cards. c. The probability of financial loss.	A person who is a high financial risk has more difficulty obtaining credit, and it may have a higher cost.
19. Legal reasons credit may be denied include:	a. Receiving public assistance. b. Having an income that's too low. c. Not being employed long enough.	While not part of a credit report, lenders must ensure that you have the ability to repay a debt, so they typically ask for your income as part of the application process.
20. Consumers who are denied credit should:	a. Ask the creditor why their application was denied. b. Boycott the business on social media. c. Complain to the Better Business Bureau.	Creditors decide whether to approve your application, so you need to ask them why you were declined. If your application is declined, they are required to provide a "declination notice" that explains why that decision was made.
It's a fact: The Fair Credit Reporting Act (FCRA) requires a creditor to give specific reasons if credit is denied.		
21. Why is knowing about credit reporting important for teenagers?	a. A credit report is required for college financial aid. b. It affects your financial future. c. A credit report can reveal identity theft.	A credit report is a long-term financial record. It's important to realize that today's financial decisions can affect your future. Evidence of identity theft also could appear in the credit report, helping you take action to prevent fraud.

Stem	**Answer(s)** + distracters	Notes
It's a fact: With some exceptions, most teenagers don't have a credit report.		
22. It is a good idea to check your credit report:	a. At least once every 12 months. b. Before making a major purchase. c. Once a month.	You should check your credit report at least once every 12 months. You're entitled to a free report once a year under federal law. You won't have a credit report until credit is issued in your name. You also should check your report several months before applying for a major purchase. You need to review your credit report to make sure it's accurate and that you haven't been a victim of identity theft.
23. What is the process for obtaining a free credit report?	a. Subscribe to a credit monitoring service. b. Request a report at www.annualcreditreport.com. c. Ask the Consumer Financial Protection Bureau (CFPB) to send a report.	Federal law requires each of the three nationwide consumer credit reporting companies — Equifax, Experian and TransUnion — to give you a free credit report every 12 months if you ask for it. You can do so at www.annualcreditreport.com.

Discussion questions:

1. How can understanding credit reporting agencies and credit reports help you be a smarter consumer?
2. Why is it easier to spend money than to save money?
3. How are finances like a soccer game?
4. Thomas Jefferson said, "Never spend your money before you have it." Is that realistic financial advice today?
5. Balki Bartokomous (from the '80s sitcom *Perfect Strangers*) said, "I am in debt. I am a true American." What do you think about this quote?
6. What do you think most teenagers understand about the responsibility of using of credit wisely? Explain your answer.
7. How is a credit report similar to a report card? How is it different?
8. To "get" credit you have to have "had" credit. How is this problematic for most young adults?

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