

Lesson 6: Credit Reports—and You Thought Your Report Card Was Important

Standards and Benchmarks (see page C-15)

Lesson Description

Students read informational text and discuss the advantages and disadvantages of using credit and the importance of maintaining a good credit history. Students read a scenario about a young person's use of a credit card and answer questions regarding repayment. Students learn about credit history, credit reports, and the three credit bureaus. Students read a scenario and write an essay addressing the key points of the lesson.

Grade Level

6-12

Concepts

Credit
Creditor
Credit cards
Credit history
Credit report
Interest
Interest rate

Objectives

- Students will
- define credit and creditor,
 - define interest and interest rate,
 - compare the advantages and disadvantages of using credit,
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- identify the three credit bureaus,
- explain the importance of maintaining a good credit history, and
- identify features on a credit report.

Time Required

60-75 minutes

Materials

- Visual 6.1
- Visual 6.1, one copy for each student (optional)
- Visual 6.2
- Visual 6.2, one copy for each student (optional)
- Visual 6.3
- Handout 6.1, one copy for each student
- Handout 6.2, one copy for each student

Procedure

1. Begin the lesson by asking the following question:
 - How would you obtain goods or services if you did not have any money?
(Answers will vary but may include borrowing from family or friends, saving, or using a credit card.)
2. Explain that in today's lesson students will analyze the advantages and disadvantages of using **credit** and possible future effects of using credit.
3. Distribute *Handout 6.1: Facts About Credit* to each student. Divide students into pairs. Instruct the pairs to work together to read the handout and answer the questions at the bottom. Discuss students' answers:
 - a. What is credit? (*Credit is the granting of money or something else of value in exchange for a promise of future repayment.*)
 - b. What are some advantages of using credit? (*Buying and using things now while paying for them in the future, buying more expensive items you could not afford to pay for all at once; in the case of credit cards: convenience, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, being able to spend in an emergency, and possibly receiving perks from your credit card company [e.g., cash back or travel rewards]*)

- c. What are some disadvantages of using credit? (*Spending money you don't have; ease of overextending yourself and buying more than you can afford; regarding loans—and credit cards if you do not pay the full balance each month: paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities*)
 - d. What is a **credit card**? (*A credit card is a convenient form of borrowing with a revolving line of credit. This means that the card can be used repeatedly to buy products or services, up to a specific dollar amount called a credit limit.*)
 - e. What is **credit history**? (*Credit history is a report of a person's payment activity over a period of time. A person's credit history is listed in a **credit report**.*)
 - f. Why is it important to maintain a good credit history? (*A good credit history makes it easier for you to obtain credit in the future. Generally, those with a good credit history are able to pay lower **interest rates** for credit. Also, your credit history can affect your ability to rent a house or apartment or get a job.*)
 - g. How do **creditors** determine a person's credit history? (*Creditors pay a fee to one of the three credit bureaus to receive that person's credit report.*)
 - h. What are the three credit bureaus? (*Experian, TransUnion, and Equifax*)
 - i. How can you check your credit reports? (*You can request a free copy of your credit report from each credit bureau annually.*)
 - j. Why is it a good idea to check your credit reports each year? (*To correct errors and to identify any fraudulent activities*)
4. Display *Visual 6.1: Credit Costs*. Have a student read the paragraph and then discuss the following:
- What interest rate was Katarina charged for using the credit card? (*21 percent*)
 - Point out that an interest rate is the percentage of the amount of a loan that is charged for the loan.
 - Once Katarina pays off the sound system, how much **interest** will she have paid? (*\$197.00 [$\$697.00 - \$500.00 = \197.00]*)
 - What could Katarina have done to reduce the amount of interest she paid? (*Answers will vary but may include that she could have paid more than the minimum payment each month or obtained a lower interest rate.*)
 - Point out that if Katarina had paid only \$10 more each month, she would have made only 31 payments and would have spent only \$605 for the \$500 sound system.
 - How might missing a payment affect Katarina's ability to get credit in the future? (*Creditors look at credit history, so not paying bills on time could negatively affect Katarina's ability to get credit in the future.*)

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5. Display *Visual 6.2: Consumer Credit Report* and (if desired) distribute a copy to each student. Discuss the following:
- Section “A” of the credit report contains information about the consumer, including name, address, and employment.
 - Section “B” contains information about each credit account in the consumer’s name, including the name of each creditor. A creditor is a person, financial institution, or business that lends money.
 - What are the credit accounts recorded on Mikhail’s credit report? (*Monster Music, Our Town Bank, and Sallie Mae*)
 - There are circles, squares, and triangles under each account. A solid triangle (▲) indicates a payment at least 30 days late. Two years ago Mikhail was at least 30 days late with his February and March payments for Monster Music.
 - What does an open square (□) indicate? (*Not applicable*)
 - Notice that all of the squares are blank under the Sallie Mae loan; it is a student loan, and Mikhail does not have to start repaying it until he finishes school.
 - What does a solid circle (●) indicate? (*A payment at least 60 days late*)
 - Has Mikhail been 60 days late with any payments? (*No*)
 - What does a solid square (■) indicate? (*A payment at least 90 days late*)
 - Notice that Mikhail has not been 90 days late with any payments either.
 - Section “C” contains a list of publicly available information about legal matters affecting the consumer’s credit. There is nothing listed here in Mikhail’s report. If he had filed for bankruptcy, that information would have appeared in section C.
 - Section “D” contains a list of creditors that have inquired about the consumer’s credit history. Creditors inquire about a consumer’s credit history before granting the consumer credit. Mikhail’s creditors are listed in this section.
 - A landlord will inquire about a consumer’s credit before renting that consumer an apartment or house. This inquiry would appear here, too.
 - An employer may inquire about a potential employee’s credit history. This inquiry would appear on the report as well.
 - It is also possible to see a creditor listed that did not grant credit but reviewed the credit report.
6. Display *Visual 6.3: Keys to a Solid Credit History (and Saving Money)*. Remind students that even they should be concerned about their individual credit histories. Discuss the following key principles and steps to establishing and maintaining a good credit history.
- **Establish a credit history.**
 - For example, open a bank account or purchase a cell phone contract.

- **Pay *all* your bills on time each month.**
 - Payments 30 days or more late will be noted on your credit reports.
 - You will avoid expensive late fees if you pay your bills on time.
- **Pay all your bills in full each month.**
 - The less you owe, the better your credit history will look to potential creditors.
 - You will avoid interest charges if you pay all your bills in full each month.
- **Don't open too many credit card accounts.**
 - Every credit card account you have appears on your credit reports.
 - Even if you don't use a credit account that appears on your credit reports, creditors will consider how much you could potentially spend if you used all of your accounts.
- **Monitor your credit card usage.**
 - Check your monthly credit card statements to make sure that you have not been charged for something you did not purchase. If you have, call the credit card company immediately. Your credit card—or at least your account number—may have been stolen.
 - Evaluate the interest you are charged each month (if you do not pay your credit cards in full each month) and create a plan so you can pay down your debt and then pay off your cards in full each month.
- **Check your credit reports each year.**
 - Request a free copy of your credit report from each of the three credit bureaus annually.
 - Clear up any inaccuracies on your credit reports.

Closure

7. Review the key points of the lesson by discussing the following:
- What is credit? (*Credit is the granting of money or something else of value in exchange for a promise of future repayment.*)
 - Who are creditors? (*Creditors are people, financial institutions, or businesses that lend money.*)
 - What is interest? (*Interest is the price of using someone else's money; it is the price of credit.*)
 - What are some of the advantages of using credit? (*Answers will vary but should include the following: convenience, buying and using things now while paying for them later, buying more expensive items you couldn't afford to pay for all at once, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, and possibly receiving perks from the credit card company [e.g., cash back or travel rewards].*)

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- What are some of the disadvantages of using credit? *(Answers will vary but should include the following: spending money you don't have; ease of overextending yourself and buying more than you can afford; if you do not pay your bill in full each month, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities)*
- Why is it best to pay your credit card balance in full every month? *(The less you owe, the better your credit history will look to potential creditors. You will avoid paying large amounts of interest.)*
- If you can't pay the entire balance each month, what should you do? *(You should make the largest payment possible to avoid larger interest payments.)*
- What is a credit history? *(A credit history is a record of a person's payment activity or behavior over a period of time.)*
- Why is it important to establish and maintain a good credit history? *(Your credit history affects many aspect of your life. A poor credit history results in higher interest and difficulty obtaining credit in the future. It can also prevent you from renting an apartment or even getting a job.)*
- What is a credit report? *(A credit report is a loan and bill payment history kept by a credit bureau.)*
- How are credit reports used by financial institutions and other potential creditors? *(They review credit reports of potential borrowers to determine the likelihood that a future debt will be repaid and may or may not grant credit.)*
- What is a credit bureau? *(A credit bureau is an organization that compiles credit information on individuals and makes it available to businesses for a fee.)*
- What are the three credit bureaus? *(Equifax, Experian, and TransUnion)*

Assessment

8. Distribute a copy *Handout 6.2: Credit Assessment* to each student. Review the directions and allow time for students to work. Use *Handout 6.2: Credit Assessment—Answer Key* to review students' work.

Visual 6.1: Credit Costs

Katarina Smavern is 18 and wants a new sound system that costs \$500. She doesn't have that much money saved. Her friend tells her, though, about a credit card promotion at a local electronics store. Katarina heads to the store and opens an account—she can buy the sound system and take it home with her that day. She is so excited that she doesn't give much thought to the 21 percent interest rate. "I have a job now," she thinks to herself, "So, I'll be able to pay this off in no time. The interest rate doesn't really matter because the minimum monthly payment isn't very much." Katarina buys the sound system, takes it home, and pays only the minimum payment due each month.

Credit card summary for sound system purchased on January 24, 2014

Month 1	
Initial credit card balance	\$500.00
Minimum payment due	-\$25.00*
Interest charged (grace period)	0
Month 2	
Credit card balance	\$475.00
Minimum payment due	-\$23.75*
Interest charged: $21\% \times (\$475/12) =$	+\$8.31
Month 3	
Credit card balance	\$459.56
Minimum payment due	-\$22.98*
Interest charged: $21\% \times (\$459.56/12) =$	+\$8.04
3-month overview	
Credit card balance at the end of three months	\$444.62
Amount repaid: $\$25.00 + \$23.75 + \$22.98 =$	\$71.73
Amount by which debt was reduced: $\$500.00 - \$444.62 =$	\$55.38
Amount paid to credit card company in interest charges: $\$8.31 + \$8.04 =$	\$16.35
*As the balance owed on the credit card changes, the minimum monthly payment changes. In this case, the balance is becoming slightly smaller, so the minimum monthly payment is slightly less.	

If Katarina continues to make only the minimum monthly payments, she will have to make 52 payments and spend \$697.

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Visual 6.3: Keys to a Solid Credit History (and Saving Money)

- **Establish a credit history.**
 - For example, open a bank account or purchase a cell phone contract.
- **Pay *all* your bills on time each month.**
 - Payments 30 days or more late will be noted on your credit reports.
 - You will avoid expensive late fees if you pay your bills on time.
- **Pay all your bills in full each month.**
 - The less you owe, the better your credit history will look to potential creditors.
 - You will avoid interest charges if you pay all your bills in full each month.
- **Don't open too many credit card accounts.**
 - Every credit card account you have appears on your credit reports.
 - Even if you don't use a credit account that appears on your credit reports, creditors will consider how much you could potentially spend if you used all of your accounts.
- **Monitor your credit card usage.**
 - Check your monthly credit card statements to make sure that you have not been charged for something you did not purchase. If you have, call the credit card company immediately. Your credit card—or at least your account number—may have been stolen.
 - Evaluate the interest you are charged each month (if you do not pay your credit cards in full each month) and create a plan so you can pay down your debt and then pay off your cards in full each month.
- **Check your credit reports each year.**
 - Request a free copy of your credit report from each of the three credit bureaus annually.
 - Clear up any inaccuracies on your credit reports.

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Handout 6.1: Facts About Credit (page 1 of 3)

Directions: Read the handout and answer the questions that follow.

Credit is the granting of money or something else of value in exchange for a promise of future repayment. Credit is not free. People pay a price for using credit—interest. Interest is the price of using credit—that is, the price of using someone else’s money. Interest is an expense for the borrower and income for the lender. Usually, borrowers pay a given interest rate—that is, the percent of the amount of the loan that will be charged as interest. In addition to paying interest, borrowers may also pay fees for using credit. Fees may be charged to service and maintain credit accounts and if a loan payment is late.

There are advantages and disadvantages of using all types of credit. As stated, one advantage of credit is the opportunity to buy and use things now while paying for them later. In addition, you can buy things you might not be able to afford if you had to pay for them all at once—for example, a car or a house. In the case of credit cards, advantages include convenience, not having to carry cash, being able to pay for things in an emergency, ease of tracking your expenses, and possibly receiving perks from your credit card company, such as cash back or travel rewards. Disadvantages of credit include spending money you don’t have; the ease of overextending and buying more than you can realistically afford; giving up things in the future to pay for things you bought in the past; and if you don’t pay your bills in full each month, paying more for things than you would if you paid cash. If you pay off your credit cards each month, you don’t have to pay interest; but if you don’t, the interest charges are fairly high. When you use credit cards, it can be easier for someone to steal your identity.

Credit cards are a frequently used type of credit. They represent an agreement between a lender—the institution issuing the card—and the cardholder. A credit card offers a convenient form of borrowing with a revolving line of credit. This means that the card can be used repeatedly to buy products and services up to a specific dollar amount called a credit limit. The credit card company determines the credit limit based on a credit cardholder’s credit history. Credit cardholders must pay a minimum amount of the card balance each month to avoid fees.

Banks, credit unions, savings and loans, retail stores, and other businesses issue credit cards. You may have even received an application for a credit card. It is common for students graduating from high school or starting college to receive credit card applications in the mail. It is important to understand some basic information about using credit cards and credit in general so that you use credit wisely and maintain a strong credit history. A credit history is a report of a person’s payment activity over a period of time.

A person’s credit history is listed in a credit report. A credit report is similar to a school transcript. Your school transcript is a report that shows whether you completed high school, college, and so forth and how well you performed. Your education and your performance could affect your ability to move into other programs or jobs. Similarly, throughout your life a credit report will record your credit history and will be even more important than your school transcript.

Handout 6.2: Credit Assessment

Directions: Read the following paragraph and write an essay addressing the following points:

- the advantages and disadvantages of using credit cards,
- why a credit card isn't "free money," and
- the importance of reviewing your credit reports annually.

Your friend Todd is a college student. Last week when Todd was at the mall, a credit card company was distributing credit card applications. Everyone who completed an application received a T-shirt and a Frisbee. Todd completed the credit card application and collected the freebies. He is excited because he thinks that he will have "free money"—he'll be able to buy whatever he wants whenever he wants and won't have to worry about paying for it right away. Todd's roommate told Todd to get a copy of his credit reports and review them. Todd doesn't know what a credit report is. He comments to you, "I'm already getting credit. Why do I need to look at some reports?"

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Handout 6.3: Credit Assessment—Answer Key

	Below Basic	Basic	Proficient	Advanced
Advantages of credit	One advantage noted	Two advantages noted	Three advantages noted with some explanation	Three or more advantages noted with thorough explanations and relevant examples
<i>Advantages: convenience, buying and using things now while paying for them later, buying more expensive items you couldn't afford to pay for all at once, not having to carry cash, being able to pay for things in an emergency, having your expenditures tracked, and possibly receiving perks from the credit card company (e.g., cash back or travel rewards)</i>				
Disadvantages of credit	One disadvantage noted	Two disadvantages noted	Three disadvantages noted with some explanation	Three or more disadvantages noted with thorough explanations and relevant examples
<i>Disadvantages: spending money you don't have; ease of overextending yourself and buying more than you can afford; if you do not pay in full each month, paying more than you would if you paid cash; having a greater likelihood of identity theft; and if you use credit poorly, the inability to get future credit or the loss of opportunities</i>				
Why a credit card isn't "free money"	One cost of credit noted	Two costs of credit noted	Three costs of credit noted with some explanation	Three costs of credit noted with thorough explanations and relevant examples
<i>Costs of credit: interest payments, fees if you don't pay on time, and the inability to buy something in the future</i>				
Importance of reviewing your credit reports	The purpose of a credit report noted	One reason for maintaining good credit reports noted	Two reasons for maintaining good credit reports noted with rationale of their importance	Two or more reasons for maintaining good credit reports noted and explanation of the need to check your credit reports annually
<i>Importance of reviewing your credit report: A credit report shows your payment history. Bad credit reports could prevent you from getting future credit, renting an apartment, or getting a job. Errors can occur on a credit report, so it is important to check for errors and have them corrected. You can flag or prevent identity theft by looking at your credit reports. You can see how much total credit you have open on your credit reports. An annual check of your credit reports can help you maintain a good credit report (if you have a good payment history).</i>				

Standards and Benchmarks

National Standards in Personal Finance

Financial Responsibility and Decision Making Overall Competency: Apply reliable information and systematic decision making to personal financial decisions.

Standard 1: Take responsibility for personal financial decisions.

- **Expectation 1, 8th Grade:** Identify ways to be a financially responsible young adult.

Standard 2: Find and evaluate financial information from a variety of sources.

- **Expectation 1, 12th Grade:** Determine whether financial information is objective, accurate, and current.

Standard 4: Make financial decisions by systematically considering alternatives and consequences.

- **Expectation 3, 8th Grade:** Evaluate the results of a financial decision.
- **Expectation 6, 12th Grade:** Give examples of how decisions made today can affect future opportunities.

Credit and Debt Overall Competency: Maintain creditworthiness, borrow at favorable terms, and manage debt.

Standard 1: Identify the costs and benefits of various types of credit.

- **Expectation 4, 8th Grade:** Give examples of “easy access” credit.
- **Expectation 6, 8th Grade:** Discuss potential consequences of using “easy access” credit.

Standard 2: Explain the purpose of a credit record and identify borrowers’ credit report rights.

- **Expectation 4, 12th Grade:** Identify organizations that maintain consumer credit records.
- **Expectation 7, 12th Grade:** Discuss ways that a negative credit report can affect a consumer’s financial future.

Standard 3: Describe ways to avoid or correct credit problems.

- **Expectation 2, 12th Grade:** List actions that a consumer could take to reduce or better manage excessive debt.

Common Core State Standards: Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

History/Social Studies

- **Key Ideas and Details**

CCSS.ELA-Literacy.RH.6-8.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary of the source distinct from prior knowledge or opinions.

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CCSS.ELA-Literacy.RH.9-10.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.

CCSS.ELA-Literacy.RH.11-12.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

- **Craft and Structure**

CCSS.ELA-Literacy.RH.6-8.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary specific to domains related to history/social studies.

CCSS.ELA-Literacy.RH.9-10.4: Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.

- **Integration of Knowledge and Ideas**

CCSS.ELA-Literacy.RH.6-8.7: Integrate visual information (e.g., in charts, graphs, photographs, videos, or maps) with other information in print and digital texts.

CCSS.ELA-Literacy.RH.9-10.7: Integrate quantitative or technical analysis (e.g., charts, research data) with qualitative analysis in print or digital text.

Writing

- **Text Types and Purposes**

CCSS.ELA-Literacy.WHST.6-8.1: Write arguments focused on *discipline-specific content*.

CCSS.ELA-Literacy.WHST.9-10.2: Write informative/explanatory texts, including the narration of historical events, scientific procedures/experiments, or technical processes.

CCSS.ELA-Literacy.WHST.11-12.1: Write arguments focused on *discipline-specific content*.

CCSS.ELA-Literacy.WHST.11-12.1.A: Introduce precise, knowledgeable claim(s), establish the significance of the claim(s), distinguish the claim(s) from alternate or opposing claims, and create an organization that logically sequences the claim(s), counterclaims, reasons, and evidence.

CCSS.ELA-Literacy.WHST.11-12.1.B: Develop claim(s) and counterclaims fairly and thoroughly, supplying the most relevant data and evidence for each while pointing out the strengths and limitations of both claim(s) and counterclaims in a discipline-appropriate form that anticipates the audience's knowledge level, concerns, values, and possible biases.

CCSS.ELA-Literacy.WHST.11-12.1.C: Use words, phrases, and clauses as well as varied syntax to link the major sections of the text, create cohesion, and clarify the relationships between claim(s) and reasons, between reasons and evidence, and between claim(s) and counterclaims.

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CCSS.ELA-Literacy.WHST.11-12.1D: Establish and maintain a formal style and objective tone while attending to the norms and conventions of the discipline in which they are writing.

CCSS.ELA-Literacy.WHST.11-12.1.E: Provide a concluding statement or section that follows from or supports the argument presented.

- **Production and Distribution of Writing**

CCSS.ELA-Literacy.WHST.6-8.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

CCSS.ELA-Literacy.WHST.9-10.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

CCSS.ELA-Literacy.WHST.11-12.4: Produce clear and coherent writing in which the development, organization, and style are appropriate to task, purpose, and audience.

- **Research to Build and Present Knowledge**

CCSS.ELA-Literacy.WHST.6-8.9: Draw evidence from informational texts to support analysis, reflection, and research.

CCSS.ELA-Literacy.WHST.9-10.9: Draw evidence from informational texts to support analysis, reflection, and research.

CCSS.ELA-Literacy.WHST.11-12.9: Draw evidence from informational texts to support analysis, reflection, and research.

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