

Build Credit—Understanding Credit Reports & Scores

Lesson Overview

Description

Students will begin this lesson by brainstorming similar characteristics between a grade-point average (GPA) and a credit score. Following this activity, students will receive an overview of credit scores, credit reports and the information potential lenders, landlords and employers might look at to determine a person's creditworthiness. They will then explore the elements of a credit report, the importance of checking your credit report, how to access your credit report and how to build credit. Students will review a sample credit report and identify the different sections within it. They will also discuss how character, capacity and collateral can impact a credit rating and the ability to obtain credit. Students will conclude the lesson by creating a public service announcement (PSA) video on credit scores or reports.

Standards

- [National Standard in K-12 Personal Finance Education](#)
- [Texas State Social Studies Standards](#)
- [Texas State CTE Standards](#)

Instructional Objectives

- Distinguish between a credit report and credit score.
- Describe the importance of monitoring credit reports.
- Describe how to access and interpret a sample credit report and score.
- Describe how to build credit.
- Discuss how character, capacity and collateral can impact a credit rating and the ability to obtain credit.

Time Required

- One 90-minute class period.
- Two 45-minute class periods.

Materials Required

- PDF slides
- Copies of Handout 1: Guided Notes
- Copies of Handout 2: Personal Credit Report
- Copies of Assessment 1: Public Service Announcement Video

Lesson Procedures

1. **Display slide 1.** Tell students the topic of this lesson is understanding credit reports and credit scores.
2. **Display slide 2.** Review the instructional objectives for the lesson.
3. **Display slide 3.** Have students brainstorm answers to the question: “Are there similar characteristics between a grade-point average (GPA) and a credit score?”

Classroom response strategy:

- Have students record their responses in their guided notes and share with the class. This question is intended to gauge students’ prior knowledge of credit scores. It is OK if they do not know the answer.
4. **Display slides 4–7.** Ask students to share what score they think is better. When you display the answers, explain to students that credit scores are like GPAs. The higher the score, the better.
 - Answers:
 - Cheyenne’s GPA of 3.8 is better.
 - Luis’ credit score of 750 is better.
 5. **Display slides 8–9.** Explain to students that GPAs and credit scores have another similar characteristic. They both represent one piece of information about a person.
 - A GPA is one piece of information colleges use to determine admissions. Colleges can also consider: courses taken, test scores, achievements, extracurricular activities in and out of school, essays, auditions and admissions interviews.
 - A credit score is one piece of information lenders look at to determine a borrower’s ability and willingness to repay a loan. Other considerations can include: information found in a credit report and the borrowers’ occupation, income, expenses, assets, payment history, length of employment and potential collateral.

Suggested questions for student discussion:

- Ask students if they were to lend money or rent housing to someone, what information would they like to know about the individual. Answers will vary but might include: how well do they know the person, the quality of their character and their ability to repay.
- Ask students if they have friends or family members to whom they would feel comfortable or uncomfortable lending money? What information do they know about these individuals that would characterize their response?

Classroom response strategy:

- Have students add the similar characteristics between credit scores and GPAs to their guided notes.

6. **Display slides 10–11.** Review the definition of a credit score.

- **Credit score** is a number that predicts the likelihood that a debt will be repaid on time.

Classroom response strategies:

- Have students fill in the blanks in their guided notes on credit score.

7. **Display slides 12–13.** Use the graphics to explain credit score ranges and what information in your credit report is used to calculate your score.

- Credit scores are used to determine the creditworthiness of an individual.
- Credit scores range from 350 to 850.
- Tell students that a tech company called Fair Isaac Corp. (FICO) created a credit-scoring algorithm to calculate standardized FICO credit scores.
- The FICO score is the most widely used type of credit score. However, each company, lender and credit reporting agency (Equifax, Experian and TransUnion) can use its own statistical model to determine their score.

Classroom response strategy:

- Ask students what category is weighted most in credit scores. Answer: payment history.

8. **Display slide 14.** Tell students that lenders also look at additional information such as credit report, capacity, character and collateral when determining a borrower's creditworthiness. Explain that it is difficult to pay cash for your car, home and college education, so these are typically bought using credit.

- It is important to have a plan to build and maintain a good credit history.

Suggested question for student discussion:

- Ask students if they were to lend their money to a stranger, what additional information would they like to know about the borrower. Examples will vary but might include: job, income, debts and monthly expenses.

9. **Display slides 15–19.** Review credit report.

- Explain to students that credit scores, which were explained in the previous slides, are derived from information contained within the credit report.
- A **credit report** shows your bill payment history, current debt and other financial information.
- A credit report that includes late payments, delinquencies or defaults will result in a low credit score and could cause an individual to pay higher interest rates or be declined credit altogether.
- Credit reports include information reported to credit agencies. Credit reporting agencies collect and maintain information in your credit reports.
- Each agency manages its own records and might not have the information about all your accounts. Even though there are differences between each credit report, no agency is more important than another.
- Credit reports do not include your credit score. However, the longer your credit history, the more favorable the impact will be on your credit score.
- It's important to check your credit reports regularly to make sure that your personal and financial information is accurate.

Classroom response strategy:

- Have students describe the three ways credit reports are used (and the three credit reporting agencies) in their guided notes.

10. **Display slide 20.** Have students brainstorm answers to the question: “Do you have a credit report?” Ask students to share their thoughts with the class.

- After students have shared, tell them that not everyone has a credit report.

11. **Display slides 21–22.** Tell students a credit report is first created when you open a credit account for the first time and when the creditor reports that information to a credit bureau.

- If you have never opened any credit accounts, then you will not have a credit report.
- There can be instances of identity theft/fraud where a credit report could exist. Additional information regarding credit fraud and identify theft will be covered in slide 22.

12. **Display slide 23.** Review ways to build credit.

Secured credit card:

- You can open a secured credit card at a bank or credit union by paying a security deposit. The security deposit serves as collateral.
- The bank or credit union will then provide a credit card for the amount deposited in the bank.

- The security deposit must remain in an account at the bank.
- If consistent payments are made on time, credit records will improve over time.
- After you have used the secured credit card for a year or more, never maxing out your credit and always paying on time, the credit card provider will typically offer an unsecured card.

Credit-builder loan:

- A credit-builder loan isn't a traditional loan. When you apply for the loan, the money is saved in an account and the borrower makes fixed payments toward the loan.
- The money borrowers pay is not available until the loan term is up.
- When the loan is paid off, the lender will return the total balance.
- It is designed to help establish and build credit.

Retail store credit card:

- You can also open a retail credit card to build credit. Retail credit cards are also referred to as closed-loop cards—meaning they are only approved to be used at specific stores.
- To apply for a retail credit card or any other credit card, you must be at least 18 years old.

Classroom response strategy:

- Have students answer the following question in their guided notes. If you were ready to start building your credit, which of the mentioned options would you prefer and why?

13. Display slide 24. Distribute copies of Handout 2: Personal Credit Report.

- Use the information contained in the handout to guide students through the sections found in a credit report. After you have discussed the sections and students have had a chance to read the information in their handout, give them the opportunity to answer the questions on page 2.

14. Display slide 25. Review the importance of checking your credit report. Explain that a good credit history will result in getting the lowest interest rates for loans and other services.

- Remind students that it is important for them to check their free credit report annually. Even if they have never used credit, it is possible that they have been a victim of credit fraud or identity theft. This can happen if someone has taken credit out in their name or used their Social Security card without their knowledge.
- Review how to access a free credit report on annualcreditreport.com.
- Share with your students the following warnings from the website:
 - “Only one website is authorized to fill orders for the free annual credit report you are entitled to under law—annualcreditreport.com. Other websites that claim to offer ‘free credit reports,’ ‘free credit scores’ or ‘free credit monitoring’ are not part of the legally mandated free annual credit report program. In some cases, the ‘free’ product comes with strings attached. For example, some sites sign you up for a supposedly ‘free’ service that converts

to one you have to pay for after a trial period. If you don't cancel during the trial period, you may be unwittingly agreeing to let the company start charging fees to your credit card.”

- “Some ‘imposter’ sites use terms like ‘free report’ in their names; others have URLs that purposely misspell annualcreditreport.com in the hope that you will mistype the name of the official site. Some of these ‘imposter’ sites direct you to other sites that try to sell you something or collect your personal information.”
- “Annualcreditreport.com and the nationwide credit reporting companies will not send you an email asking for your personal information. If you get an email, see a pop-up ad or get a phone call from someone claiming to be from annualcreditreport.com or any of the three nationwide credit reporting companies, do not reply or click on any link in the message. It's probably a scam.”

Classroom response strategy:

- Have students write reasons why it is important to check your credit report in their guided notes.

15. **Display slides 26–27.** Review ways to improve your credit.

16. **Display slides 28–31.** Review character, capacity and collateral.

- Character is information that lenders gather about a borrower's willingness to repay a loan.
- Character information includes previous repayment history, how often and how much you borrow, and stability, such as length of time at your current employer or at your current address.
- Capacity is information that lenders gather about a borrower's ability to repay a loan. Questions about capacity will deal with earnings, monthly expenses or obligations or other debts that consume a borrower's income.
- Collateral is protection for lenders in the event they are not repaid. Collateral is real assets that a lender could collect to pay them back such as savings, property or other investments.

Classroom response strategy:

- Have students explain how character, capacity and collateral are used to determine a borrower's creditworthiness in their guided notes.

17. **Display slide 32.** Explain to students what cannot be used by creditors to approve credit.

- Tell students that lenders can ask you for this type of information in some situations, but they can't discourage you from applying for credit. They also can't reject your application for any of the reasons on the list—or for exercising your rights under certain consumer protection laws. Lenders are not allowed to charge higher costs, like a higher interest rate or higher fees, for these reasons either.

SOURCE: [Know Your Rights: Credit Discrimination Is Illegal \(consumerfinance.gov\)](https://www.consumerfinance.gov)

18. **Display slides 33–43.** Using the creditworthiness quiz, have students determine whether the statement would reflect positively or negatively on a person’s credit score.
19. **Display slides 44–46.** Review learning objectives with students.
20. **Distribute Assessment 1: Public Service Announcement Video.**
 - Have students create a public service announcement video and share/upload. If your students do not have access to technology, they can turn in their script using the template found in assessment 1.
21. **Additional Resources:**
 - The Federal Reserve Bank of Atlanta: [Infographic: Why Is Good Credit Important?](#)
 - Consumer Financial Protection Bureau: [Credit video.](#)
 - Consumer Financial Protection Bureau: [How Can I Improve My Credit Scores? video.](#)
 - Consumer Financial Protection Bureau: [Three Ways to Build Your Credit Score video.](#)
 - Federal Deposit Insurance Corp.: [Understanding Your Credit Score podcast.](#)



Lesson 8—Handout 1

Guided Notes

Lesson 8 Vocabulary

Credit score—A number that predicts the likelihood that a debt will be repaid on time.

Credit report—Shows your bill payment history, current debt and other financial information.

Secured credit card—Requires a cash deposit that becomes the credit line.

Credit-builder loan—A loan where the amount you borrow is held in an account while you make payments.

Retail store credit card—Offered by stores such as gas stations, retail chains and department stores.

Character—Information that lenders gather about a borrower’s willingness to repay a loan.

Capacity—Information lenders gather about a borrower’s ability to repay a loan.

Collateral—Protection for creditors in the event they are not repaid.

Brainstorm

Are there similar characteristics between grade-point average (GPA) and a credit score?



Lesson 8—Handout 1

Guided Notes (Cont.)

Fill in the blank

_____ is a number that predicts the likelihood that a debt will be repaid on time.

Define credit score in your own word

Describe the three ways credit reports are used.



Lesson 8—Handout 1

Guided Notes (Cont.)

You can get a free report at the official site **annualcreditreport.com**.

List the three credit reporting agencies below:

1.

2.

3.

You can start to build your credit by either using a secured credit card, a credit-builder loan or opening a retail store credit card. If you were ready to start building your credit, which would you prefer and why?

Why is it important to check your credit report?

Explain how character, capacity and collateral are used to determine a borrower's creditworthiness.



Lesson 8—Handout 2

Personal Credit Report

Personal Consumer Credit Report

Personal Identification Information

This section contains the person's name and address, along with the Social Security number and date of birth. It also shows the previous address and employment information.

Name Social Security #: 123-45-6789

1234 Any Street Date of Birth: 07/01/1992

Dallas, TX 75000

Previous Address Employer: ABC, Inc.

456 Other Rd. Location: Dallas, TX

Houston, TX 77000

This section contains publicly available information about legal matters related to credit. It includes bankruptcy history.

Public Record Information

None



Lesson 8—Handout 2

Personal Credit Report (Cont.)

This section lists information about each credit account opened in the person’s name. It identifies the lender and contains balance and payment information for the loan.

Credit Account Information

ABC Auto Finance Account Number: 123456789
 1000 Exchange Street Date Opened: 5/2017
 San Antonio, TX 78000 Loan Type: Installment–Auto

Balance	\$7,600
Credit limit/original amount	\$15,000
High balance	NA
Terms	60 months
Monthly payment	\$297
Past due	0

My Bank Account Number: 123456789
 5000 Main Street Date Opened: 8/2012
 El Paso, TX 79000 Loan Type: Revolving credit card

Balance	\$845
Credit limit/original amount	\$3,000
High balance	\$2,100
Terms	NA
Monthly payment	\$20
Past due	0



Lesson 8—Handout 2

Personal Credit Report (Cont.)

Gas Card of America Account Number: 123456789
 9999 Petroleum Street Date Opened: 2/2016
 Fort Worth, TX 76000 Loan Type: Revolving credit card

Balance	\$7,600
Credit limit/original amount	\$15,000
High balance	NA
Terms	60 months
Monthly payment	\$297
Past due	0

Account history:

60 days as of 6/2018

30 days as of 5/2018

Recent Credit Inquiries

01/2020 ABC Auto Finance
 10/2019 Department Store, Inc.
 8/2019 Home Loan Mortgage Company

This section lists information about anyone who has accessed this credit report.



Lesson 8—Handout 2

Personal Credit Report (Cont.)

1. What is the total credit limit on the two revolving credit card accounts?
2. What is the person's current debt?
3. Are there any accounts that are past due?



Lesson 8—Assessment 1

Public Service Announcement Video

Directions:

Choose one of the suggested topics and create a 30-to-60-second public service announcement video. Use the template below to research, create an outline and write a script for your video.

Topics:

- How to access your credit report.
- How to improve your credit score.
- Difference between credit report and credit score.
- Importance of monitoring credit reports.
- How to build credit.

Choose your topic: _____

Research the topic and write facts from your research below.

Who will be your audience?



Lesson 8—Assessment 1

Public Service Announcement Video (Cont.)

Create an outline for your video.

Write a script to use in your video.



Lesson 8—Handout 1

Guided Notes Answer Key

Fill in the blank

_____ **Credit score** _____ is a number that predicts the likelihood that a debt will be repaid on time.



Lesson 8—Handout 2

Personal Credit Report Answer Key

1. What is the total credit limit on the two revolving credit card accounts?

\$18,000

2. What is the person's current debt?

\$16,045

3. Are there any accounts that are past due?

No. There are no past due balances on any accounts.