

Credit Scores and Credit Reports

Notes:

Learner Outcomes

Outcome #1: Participants will be able to explain why it is important to establish a positive credit history.

Outcome #2: Participants will be able to identify what a credit report is.

Outcome #3: Participants will be able to describe an example of information included in a credit report.

Target Audience

Teenagers

Materials

1. Flip chart and markers or a dry-erase board and dry-erase markers
2. Name tags (downloaded for free from the Bank It website), one for each participant
3. A pen or pencil for each participant
4. Something to track time
5. Evaluation #2-BO-T for each participant
6. Bank It Notes #2-BO-T for each participant
7. Optional: PowerPoint Presentation PDF #2-BO-T
8. Optional: Handout #2-BO-T for each participant

Timing

1 hour

Want more background and training tips?

See the free, downloadable Bank It Leader's Guide at www.bankit.com.

Credit Scores and Credit Reports

Notes:

1. Welcome and Overview (5 minutes)

Arrive early. Highly consider using the optional PowerPoint Presentation PDF and the optional Handout. Both will greatly enhance your sessions. If you're using the PowerPoint Presentation PDF, show the "Welcome to Bank It" slide as participants enter the room. Greet each participant individually and learn their names as they arrive. Have them create a name tag with their first name only.

Give them a copy of the Bank It Notes #2-BO-T and either a pen or pencil. Have participants sit in clusters of about four people. If possible, have them sit at tables. Then welcome the whole group to the session.

Say: Welcome to Bank It. Bank It delivers real-world financial topics and tools for teens and parents that make it easier to understand, talk about, and manage your money. Bank It was developed by Capital One and Search Institute. I'm glad each one of you is here.

Today we will focus on credit scores and credit reports, and we plan on meeting three goals. One: By the end of this session, you will be able to explain why it is important to establish a positive credit history. Two: You will be able to identify what a credit report is. Three: You will be able to describe an example of information included in a credit report.

Feel free to use your Bank It Notes to write what you learn as we go along. At the end of the session, we will take time to complete a short evaluation. (If this session is not the first session you're presenting to this group, consider briefly discussing the optional challenge that you may have given participants at the end of your previous session.)

2. Activity: Better Grades (15 minutes)

Start by defining what a credit score is. *Say: A credit score is like your grade point average in school, but it is the score of how well you use credit. In other words, it is a score of how well you use your money through credit, such as with a credit card or credit line. Adults with higher credit scores are more likely to get more financial services, such as loans and credit cards, at cheaper rates over time.*

Consumer credit reporting companies figure out your score as part of a complex math equation that evaluates many types of your financial information. Credit scores typically range from 501 to 990 from the major consumer credit rating

Credit Scores and Credit Reports

Notes:

companies. If they use the FICO system, they range from 300 to 850. FICO is short for the Fair Isaac Corporation, which created the first credit scoring system in America.

On a flip chart, write examples for how to interpret a credit score. Explain that you're simplifying the concept of credit scores to make them easier to understand. On the flip chart, write 900–990 = A, 800–899 = B, 700–799 = C, 600–699 = D, 501–599 = F.

Explain that you're going to name a series of credit scores, and participants should shout out what they think the grade is for that credit score. Name scores (one at a time to allow participants to respond). 632 (Answer: D). 954 (Answer: A). 711 (Answer: C). 800 (Answer: B). 545 (Answer: F). 788 (Answer: C). 501 (Answer: F). 699 (Answer: D). 921 (Answer: A).

If you plan to distribute the optional handout, use it at this time.

After you've finished, debrief the activity. Ask: *When you become an adult, where do you want your credit score to be? Why?*

3. Present: Talking about Credit Scores and Credit Reports (15 minutes)

Explain that it is important to create a positive or good credit history. Say: *When you have a good credit history, you can earn a higher credit score. You are more likely to get more financial services, such as loans and credit cards, at cheaper rates over time if you use credit well.*

A credit history is a record of how you use credit. There are five major elements that determine what kind of credit score you will get. The first one is your payment history. This includes whether you've paid your credit bills on time. It will show how much you pay. It will record any bankruptcies or collection actions.

The second major element is the amount you owe. This will show your account balance on every form of credit you have. It also will look at how much credit you have available. For example, if you have a \$1,000 credit limit, and you have used \$1,000 of it, how much credit do you have left to use? (Answer: \$0).

If you have a \$1,000 credit limit, and you have used \$500 of it, how much credit do you have left to use? (Answer: \$500). Which example do you think would give you a higher credit rating? (Answer: Having \$500 available. This shows that you're using credit but not using too much.)

Credit Scores and Credit Reports

Notes:

The third major element is your length of credit. This will include information on when your credit was established. For example, if your mom got a credit card in 2002 for the first time, her length of credit goes back to 2002. The longer, the better.

A fourth element is new credit accounts. Ideally you want to have an account for a long period of time and be making regular payments on it. But credit companies also like to see you growing as a credit user. They like to see you pay off your loans and then take out a new loan as your life changes.

However, you have to be careful when you do this. You don't want to constantly try to get new forms of credit without using your older accounts well.

The fifth element is the types of credit you use. A mixture is better. For example, it's good to have a credit card and a loan rather than only credit cards. Now, where do you find information about your credit score? It is determined by your credit report.

A credit report is a summary of your credit history. It includes details such as personal information (your name, your address, and your social security number). It also includes information about each one of your credit accounts. So each credit card is listed on it—along with information about how you have used that credit card.

You also can find information about mortgages (which are loans to buy a house) and other loans, such as auto loans or personal loans. Information usually stays on your credit report for around seven years or longer. If someone files for bankruptcy, that will stay on that person's credit report for ten years or more.

You can get access to your credit report any time you want by calling or going to a specific Web site. There are three consumer credit reporting companies, and each one will allow you to get a copy of your credit report for free once a year.

4. Discuss (10 minutes)

Say: Take some time to talk to the people near you. Talk to about two or three people. Take turns. I want you to do two things: 1. Say your first name. 2. Talk about what you know about your family's credit use. Do they have credit cards? Loans? Start with the person who drank a glass of milk most recently. Then have each person take a turn.

Credit Scores and Credit Reports

Notes:

5. Review and Evaluate (10 minutes)

Review what was accomplished during this session. Ask: *What is a credit score?* (Answer: Your score for how well you use credit, like a grade point average in school.)

Ask: *Why is it important to establish a positive credit history?* (Answers: You can earn a higher credit score if you use credit well. You are more likely to get more financial services, such as loans and credit cards, at cheaper rates over time if you use credit well. Some employers are starting to look at credit scores to see how well you manage your money.)

Ask: *What are examples of elements that make up a credit score?* (Answers: Payment history, how much you owe, length of credit, new credit accounts, and the types of credit you use.)

Ask: *What is a credit report?* (Answer: A summary or record of your credit history.)

Ask: *What are examples of what is included on a credit report?* (Answers: Personal information like your name, address, and social security number. Information about each one of your credit accounts. Credit card information. Loan information. Mortgage information.)

Ask: *How long does information typically stay on a credit report?* (Answer: About seven years or more. It could be ten years or more if you have filed for bankruptcy.)

At the end of the review, distribute Evaluation #2-BO-T to each participant. Give participants time to fill out the evaluation. Collect all the evaluations after participants finish so you can find out the measurable outcomes for the session.

6. Close (5 minutes)

Tell participants that you are proud of the work they have been doing. For one last overall review, ask: *How is a credit report like a report card at school?* (Answer: Each shows your progress. A report card at school shows your progress at school. A credit report shows your progress on how you use credit.)

Credit Scores and Credit Reports

Notes:

Ask: *How is a credit score like your grade point average at school?* (Answer: A grade point average at school combines and averages all your grades. A credit score combines and averages all your progress with credit.)

Challenge them to talk to family members about this topic, which is listed under the Talk About It section of their Bank It Notes. After you finish, thank everyone for coming and participating.

Optional Activities

1. Distribute Handout #2-BO-T: Credit Scores. Give participants the handout for information. Walk through the information together.

2. Show the PowerPoint Presentation PDF #2-BO-T. Use the presentation to accompany the one-hour session.

3. Give Participants a Challenge. Encourage participants to use the next week to talk to their parents about credit scores and credit reports. Have them ask if their parents have ever gotten a copy of their credit report. (If you wish, follow up during your next session to find out how the challenge went.)

Questions? Looking for more ideas? Visit www.bankit.com for answers and more resources.

For More Information

- *National Standards in K–12 Personal Finance Education* (Washington, D.C., Jump\$tart Coalition for Personal Financial Literacy, 2007), standard 2 in the area of Credit and Debt.
- *An Asset Builder’s Guide to Youth and Money* by Jolene Roehlkepartain (Minneapolis: Search Institute, 1999).