

Credit: How Do You Score?

Mary Ann Holland, UNL Extension Educator, Cass County

Leanne Manning, UNL Extension Educator, Saline County

Sandy Preston, UNL Extension Educator, Dixon County

Kathy Prochaska-Cue, Extension Family Economist and Accredited Financial Counselor

Credit scores and credit reports. What do these terms mean? What information is included in a credit report? Who can see it? Where do you get one? What is a credit score used for? Is a higher number better than a lower one? Answers to these questions and more are found in this lesson: **Credit: How Do You Score?**

Lesson Goal:

To help the learner understand credit reports or credit files, know basic facts about credit scores and how they are used, and learn ways to improve a credit score.

Objectives:

Participants will be able to:

1. Define terminology related to credit reports and credit scores.
2. Identify what information is in a credit file, who reports it and who has access to it
3. Understand steps to correct inaccurate information found in a credit file.
4. Understand the range of credit scores and how a credit score affects lending decisions and interest rates.
5. Take appropriate measures to improve a credit record.

Program Resources:

1. Leader's Guide, HE Form 562
2. Credit: How Do You Score? Participant Guide, HE Form 563
3. Personal credit report obtained by the leader prior to the program
4. Credit: How Do You Score? PowerPoint available on the Web site <http://communityprograms.unl.edu>
5. Credit: How Do You Score? Pre-test and post test included in leader's guide

Before the Program:

1. Read this leader's guide carefully. Select the activities you want to include in the program you are presenting.
2. In order to familiarize yourself with a credit report, obtain a copy of your free credit report through this Web site: <http://www.annualcreditreport.com>
3. Gather or document radio, television and newspaper advertisements designed to "sell" consumers a "free" credit report or credit score. Include advertisements that offer consumers "credit history repair – at a low cost."
4. Visit the courthouse to determine what information is included in public records, who has access to that information and for how long.
5. Request information on current consumer interest rates by credit score from a local bank or credit union.
6. Make copies of the pre-test and post test. Use two different colors of paper to keep them straight.

Activities:

Select from the following activities or develop an appropriate activity yourself.

1. Learners will assume the identity of a loan applicant, lender credit counselor and role-play the process of applying for credit. One scenario should reflect a consumer with a good credit score and a second with a poorer credit score. How do these interviews differ?
2. Write an advertisement for a lender that would be used to encourage consumers to apply for a loan. Or collect advertisements and evaluate them during the program.
3. Learners will simulate the activity of completing a loan application followed by a discussion of the importance of financial recordkeeping.



Extension is a Division of the Institute of Agriculture and Natural Resources at the University of Nebraska-Lincoln cooperating with the Counties and the United States Department of Agriculture.

University of Nebraska-Lincoln Extension educational programs abide with the nondiscrimination policies of the University of Nebraska-Lincoln and the United States Department of Agriculture.

© 2006, The Board of Regents of the University of Nebraska on behalf of the University of Nebraska-Lincoln Extension. All rights reserved.

4. Use one of these case studies:
- A. Casey has a credit card with a credit limit of \$6,000. By the end of the month, Casey has made \$5,000 in purchases. Casey pays off the full balance when it is due. The credit card company reported Casey's balance in the middle of the month to the credit bureau when it was at an all-time high. Casey's credit score drops several points even though he paid off the balance in full and in a timely manner. Why did Casey's score drop? What can he do to increase his score?
(*Answer: Casey's score dropped because his balance was reported before he had paid it off in full. To improve his score, he can call the credit card company and find out approximately what date each month they report account balances. Then he can be sure his account has a lower balance at that time of the month.*)
- B. Brenda was hired by a large company to work in its patent office. Two weeks after giving her old employer notice that she was leaving, her new employer rescinded the job offer. They stated her new job would have involved the timely payment of fees. What had the new employer checked since they had made the job offer to Brenda? (*Answer: The new employer had checked Brenda's credit report. Brenda needs to find out the specific reason why she was not hired. If it is her credit report, she needs to get a copy and work to improve what it says about her.*)
- C. Tony and Sue were preparing to buy a home in Florida. They were told they needed mortgage insurance, a common requirement for people who pay less than 20 percent down payment on their home purchase. Their mortgage broker estimated their monthly premium would run between \$100 and \$200. Later, they learned their monthly premium for mortgage insurance would be \$760. Why was there such a discrepancy between the estimate and the actual premium? (*Answer: The mortgage insurance corporation had pulled their credit reports and determined they had a low credit score.*)

During the Program:

The following teaching plan is based on the participant handout, *Credit: How Do You Score?* Add the activities you choose to include at the appropriate points in the program.

Begin this program by asking participants to complete the pre-test. Do not hand out the participant handout until after they have completed the pre-test.

Before you begin the program, suggest the following "ground rules" for discussing financial matters:

1. Encourage and respect everyone's participation.
2. Personal examples that are shared during this program are not to be shared with anyone else.
3. Affirm that using credit is an individual's choice.

- A. *Introduction:* Introduce this program by sharing your experience with credit file and credit score or by using the first section of the participant guide, "Why is the Information in Your Credit File Important." To emphasize the importance that a credit score plays in personal and family finance, you may choose to use this example showing how the higher the credit score, the lower the interest rate paid for a new mortgage.

Credit Score	Interest Rate
720-850	5.7%
700-719	5.9%
675-710	6.4%
620-674	7.6%
560-619	8.5%
500-559	9.3%

- B. Describe the four types of information included in a credit file.
- C. Discuss how to change incorrect information in a credit file.
- D. Transition the discussion from credit files to credit scores by noting that the information in a credit file forms the basis for a credit score.
- E. Describe the factors that affect a credit score.
- F. Use the final two sections of the participant guide, "To Improve a Credit Score" and "Tips for Improving a Credit Score" to provide information for discussion.
- G. *Conclusion:* read the conclusion of the participant's guide.
- H. Ask participants to complete the post test including the last two statements at the bottom of the sheet.
- I. After the program, return the pre-test and the post test results to the extension office.

Answers to Pre- and Post-Test

- | | |
|----------|-----------|
| 1. True | 6. True |
| 2. False | 7. True |
| 3. True | 8. False |
| 4. False | 9. False |
| 5. True | 10. False |

Acknowledgments:

The authors wish to thank the following people who critiqued the materials for this program: Cathey Hudleston-Casas, Assistant Professor, UNL Department of Family and Consumer Sciences; Carla Mahar, UNL Extension Educator, Deuel and Garden counties; Andrea Nisley, UNL Extension Educator, Dawson County; and Debra Schroeder, UNL Extension Educator, Cuming County.

Credit: How Do You Score?

Pre-test

- True or False** 1. When applying for a new job, your potential new employer can check your credit file with your permission.
- True or False** 2. It is best to close all credit card accounts and deal only in cash to improve your credit score.
- True or False** 3. Insurance companies can determine what rates you will pay for car insurance based on your credit score.
- True or False** 4. Having a low credit score is a good thing.
- True or False** 5. Interest rates you pay on your home loan are based upon your credit score.
- True or False** 6. If you have filed bankruptcy, that information remains in your credit file for 10 years.
- True or False** 7. Credit information that is collected for your credit report can be obtained from stores where you have credit accounts, your bank or credit union, or other businesses where you have accounts.
- True or False** 8. If you have served time in jail, that is part of your credit record.
- True or False** 9. Every creditor uses your credit score in the same way to determine what interest rate you will pay.
- True or False** 10. Opening several new credit accounts within one month will improve your credit score as that shows that you are credit worthy.

Credit: How Do You Score?

Post Test

- True or False** 1. When applying for a new job, your potential new employer can check your credit file with your permission.
- True or False** 2. It is best to close all credit card accounts and deal only in cash to improve your credit score.
- True or False** 3. Insurance companies can determine what rates you will pay for car insurance based on your credit score.
- True or False** 4. Having a low credit score is a good thing.
- True or False** 5. Interest rates you pay on your home loan are based upon your credit score.
- True or False** 6. If you have filed bankruptcy, that information remains in your credit file for 10 years.
- True or False** 7. Credit information that is collected for your credit report can be obtained from stores where you have credit accounts, your bank or credit union, or other businesses where you have accounts.
- True or False** 8. If you have served time in jail, that is part of your credit record.
- True or False** 9. Every creditor uses your credit score in the same way to determine what interest rate you will pay.
- True or False** 10. Opening several new credit accounts within one month will improve your credit score, as that shows that you are credit worthy.

What new ideas have you learned or what did you already know that was reinforced by attending this program?

As a result of this program, what do you plan to change or put into practice?

Thank you. Your responses are appreciated by University of Nebraska–Lincoln Extension.