

**Lesson Description**

This lesson teaches students why it is important to establish positive credit history; what information can be found on a credit report; how long negative information is retained on a credit report; and what is the value of credit reports to borrowers and to lenders. With understanding credit reports and how to establish credit, students will determine if certain actions have a positive or negative effect on one's credit. Students will review a sample credit report and highlight the items which will (positively or negatively) affect a person's credit. They will review the extent to which items affect credit and how to use this to their benefit. To evaluate students' understanding of how actions impact credit, they will complete a card sort activity.

**Texas Essential Knowledge and Skills (Target standards)**

- **PFL Math 6.14D:** explain why it is important to establish a positive credit history
- **PFL Math 6.14E:** describe the information in a credit report and how long it is retained
- **PFL Math 6.14F:** describe the value of credit reports to borrowers and to lenders

**Texas Essential Knowledge and Skills (Prerequisite standards)**

- **Math 6.1** Mathematical process standards

**National Standards (Supporting standards)**

- **CEE Using Credit 8.7:** Lenders charge different interest rates based on the risk of nonpayment by borrowers. The higher the risk of nonpayment, the higher the interest rate charged. The lower the risk of nonpayment, the lower the interest rate charged.

CCSS - Common Core State Standards

**PFL Terms**

- Credit Report
- Bankruptcy
- Credit Inquiry
- Collection Agency
- Debt

**Time Required**

Two 45-minute classes

**Materials Required**

- A copy of **Activity 6.3-1, Activity 6.3-2, Activity 6.3-3, and Activity 6.3-4** for each student
- 2 large index cards or 2 half sheets of paper for each student
- A pair of scissors for each student
- Glue or tape for pairs of students
- 1 yellow and 1 green highlighter for each student
- 1 sheet of blank paper

## Procedure

- Engage**
1. Distribute 2 large index cards or 2 half sheets of paper to each student. Ask students to write in large print “Positive” on one card and “Negative” on the other card. Explain to the students that when people apply for loans, the lender wants to make sure that the borrower will pay back the money. Say: *Pretend that you work as a loan officer at a credit union. You must decide whether to lend money to different borrowers based on his or her past actions. As each action statement is read, decide if the given information is a negative or positive action. Hold up the card that best describes the borrower’s action.* Read each of the following action statements. After each statement have students explain why they made this choice.
    - a. In the past 12 months, Mia has made 4 late payments on her credit card. **(Negative)**
    - b. Joaquin maintains a low balance on his credit cards. **(Positive)**
    - c. Joaquin has 4 credit cards owes money to each credit card company. **(Negative)**
    - d. Mia owes money on 5 loans. **(Negative)**
    - e. Mia has recently asked several friends for loans. **(Negative)**
    - f. Joaquin has one outstanding loan that is almost paid off. **(Positive)**
    - g. Joaquin pays all his bills on time. **(Positive)**
    - h. The oldest credit card Mia has is 5 months old. **(Positive)**
    - i. Joaquin has had the same credit card for 10 years. **(Positive)**
    - j. Mia has a civil judgment against her for \$800. This means that she owed \$800 for a service or good and did not pay this bill. Someone then took her to court to settle the issue. **(Negative)**
  2. Ask students who would you lend money to and why? **(Joaquin since he has less debt and has a history of paying his bills on time.)**
- Explain**
3. Display **Visual 6.3-1**. Tell students that today we are going to learn about credit reports. Then read and discuss **Visual 6.3-1**. For the first bullet on this visual, explain that the interest rate lenders will charge will depend on the credit report. The better the credit report, the lower the interest rate. Credit reports that are negative result in higher interest rates being charged which means the borrower is paying more money.
- Explore**
4. Distribute **Activity 6.3-1** to students as well as a green and a yellow highlighter per student.
  5. Tell students to highlight in green the items on the credit report which affect the person’s credit positively and highlight items in yellow which affect the person’s credit negatively.
  6. Prepare for a Chalkboard Splash by drawing a line down the center of the board. Write “negative” on one side of the line and “positive” on the other side of the line. (In a Chalkboard Splash, all students record their responses onto a chalkboard or whiteboard. After recording their responses, students are asked to analyze peer responses for three things: similarities, differences and surprises.)
- Explain**
7. After students analyze the credit report, instruct them to write the components of the credit report that may have a negative impact on the side of the board labeled

“negative.” Write components of the credit report that may have a positive impact on the side of the board that is labeled “positive.” Then have students analyze peer responses for similarities, differences, and surprises. **Key 6.3-1** has been provided to call attention to areas that may affect the credit score.

8. Discuss the student observations of similarities, differences, and surprises among the items on the credit report which affect (either positively or negatively) the person’s credit, including:
  - a. **Negative:** Civil Judgment, credit card balance sent to collection agency
  - b. **Positive:** Payments made on time for automobile loan

**Explain**

9. Distribute **Activity 6.3-2** to students and display as a visual. Lead a classroom discussion about credit reports using the facts listed on **Key 6.3-2**. As facts are read and discussed, have students use this graphic organizer to take notes about information included in credit reports.

**Elaborate**

10. Distribute **Activity 6.3-3** to students.
11. Tell students: *This activity enables you to compare the factors affecting credit. Study the circle graph, representing factors affecting credit and the weight of each, compared to the whole. Then, rank the items in the list, with 1 affecting credit the most and 5 affecting credit the least. Finally, provide an explanation as to why each rank was chosen.*
12. After students have completed the ranking activity, compare the responses using a show of hands. Ask the students: *Knowing that payment has the most effect on a person’s credit, what can you do to ensure this aspect is in your favor? (Pay bills on time.) Knowing that whether or not a person is taking on new debt has one of the least effects on credit, should you be concerned about this? Why? (Yes, any amount of effect on credit should be considered when making financial decisions.)*

**Evaluate/End**

13. To end the lesson, group students in pairs. Fold a blank sheet of paper along the longest line of symmetry to create two columns. Label one column “True” and the other column “False.” Distribute Activity 6.3-4 and scissors to each pair of students. Have student pairs cut out the cards. Then glue the true statements in the true column of the folded sheet of paper and the false statements in the false column. For students who need extra support, have them revisit the following website to find answers:  
<http://www.federalreserve.gov/creditreports/>.

**EXTENSIONS**

1. Students create a time line with situations including: taking out loans, establishing credit cards, defaulting on loans, and information removed from credit reports.
2. Students research the 3 major credit reporting agencies (Transunion, Equifax, and Experian) and the differences among them.

**Visual 6.3-1**

*The following is an excerpt from The Federal Reserve Bank: Credit Reports and Credit Scores*

**Why is a credit report important?**

Your credit report is important because lenders, insurers, employers, and others may obtain your credit report from credit bureaus to assess how you manage financial responsibilities. For example:

- Lenders may use your credit report information to decide whether you can get a loan and the terms you get for a loan.
- Insurance companies may use the information to decide whether you can get insurance and to set the rates you will pay.
- Employers may use your credit report, if you give them permission to do so, to decide whether to hire you.
- Telephone and utility companies may use information in your credit report to decide whether to provide services to you.
- Landlords may use the information to determine whether to rent an apartment to you.

Source: Board of Governors of the Federal Reserve System, <http://www.federalreserve.gov/creditreports/>

**Activity 6.3-1**

Name \_\_\_\_\_ Class Period \_\_\_\_\_

**Directions:** Review the sample credit report below. Highlight in green the items on the credit report which affect the person's credit positively and highlight items in yellow which affect the person's credit negatively.

Personal Information	
<b>Name:</b> Charles T. Borrower <b>Other Names:</b> Charlie Borrower <b>Report Number:</b> 12345678 <b>Report Date:</b> August 20, 2013	<b>SSN:</b> XXX-XX-1234 <b>Date of Birth:</b> 05/1987 <b>Telephone Number:</b> XXX-XXX-5678
<b>Current Address:</b> 321 North 4 <sup>th</sup> Street, New City, Texas 54321	<b>Previous Address:</b> 3004 Brazos Blvd, Austin, Texas 77887
<b>Employment Data Reported</b> <b>Employer Name:</b> Banking Systems <b>Location:</b> New City, Texas <b>Date Reported:</b> 10/2011 <b>Date Hired:</b> 09/2011  <b>Employer Name:</b> Financial Funding <b>Location:</b> New City, Texas <b>Date Reported:</b> 08/2008 <b>Date Hired:</b> 06/2008	

Public Records	
<b>New City Municipal Court:</b> Docket #1A234B	<b>Type:</b> Civil Judgment <b>Court Type:</b> Municipal <b>Date Paid:</b> 03/2008 <b>Assets:</b> \$2,500
<b>Court Address:</b> 100 North Masters Street, New City, Texas 54321	<b>Date Filed:</b> 01/2008 <b>Responsibility:</b> Participant on account <b>Plaintiff:</b> Bank of Austin <b>Amount:</b> \$2,500
<b>Estimated date this item will be removed from credit report:</b> 02/2015	

Adverse Accounts, Potentially Negative Items		
<b>Financial Collection Recovery File</b> #99999 <b>Address:</b> 400 Sacramento Blvd Lincoln, Nebraska 66576	<b>Balance:</b> \$0 <b>Date Verified:</b> 02/2009 <b>Original Balance:</b> \$500 <b>Original Creditor:</b> Target Corporation <b>Credit Limit:</b> \$1000 <b>Past Due:</b> \$0 <b>Terms:</b> \$85 for 30 months	<b>Pay Status:</b> Payment made after sent to collection agency <b>Account Type:</b> Installment account <b>Responsibility:</b> Individual account <b>Date opened:</b> 08/2008 <b>Date closed:</b> 01/2009 <b>Date paid:</b> 01/2009
<b>Remarks:</b> paid collection agency <b>Estimated date this item will be removed from credit report:</b> 02/2016		
<b>Bank Loans of America Account</b> #88888 <b>Address:</b> 215 Market Street Boston, Massachusetts 32334	<b>Date Verified:</b> 04/2011 <b>Original Balance:</b> \$10,200 <b>Current Balance:</b> \$9,900	<b>Pay Status:</b> 150 days past due <b>Account Type:</b> Revolving account <b>Responsibility:</b> Individual account

Estimated date this item will be removed from credit report: 04/2019

**Accounts in good standing, satisfactory accounts**

<b>Toyota Financing</b> Account #56564 <b>Address:</b> 650 Pershing Street Miami, Florida 23232  <b>Loan type:</b> Automobile	<b>Balance:</b> \$20,000 <b>Date Verified:</b> 01/2013 <b>Original Balance:</b> \$34,000 <b>Collateral:</b> 2010 Toyota 4Runner <b>Credit Limit:</b> \$30,000 <b>Past Due:</b> \$0 <b>Terms:</b> \$450 for 60 months	<b>Pay Status:</b> Pays as agreed <b>Account Type:</b> Installment account <b>Responsibility:</b> Individual account <b>Date opened:</b> 05/2010 <b>Date closed:</b> 01/2013 <b>Date paid:</b> 01/2013
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Estimated date this item will be removed from credit report: 01/2017

**Credit History Inquiries**

<b>Green Tree Apartments</b> <b>Address:</b> 100 Green Tree Circle, New City, Texas 54321	<b>Date requested:</b> 07/2008 <b>Inquiry type:</b> Individual	<b>Permissible purpose:</b> Tenant screening
<b>Noble Credit Card Services</b> <b>Address:</b> 772 Harper Road, Baton Rouge Louisiana 87887	<b>Date requested:</b> 03/2010 <b>Inquiry type:</b> Individual	<b>Permissible purpose:</b> Credit Transaction

**Key 6.3-1**

Name \_\_\_\_\_

Class Period \_\_\_\_\_

Sample key below. Highlighting may vary.

Personal Information	
<b>Name:</b> Charles T. Borrower <b>Other Names:</b> Charlie Borrower <b>Report Number:</b> 12345678 <b>Report Date:</b> August 20, 2013	<b>SSN:</b> XXX-XX-1234 <b>Date of Birth:</b> 05/1987 <b>Telephone Number:</b> XXX-XXX-5678
<b>Current Address:</b> 321 North 4 <sup>th</sup> Street, New City, Texas 54321	<b>Previous Address:</b> 3004 Brazos Blvd, Austin, Texas 77887
<b>Employment Data Reported</b> <b>Employer Name:</b> Banking Systems <b>Location:</b> New City, Texas <b>Date Reported:</b> 10/2011 <b>Date Hired:</b> 09/2011  <b>Employer Name:</b> Financial Funding <b>Location:</b> New City, Texas <b>Date Reported:</b> 08/2008 <b>Date Hired:</b> 06/2008	

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<b>Court Address:</b> 100 North Masters Street, New City, Texas 54321	<b>Date Filed:</b> 01/2008 <b>Responsibility:</b> Participant on account <b>Plaintiff:</b> Bank of Austin <b>Amount:</b> \$2,500
<b>Estimated date this item will be removed from credit report:</b> 02/2015	

Adverse Accounts, Potentially Negative Items		
<b>Financial Collection Recovery File</b> #99999 <b>Address:</b> 400 Sacramento Blvd Lincoln, Nebraska 66576	<b>Balance:</b> \$0 <b>Date Verified:</b> 02/2009 <b>Original Balance:</b> \$500 <b>Original Creditor:</b> Target Corporation <b>Credit Limit:</b> \$1000 <b>Past Due:</b> \$0 <b>Terms:</b> \$85 for 30 months	<b>Pay Status:</b> Payment made after sent to collection agency <b>Account Type:</b> Installment account <b>Responsibility:</b> Individual account <b>Date opened:</b> 08/2008 <b>Date closed:</b> 01/2009 <b>Date paid:</b> 01/2009
<b>Remarks:</b> paid collection agency <b>Estimated date this item will be removed from credit report:</b> 02/2016		
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**Activity 6.3-2**

Name \_\_\_\_\_ Class Period \_\_\_\_\_

Directions: Complete the graphic organizer below about the information included in credit reports.

<b>Personal Information</b>	<b>Credit Information and Payment History</b>
<b>Public Information</b>	<b>Credit Inquiries</b>
<b>Credit Reports</b>	
<b>Length information is retained on credit report:</b>	

**Key 6.3-2**

Name \_\_\_\_\_

Class Period \_\_\_\_\_

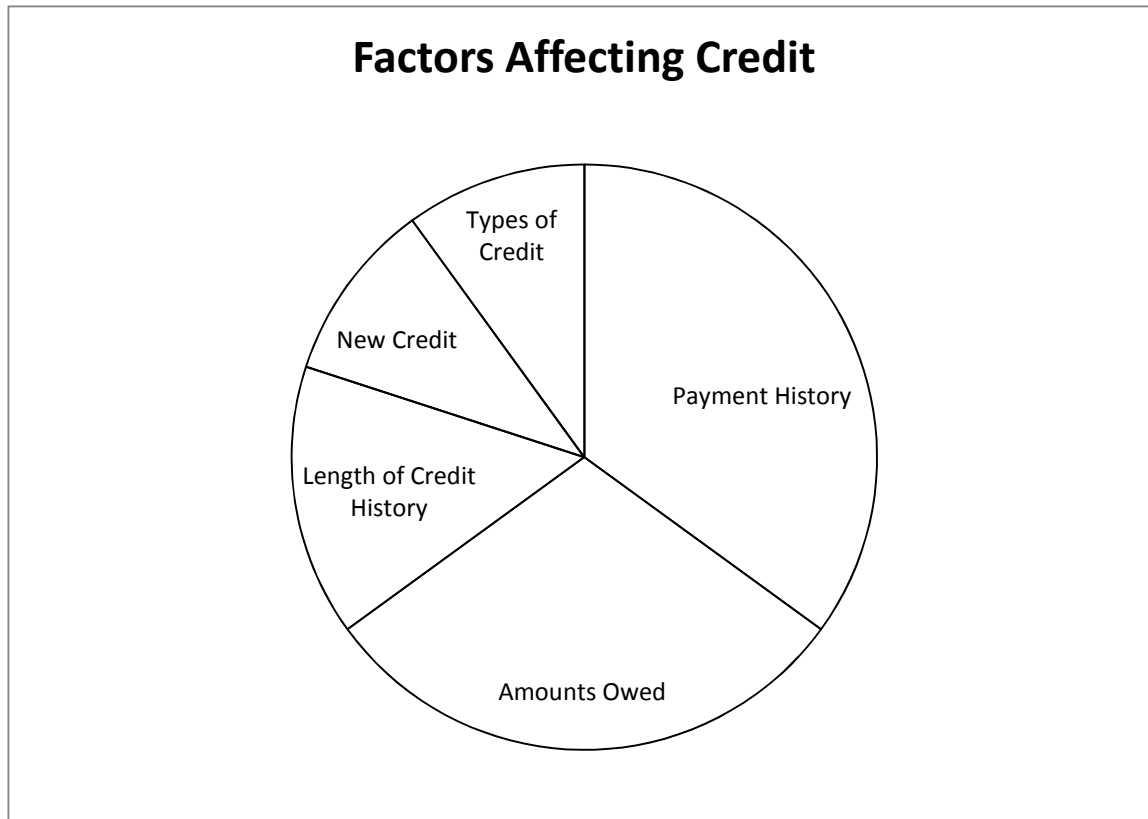
<p><b>Personal Information</b></p> <ul style="list-style-type: none"> <li>• Names</li> <li>• Current and past addresses</li> <li>• Phone numbers</li> <li>• Employers</li> <li>• Date of birth</li> <li>• Social security number</li> </ul>	<p><b>Credit Information and Payment History</b></p> <ul style="list-style-type: none"> <li>• Lender information</li> <li>• Type of credit (i.e. auto financing, credit card, installment loan, home mortgages)</li> <li>• Date account was opened or closed</li> <li>• Length of credit history</li> <li>• Amount owed</li> </ul>
<p><b>Public Information</b></p> <ul style="list-style-type: none"> <li>• Bankruptcy filings (An individual reports to the court that he or she cannot pay their debt.)</li> <li>• Tax liens (failure to pay taxes)</li> <li>• Foreclosures (The lender sells the borrowers property or house for not making payments.)</li> <li>• Wage garnishments (Money deducted from a paycheck to pay for child support owed or student loan payment.)</li> </ul>	<p><b>Credit Inquiries</b></p> <ul style="list-style-type: none"> <li>• Self-inquiry</li> <li>• Credit application inquiry</li> <li>• Employment inquiry, with written permission of the consumer</li> <li>• Court order inquiry</li> <li>• Insurance application inquiry</li> <li>• Rental application inquiry</li> <li>• Cell phone application inquiry</li> </ul>
<p><b>Length information is retained on credit report:</b></p> <ul style="list-style-type: none"> <li>• 2 years for credit inquiries</li> <li>• 7 years for late payments</li> <li>• 10 years for closed accounts kept in good standing</li> <li>• Up to 10 years for bankruptcy</li> </ul>	

**Activity 6.3-3**

Name \_\_\_\_\_

Class Period \_\_\_\_\_

Directions: Study this diagram below, representing factors affecting credit and the weight of each, compared to the whole. Then, rank the items in the list below, with 1 affecting credit the most and 5 affecting credit the least. Finally, provide an explanation as to why each rank was chosen.



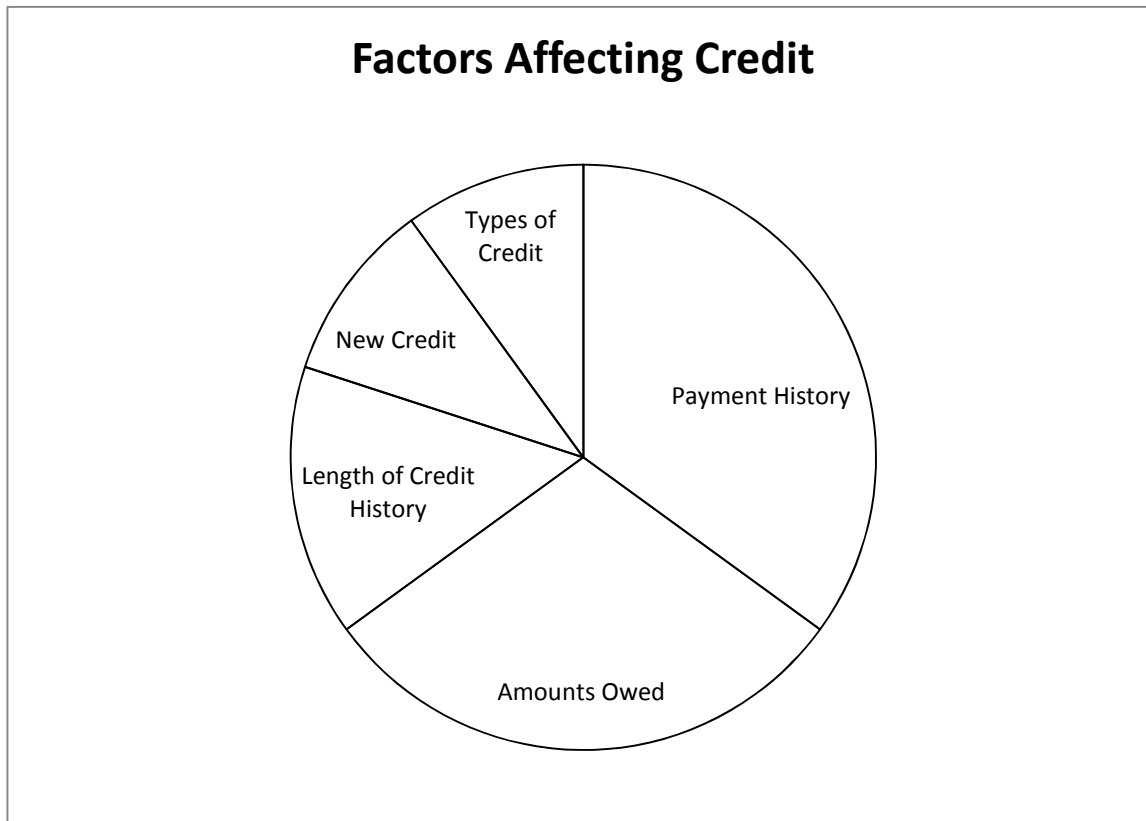
- \$3,000 balance owed to Ford Motor Credit for auto financing. Rank: \_\_\_\_\_  
 ○ Explanation: \_\_\_\_\_
- Consumer currently holds one home mortgage, one credit card, and one installment loan. Rank: \_\_\_\_\_  
 ○ Explanation: \_\_\_\_\_
- First credit established in 1987. Rank: \_\_\_\_\_  
 ○ Explanation: \_\_\_\_\_
- Newest credit account established in January 2012. Rank: \_\_\_\_\_  
 ○ Explanation: \_\_\_\_\_
- Payments to Credit Corporation of America were made on time. Rank: \_\_\_\_\_  
 ○ Explanation: \_\_\_\_\_

**Key 6.3-3**

Name \_\_\_\_\_

Class Period \_\_\_\_\_

This is a sample key. The explanations will vary.



- \$3,000 balance owed to Ford Motor Credit for auto financing. Rank: 2
  - Explanation: The amount owed on an account is the second highest influence on credit.
- Consumer currently holds one home mortgage, one credit card, and one installment loan. Rank: 4 or 5
  - Explanation: The mix of various types of credit will affect the credit in the least amount.
- First credit established in 1987. Rank: 3
  - Explanation: The length of credit history will affect the credit lesser than the payment history and the amounts owed, but more than the new credit and various types of credit.
- Newest credit account established in January 2012. Rank: 4 or 5
  - Explanation: If the consumer is taking on new debt, this will affect the credit in the least, similar to the mix of various types of credit.
- Payments to Credit Corporation of America were made on time. Rank: 1
  - Explanation: The payment history is the top contributor of credit (positive and negative).

**Activity 6.3-4**

Name \_\_\_\_\_ Class Period \_\_\_\_\_

**Directions:** Fold a blank sheet of paper along the longest line of symmetry to create two columns. Label one column "True" and the other column "False." Cut out the cards below. Then glue the true statements in the true column of the folded sheet of paper and the false statements in the false column.

My credit history does not affect my chances for renting my first apartment.	To build a positive credit history, I should pay cash for all purchases.
Routinely paying my bills late could negatively affect my credit history.	When I apply to borrow money for a car, the loan company will most likely look at my credit history.
I need to first pay bills, such as a loan or a phone bill to establish credit history.	Having a small amount of debt is good for my credit history.
The more credit cards I have, the higher my credit score will be.	My landlord can report my failure to pay rent to a credit reporting agency.
If my credit card allows me to charge up to \$1000, I should charge the maximum amount to build my credit history.	Paying the entire amount on my credit card creates bad credit history.
I should review my credit report for errors.	A credit report contains my personal information such as my address and social security.
Late payments are retained on credit reports for 7 years.	A bad credit report cannot affect my chances for getting a job.

## Key 6.3-4

False My credit history does not affect my chances for renting my first apartment.	False To build a positive credit history, I should pay cash for all purchases.
True Routinely paying my bills late could negatively affect my credit history.	True When I apply to borrow money for a car, the loan company will most likely look at my credit history.
True I need to first pay bills, such as a loan or a phone bill to establish credit history.	True Having a small amount of debt is good for my credit history.
False The more credit cards I have, the higher my credit score will be.	True My landlord can report my failure to pay rent to a credit reporting agency.
False If my credit card allows me to charge up to \$1000, I should charge the maximum amount to build my credit history.	False Paying the entire amount on my credit card creates bad credit history.
True I should review my credit report for errors.	True A credit report contains my personal information such as my address and social security.
True Late payments are retained on credit reports for 7 years.	False A bad credit report cannot affect my chances for getting a job.