Credit Scores & Credit Building

Overview

This lesson will provide students an overview of what information is included in their credit report, and how that impacts their credit score. Students will learn how certain monetary actions impact their credit score and how that score affects their ability to acquire credit and other resources. How to obtain free copies of credit reports is also detailed.

Student will also learn steps they can take to build credit to meet short- term and long-term financial goals.

Learning Outcomes

- Know what is on a credit report
- Know how to request your free annual credit reports
- Know the difference between a credit report and a credit score
- Learn steps to build credit

Materials

- Computer with internet access
- Overhead projector, screen, speakers
- Evaluations
- Prezi Presentation: http://prezi.com/kw9f_bpx5sh0/?utm_campaign=share&utm_medium=copy

Timing

60 min

SESSION AT A GLANCE

Time	Segment	Description
5 minutes	Welcome & Introduction	Facilitator greets participants as they arrive, introduces him/herself, and states purpose of session.
10 minutes	Money Story Money Stats Money Talk	Facilitator shares the following: a personal financial story related to credit scores or building credit and recent statistics about credit. Finally, have students discuss what credit is and how one could build credit.
10 minutes	What is credit? Four Types of Credit	Facilitator defines credit and the four types of credit.
5 – 10 minutes	Why does credit matter? Optional Video	Facilitator explains why credit is important and how impacts individuals ability to gain financial stability and opportunities.
10 - 15 minutes	Credit Score and credit reports	Facilitator show what a good credit score is and what information is on a credit report
5 minutes	Account History Public Records Inquiries	Facilitator shares how negative account activity can impact your credit and how long it stays on your credit report.
5 minutes	Building Credit	Facilitator will share steps to helping build credit
5 minutes	Questions/ Evaluations	Facilitator led Q & A. Distribute/ collect presentation evaluations.

FACILITATOR NOTES

<table>
<tr><td>
</td><td>

Welcome

Introduce self

Overview & Lesson Outcomes: Review the outline for the class and desired outcomes
</td></tr>
<tr><td>
</td><td>

Money Talk - Discussion Questions:

1. What is credit?
2. How do you build credit?

Facilitation Options

<table>
<tr><td></td><td>

Writing: Student will respond to the answer on paper.
</td></tr>
<tr><td></td><td>

Discussion: Students can partner or meet in groups to discuss the answers.
</td></tr>
</table>
</td></tr>
<tr><td>
</td><td>

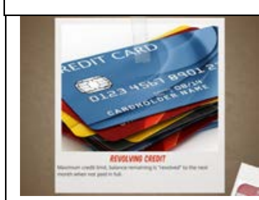
What is credit?

Credit is borrowed money that you can use to purchase goods and services when you need them, and pay for them later.

When you receive credit from a credit grantor, like a credit card company, you agree to pay back the amount you spent, plus any finance charges, at an agreed-upon time.
</td></tr>
<tr><td></td><td>

The Four Types of Credit

Credit is a blanket term used to reference any borrowed money. However, there are four types of credit. Can you name all four?

The four types of credit are: revolving credit, charge cards, service credit and installment credits.
</td></tr>
<tr><td>
</td><td>

Revolving Credit

With revolving credit, you are given a maximum credit limit, and you can make charges up to that limit. Each month, you carry a balance (or revolve the debt) and make a payment. Most credit cards are a form of revolving credit.
</td></tr>
</table>

Charge Cards

While they often look like revolving credit cards and are used in the same way, charge accounts differ in that you must pay the total balance every month. Diners Club issued the first charge card in 1950, and today American Express is virtually the only charge card. To be eligible for a charge card, you typically have to have a very good to excellent credit score. One advantage over credit cards, is that since the balance must be paid off in full each month, it is harder to accumulate a large credit card debt.

Service Credit

Agreements with service providers are all credit arrangements. You receive electricity, cell phone service, and other services with the agreement that you will pay for them each month. Service accounts can show up on your credit report, although not all do.

Installment Credit

With installment credit, a creditor loans you a specific amount of money, and you agree to repay the money and interest in regular installments of a fixed amount over a set period of time. Car loans and mortgages are two examples of installment credit.

Why Does Credit Matter?

Your creditworthiness is defined by your three-digit credit score and is the key to your financial life. In its simplest terms, this number represents your ability and likelihood to repay debts. Credit grantors review credit applications and credit reports to determine financial risk: If they lend you money, extend you credit or give you goods and services, will you pay them back? Your credit score impacts your ability to receive credit from lenders. Credit scores have an impact many things, not just your ability to get loans.

Your credit score impacts your ability to receive a loans, like a car or school loan, or a mortgage. It also impacts your ability to rent an apartment or house, and may even impact decisions made by potential employers! Because it impacts so many things, it is important to work to maintain or achieve a good credit score.

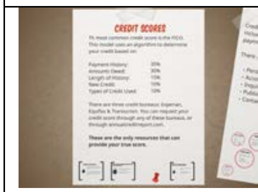
Video : How to Build Better Credit - Optional

http://youtu.be/DhzyFyu0tig

Video Time: 6:16 minutes

Credit Scores & Credit Reports

Credit scores and credit reports are two different things.



Credit Scores

The most common credit score is the FICO - a score created by the Fair Isaac Corporation. This model uses an algorithm to determine your credit based on the following components and ratios:

Payment History: 35%

Amounts Owed: 30%

Length of History: 15%

New Credit: 10%

Types of Credit Used: 10%

There are three credit bureaus: Experian, Equifax & Transunion. You can request your credit score for a fee, usually about $15, through any of these bureaus, or through annualcreditreport.com. These are the only resources that can provide your true score.

Payments & Debt Matter

Payment history and total amount owed have the biggest impact on your credit - 65% of your score is calculated using only these two factors!

This is why making payments on time and working to reduce debt are the best ways to increase your credit score.

Why is the score I obtained different from the score from the bank? The three bureaus use slightly different algorithms to determine your credit score. Lenders, such as the bank, may also access your credit using other items not calculated by the 3 bureaus, or may not include certain factors included in the bureau score.

What's important to remember is your score is just a number, and can fluctuate daily. Don't get bogged down worrying about a number, just make efforts to achieve better credit standing by making payments on time and working to eliminate debt.

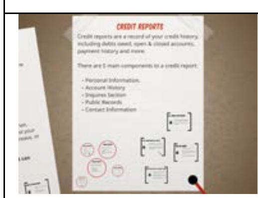
What is a Good Score?

Credit scores range from 300 to 850.

Range	Score	Meaning…
Subprime (Poor)	300-600	No access or unfavorable rates and terms
Non-Prime (Fair)	601 – 660	Reasonable or good rates and terms
Prime (Good)	660 – 780	Better rates and terms
Super Prime (Excellent)	780+	Best rates and terms

Scores above a 660 are considered good credit, with the national average score being 692. Note scores may vary from one credit bureau to the next. This is due to the fact that not all lending companies report your financial activity to all credit bureaus.

Note: There is no one score and ranges are not static, but depend on the lender/business as well as overall consumer performances at any given time.



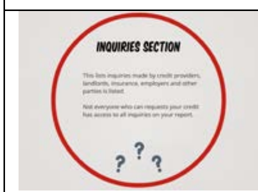
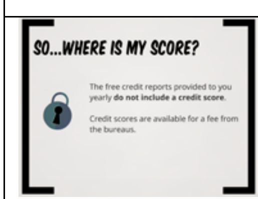
Credit Reports

Credit reports are a record of your credit history, including debts owed, open & closed accounts, payment history and more. Your credit report is updated when new information on your accounts is sent to the bureau. Most information is sent on a monthly basis to the bureaus.

There are 5 main components to a credit report:

- Personal Information.
- Account History
- Inquires Section
- Public Records
- Contact Information

Handout:
Sample Credit Report – Distribute and review as you explain the main components of a credit report.

	**Personal Information** This section lists your personal information. • Name • Birth date • Social security information • Phone number • Address • Previous addresses & phone numbers
	**Account History** This section is split into two section - positive accounts and negative accounts. This section lists all types of credit accounts that you have, or may have had in the past. It lists both open and closed accounts, as well as payment history and your standing with the creditor.
	**Inquiries Section** This lists inquiries made by credit providers, landlords, insurance, employers and other parties is listed. Anyone who requests your credit report can see inquiries made as applications for credit or store cards, mortgages, auto loans, general loans and tenant screening. Only you can see requests for your own credit, inquiries made by companies you already have an account with, and promotional offers - an example is credit card companies who send a pre-approved credit card application in the mail.
	**Public Records** This section includes information from government sources and can include: • Liens against property • Bankruptcies • Overdue payments for child support • Accounts in which the creditor has sued the debtor in court
	**Contact Information** This brief section lets you know how to get in touch with the credit bureau in case of errors in the report.
	**So…where is my score?** The free credit reports provided to you yearly do not include a credit score. Credit scores are available for a fee from the bureaus, but generally aren't needed if you do not have plans to apply for credit in the near future.

Wait! Something's not right!

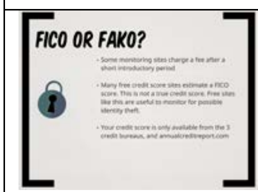
If you notice any errors, including errors in personal information, dispute the errors with the credit bureaus and have the errors corrected.

A sample dispute letter is provided as a resource within the Financial Success Series Module.

Check your reports at least once yearly

Even though the free credit reports don't include a score, at least not for free, it is important to check your reports at least once yearly to monitor for identity theft and to correct any errors on your report.

Some experts recommend staggering your requests - request a credit report from a different bureau approximately every 4 months. If you are planning to apply for a large credit, such as a mortgage, it is a good idea to check all 3 credit reports about a year before you apply in order to fix any problem areas in your credit and to dispute and correct any errors found in your report.



FICO or FAKO?

Be aware of companies that claim to offer free credit reports - they often charge a fee after a short introductory rate and do not provide accurate scores.

Many free credit score sites, like Credit Karma, claim to provide a free credit score. However, this is not a FICO score, but an estimate. These scores are often called FAKO scores - fake scores. Free sites like this are useful to monitor for possible identity theft.

Your credit score is only available from the 3 credit bureaus, and annualcreditreport.com.

Account History

Negative marks remain on your credit report and impact your score for 7 years. Good marks for closed accounts will remain on your report for as long as the items are reported to the credit bureaus.

This includes information on:

- If the account is open or closed
- When it opened
- When it closed

If payments were made on time

Inquiries Section

Inquiries remain on your credit report for 2 years. Some inquiries can be viewed by anyone who requests a copy of your credit report. On the other hand, certain inquiries can only be seen by you – these inquiries are not requests to open new credit accounts.

Inquiries that anyone who runs your credit can see are applications for:

- Credit or store cards
- Mortgages
- Car Loans
- General loans
- Tenant Screening

Inquiries that only you can see:

- Requests for your own credit report
- Inquiries by companies you already have an account with (account reviews)

Promotional offers – companies evaluating you with the idea of possibly offering you credit. An example is the pre-approved credit cards you receive in the mail.

Public Records

Public records remain on your credit report for at least 7 years, but can remain 10 years or even indefinitely. A public record is a legal document that is issued by the county, state or federal government, and is typically viewable to the public. Examples of public records include bankruptcies, court judgments, tax liens, foreclosures, past due child support and wage garnishment.

Since only financial information is reported to credit bureaus, criminal activity cannot appear as a public record on your credit report.

Adverse public records, such as bankruptcies, judgments and tax liens, can be recorded on your credit report and can negatively affect your credit score. Even if a payment has been made, having a public record on your credit report can still impact your credit score. Only time will lessen the impact of a public record on your credit. Typically, they'll remain on your credit report for seven years. However, bankruptcies can remain on your report for up to ten years, and an unpaid tax lien will remain on your credit indefinitely.

How do you build credit?

The key to building credit is having on-time payments that are reported to all credit bureaus every month.

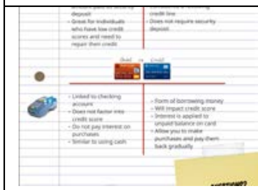
Steps to Building Credit

1. **Set Financial Goal:** It's important to set short-term and long-term financial goals to help guide your financial behavior and better understand the types of services or resources you may need to meet your goals
2. **Know your credit score:** It's important to review your credit report and know your score to help you understand your current financial situation. **Tip:** Pulling your report and score at least 6 months before hand can give you the time needed to build credit or update and correct information.
   a. **1 in 5 consumers have errors on their credit reports and 10 million of consumers have errors serious enough that they could result in less favorable loan terms.**
3. **Find building credit resources:** If you have no credit or a low credit score, not to worry, there are lots of financial services within your community that can help you begin building your credit. Places to look include:
   - **Banks/Credit Unions –** offer small-dollar secure and unsecured financial products; Ex. Express Credit Union, Northwest Baptist FCU
   - **Non-profit/Community Lenders –** provide specific programs for those with challenged credit; Ex. Ventures
   - **Rental Payment Reporting –** Property Managers or a third party payment processor can submit your rental payment information to the credit bureaus
4. **Deal with Debt:** It's important not to run away from your debt but plan the best way to tackle them.
   - Get anything that's delinquent back on track before it goes into collections
   - Decrease revolving credit utilization rates
     - Pay off highest interest rates
     - Pay off smallest balances
   - Continue to pay down installment debt
5. **Leverage Success:** Celebrate when you begin hitting milestones and also continue to see now your improved score can help you increase your financial stability and open you new opportunities.

All about the plastic

There are two types of credit cards - secured and unsecured cards. Unsecured cards are more common - they are revolving credit accounts and do not require a collateral payment.

Secured cards are similar to a debit account; your limit on the card is equal to the amount you pay as a security deposit. This money is held as collateral if you do not pay your debt. You are still charged interest rates on your purchases. If you have a low credit score and have had trouble being accepted for an unsecured credit card, this may be a good way to repair your credit



So credit and debit, is there a difference?

A debit card is a card linked to a checking account. You are only able to spend what money you have in your checking account. Debit cards do not factor into your credit score. You also do not pay interest on purchases made with a debit card. It is very similar to paying for items with cash, only without having to carry around cash.

Credit cards, both secured and unsecured, will have an impact on your credit score. If purchases are not paid off in full each month, interest rate charges are applied to the unpaid balance on the card. Credit cards allow the convenience of making a purchase and paying for it gradually, however it will end up costing more in the long run due to interest charges.

Avoiding Common Credit Card Pit Falls

- Payment history has the largest impact on credit scores, and credit cards offer an opportunity each month to have payment information reported to the bureau. Paying on time each month will have a positive impact on your credit.
- Keep credit utilization low - experts recommend no more than 30% overall as well as 30% on each credit card account
- Pay more than the minimum payment. You will save money in interest charges and pay off balances sooner. Reducing debt is one way to decrease credit utilization, which increases credit scores.
- Be aware of your interest rate. If you carry a balance each month, you are being charged an interest rate. This can quickly add up. The best way to avoid interest rate charges is to pay of your credit card in full each month. Consider calling your credit card company to see if they can reduce your interest rate – but be sure that if they will reduce your credit limit that a hard inquiry will not go onto your credit report.
- The best way to reduce debt is to avoid increasing debt. One trick is to treat credit card accounts like a debit account – don't spend money that you don't have in your checking account. This will help you avoid getting into debt, while boosting your credit score, assuming you make payments on time each month and keep your credit utilization low.

Be aware of rewards programs – make sure the rewards programs are worth the program fee. If you don't use your credit card often, paying the extra fee for small rewards may not be worth it.

<table>
<tr><td>
</td><td colspan="2">Resources</td></tr>
<tr><td rowspan="2">
</td><td colspan="2">Questions?</td></tr>
<tr><td></td><td>Discussion:

What have you learned that you could teach other students to help them become financially savvy adults?

What would you like to learn more about and was there anything that was not clear?</td></tr>
</table>