

Module 4: Credit Matters

July 2022



Welcome to Module 4: **Credit Matters**. Module 4 introduces participants to the importance of credit and their personal credit profile. This module covers various ways that credit profiles are used in everyday life and includes an introduction to credit reports and credit scores. This module identifies what makes up a credit score and how good credit scores can save an individual money. Lastly, debt management is covered with information about how to avoid scams.

Objectives

- Understand the importance of credit
- Explain why we need credit
- Provide strategies on how to establish credit
- Understand your credit profile, credit report and credit score basics

Value of This Module

Myth: A credit score is only important when I plan to borrow money.

Reality: A positive credit score can help determine where we live, how much we pay for car insurance and may impact job offers.

MODULE 4: CREDIT MATTERS

FACILITATOR PREPARATION



Facilitator Preparation:










- Prior to the delivery of Module 4, Credit Matters, the facilitator should review the following materials:
 - **Better Money Habits - How to build credit from scratch**
 - **Better Money Habits - Top 3 credit score questions**
 - **Visit the Hands on Banking website**
 - **Download the Instructor and Quick Reference Guides**
 - **NFCC - Get relief with credit counseling or a debt management plan**
- Review the PowerPoint for Module 4
- Personally complete all activities in Module 4

Gather:










- Laptop and LCD projector
- Sign-in sheet
- Easel pad & easel
- Markers
- PowerPoint presentation (make copies* if you would like to distribute to attendees)
- Agenda (make copies if you would like to distribute to attendees)
- Activities (make copies of activity handouts)
- Homework assignment (make copies)
- Evaluation (make copies)

*Don't forget large print copies, in size 20 font, if requested.

2. How much do you know about the following topics?

	I don't know anything about this	I know a little about this	I know a lot about this
a. Difference between a credit score and a credit report.			
b. How to get a free copy of my credit reports.			
c. How to review my credit report to make sure it is accurate.			

3. Please tell us how you felt about the following parts of the training.

	It was OK	It was really good	It was great
a. The information that I learned			
b. The way the training was organized			
c. The activities			

What is one thing you learned today?

Based on what you learned today, what is one thing that you are going to do to take more control of your money? _____

I would recommend this training to others ___yes___no___maybe

Thank you for your feedback!

MODULE 4: CREDIT MATTERS

AGENDA



Introduction	10 Minutes
Overview, Purpose and Expected Outcomes	5 Minutes
PowerPoint Presentation: Personal Credit Matters	40 Minutes
• Why is credit important?	
• Why do people with disabilities need credit?	
• Credit affects your life, other than when borrowing money.	
• How do I establish credit?	
• Your credit profile: credit report and credit score basics.	
• What to do when bill collectors call or notices come in the mail?	
Activity	15 Minutes
• Credit financing for an appliance. What a person with good credit pays and what a person with bad credit pays.	
BREAK	15 Minutes
Making Connections in Your Community	30 Minutes
Homework Assignment and Wrap-up	10 Minutes
• Self-assessment of my credit profile	
Evaluation and Closing	5 Minutes

REMINDER: Please distribute part one of the Module 4 Evaluation now, during the introduction. Be sure to have the participants complete the second half of the evaluation at the end of the session.

MODULE 4: CREDIT MATTERS

SCRIPT FOR TRAINER



Introduction (10 Minutes)

Script for Trainer (corresponding PowerPoint Presentation Module 4: Credit Matters)

My name is _____. Welcome to our fourth session in the **Financial Wellness Training**. Today, we will learn about the importance of credit and credit profiles. Included are various ways that credit profiles are used in everyday life. We will cover credit reports and credit scores, including what makes up a credit score and how good credit score can save you money. Finally, debt management is covered with information about avoiding scams.

But first, we want to review our homework from Module 3. Who would like to share their experience in identifying a VITA site in the area?

Overview, Purpose and Expected Outcomes (5 Minutes)

Activity #1

We are going to start with a question for the group.

True or False: A credit score is only important when I borrow money.

[Trainer leads discussion]: Tell us why you answered the way you did.

The answer is False. Credit is important for everyone, including people with disabilities, and a credit score is only one part of a person's credit profile.

PowerPoint Presentation (40 Minutes)

Script for Trainer (continued corresponding PowerPoint Presentation: Module 4)

Let's start by talking about what we mean when we talk about credit.

If we say we are buying something on credit, we mean that we purchase our goods or services today, and pay for it over time.

When we say we have good or bad credit, it is referring to our credit profile. Our credit profile is developed over time and is based on our credit managing habits.

In Module 2, we learned about two types of loans—revolving and installment. Today, we will learn how those loans affect our credit.

Financial institutions refer to the four Cs of credit:

- *Capacity* - Do you have the ability to repay the loan that you are applying for—both now and in the future?
- *Capital* - This is another way of looking at your overall financial situation. What is the value of your assets and your net worth? Your assets are what you own, and your net worth is your assets, minus your liabilities (things you owe). So, you may have many assets, but if you have too much debt, your net worth will be low, or possibly negative. An example of this is owning a home that is valued at \$75,000 and I owe \$25,000 on the loan for my house. The capital that I have in my home is \$50,000 (\$75,000 minus \$25,000 equals \$50,000).
- *Character* - How have you paid your bills in the past? Did you make payments as promised and on time?
- *Collateral* – Collateral is specific to a loan that you are applying for. Do you have property or assets that can be used to secure a loan? An example of this is a car loan. If you are borrowing money to buy a car, then the car itself is the collateral for that loan. If you do not make payments on the car loan, then the bank or credit union can take the car and sell it to acquire the money that is owed to them. Oftentimes, even after the car is sold, more is owed.

Credit is used to borrow money, but it is also used for a wide variety of life purposes. Here is a short list of some of those:

- **Employment:** In some states employers review an applicant's credit report during the job application process. However, Illinois State law prohibits this practice except under very specific circumstances.
See: [Can they check my credit report when I apply for a job?](#)
- **Insurance policies:** Insurance companies frequently check credit scores and credit reports to answer two questions: Is your credit good enough that they believe you will pay the premiums on your policies, and does it look like you would file a claim to get an insurance payment? If you don't have good credit, you will pay a lot more in premiums than someone who has good credit.
- **Renting apartments:** Landlords check credit reports as a determining factor in who they rent to.
- **Utilities:** People with good credit can establish accounts for water, electricity or cell phones without paying a deposit. People without good credit will pay deposits.
- **Emergencies:** In the event of an emergency, you may need to borrow money, and having good credit ensures your ability to do so. For example, your car needs a repair that costs more than you have saved. You would like to get a credit card to pay for the repair. Good credit ensures that you are able to do this.

- Convenience: Credit cards are often used as an easy way to pay for something quickly. It may be preferred for some purchases such as travel, hotel or car rentals because it may guarantee the card holder insurance or protection from fraud related to those purchases.
- Large purchases: Without good credit, you may not be able to make a large purchase, such as a car or a home. If you are making a large purchase with bad credit, it will be a lot more expensive when you receive a loan or mortgage.

How do we borrow at a reasonable rate?

We will have an activity that will demonstrate the benefits of borrowing at a reasonable interest rate with good credit.

Activity #2

True or False: Once you have a bad credit score, you always have a bad credit score.

The answer is False. Your credit score is a snapshot of what your credit looks like at a point in time. Gradually, your credit score can change based on how you handle your credit.

True or False: A great credit score guarantees that I will be able to get a loan.

False. Credit score is just one of the factors that lenders use to make credit decisions. Other factors, like income and/or collateral, are also taken into account.

When lenders talk about your credit profile, they are talking mainly about two things: your credit score and your credit report.

Let's watch a short video from Experian on establishing good credit.

At the end of the video, there was an offer for their identity theft protection product, Protect My I.D. There are many identity theft products on the market. This is just one. We will talk more about this in Module 8: Protecting Your Identity.

A credit score is a number between 350-850, with 720-850 considered excellent.

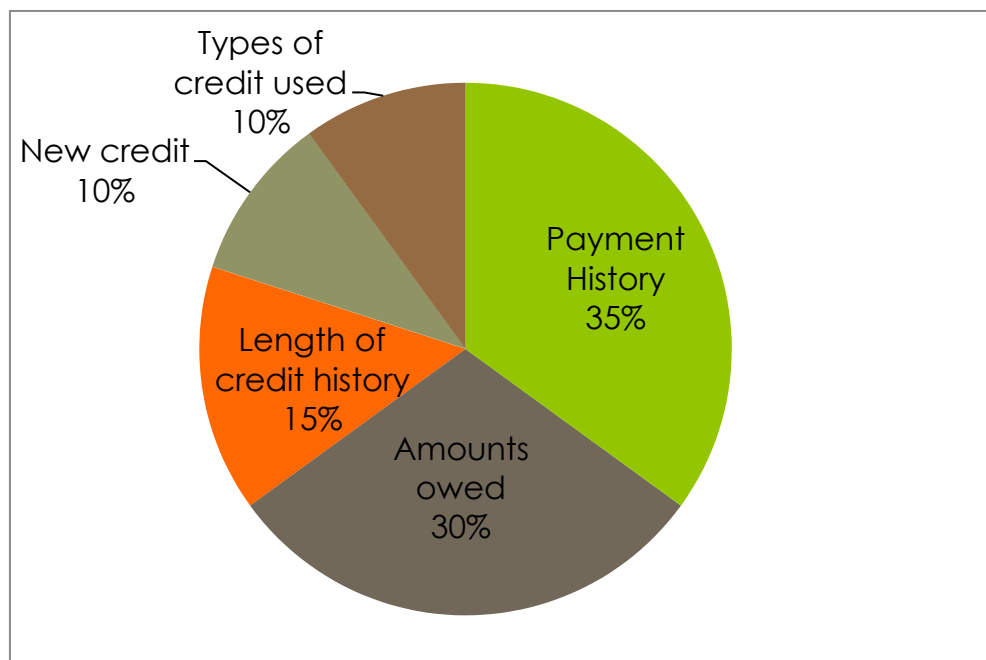
The most commonly used credit score is based on FICO (Fair Isaac Company), which created and computes the FICO credit score.

In Module 2, Financial Services, we talked about ChexSystems. ChexSystems only has negative information on consumers. If you are NOT in ChexSystems, that is a good thing!

Credit scores and credit reports consider both positive/good and negative/bad information about consumers. The FICO Score is calculated from several different pieces of information and grouped into five categories.

The five categories of a FICO Score are:

- Payment history: How have you paid your bills in the past? This makes up 35% of your credit score.
- Amount owed: Are you overextended and have too much debt, or are your loans in line with your income? This makes up 30% of your score.
- Length of credit history: If you are a new borrower, do not have many loans or a credit card that is used and paid regularly to establish a history of payments, then this negatively impacts your score. Length of credit history makes up for 15% of your score.
- New credit: If you have a lot of recent inquiries on your credit and have established many new accounts, your credit will be negatively impacted and your score will likely go down. This makes up 10% of your score. An exception to this is when you are shopping for a major purchase, such as a car or a house. If you have multiple inquiries to your credit and then have one large purchase within 30 days, your credit score will not be negatively impacted. Too many credit card applications, on the other hand, will lower your credit score because it looks like you are struggling financially if you apply for multiple credit cards.
- Types of credit used makes up 10% of your score. There are three general categories of credit accounts that can impact your credit scores: revolving (example: credit cards), open and installment (example: car loan or home loan). Although having a variety of credit types can be good for your credit health, it's not the most important factor in determining your scores.



Now, you have a couple of options to estimate your credit score. There are some credit cards that offer a free credit score on your statement, and you can also visit [CreditKarma.com/Free-Credit-Score](https://www.creditkarma.com/free-credit-score) to get a free credit score. Credit Karma reports from TransUnion and Equifax. You will be asked to enter personal identifying information to confirm you are who you say you are, but when you order your own credit report it does not change your score.

Late payments on your loans will lower your credit score, but establishing or re-establishing a good record of paying your lines of credit on time will raise your score.

Here's another test question:

Where can you get a free copy of your credit report?

- A. [AnnualCreditReport.com](https://www.annualcreditreport.com)
- B. [FreeCreditReport.com](https://www.freecreditreport.com)
- C. By writing or calling the three credit reporting bureaus: Equifax, Transunion and Experian

The correct answer is A.

B. is not free, though well-advertised on television.

C. is also not free, though you can write or call them.

It is a law, that each consumer is entitled to receive a free copy of their credit report every 12 months.

Contact information for the three credit bureau reporting agencies is listed on the PowerPoint. We have included the fraud hotline on this PowerPoint. In Module 9, Protecting Your Identity, you will learn about identity theft, and if you have been the victim of fraud or identity theft, you definitely want to call the credit reporting bureaus so they can make a note on your credit file.

Activity #3

Open Discussion: *How is your credit score different from a credit report?*

So, what is a credit report?

Here are some examples:

1. This report includes basic demographic information about you and your life including:
 - Where you work
 - Where you live
 - Where you have lived in the past
 - How you pay your bills
 - Public records indicating if you have been sued or filed for bankruptcy
 - Includes collections
2. Identifying information in the report includes:
 - Name
 - Social Security number
 - Current and previous addresses
 - Telephone number
 - Birthdate
 - Current and previous employers
 - If married, spouse's name
3. The report contains your credit history, including your account record with different creditors. It will show:
 - How much credit you have been offered
 - How you are using your credit
 - How you have repaid your credit
4. The report contains a list of inquiries from:
 - Creditors and other authorized parties who have requested and received your credit report.
5. The report contains information about you in:
 - Public records such as collection accounts
 - Bankruptcies, foreclosures, and late court ordered child support payments
 - Bankruptcies: Chapter 7 (regular income and repayment) or Chapter 13 (forfeiture of property) Bankruptcies have the most severe impact on your credit profile and stay on your records for 7 to 10 years.

A collection account is a past-due account that has been turned over to a specialist to collect part or all of the debt.

So, we have talked about credit, borrowing money and the different types of debt. In developing our financial capability, it is important to understand our choices when preparing for a purchase, so that we can make the most of our money.

Looking at your credit profile can help you decide if you are prepared to borrow money for a purchase, or if you would prefer another choice like saving money to make a purchase. We will not be covering this in detail, but there are many sources that can help you make the most of your money so that you can spend the least on your purchase and get the best deal. These include shopping, couponing and discount websites and apps.

When you are ready to make a purchase, you can borrow the money, or choose a smart alternative to borrowing which can be costly.

As we discussed in Module 2, credit cards allow you to buy goods or service now, and pay back over time. These are “revolving” debts.

Examples: Visa, MasterCard, Discover

- Have minimum payments
- Have annual percentage rates/fees/terms
- Allow you to build credit
- Some have rewards
- All “plastic cards” are not credit cards. “Store brand charge cards” have similar features and also allow credit-building.
- Plastic debit cards and stored value/prepaid cards do not enable credit building
- For FICO scores, keep outstanding balance below 30% of the credit limit

Consumer Installment Debt: Allows you to purchase goods and services now, and pay back over a fixed number of installments, thus “installment debt.”

Examples: Student loans with repayment terms from 10 to 30 years and car loans up to 10 years

- Have the same payment for the life of the loan
- Have a percentage rate, fees and terms

May have other benefits:

- Longer-term installment debt, paid on time, will raise your score.
- Mortgage loans, for the purchase of a home/real estate, paid on time, will raise your score over time and will increase your assets.
- Paying consumer installment debt is very important to developing a high FICO Score, and high FICO scores are a requirement for being approved for a loan from a bank, credit union or government lenders.

You may choose a smart alternative to borrowing:

- Savings—emergency funds, vacation, gifts, specific small purchases
- Pay yourself first and save automatically every payday
- Lay-away—specific stores will hold your purchase, and enable you to pay for it over time
- Save each month for upcoming holiday purchases
- You may open an additional savings account to save for a specific goal or purpose

Try to avoid costly alternatives to traditional borrowing because you will end up paying more for your purchase in the long-term.

Here are some tips:

- A. Avoid rent-to-own stores. We will have an exercise that demonstrates how expensive this alternative is.
- B. Avoid buy here/pay here. Often seen on large purchases such as cars, these are often predatory lenders with very high interest rates and aggressive repossession procedures. They may make the bulk of their income by churning cars—selling, repossessing and reselling the same cars.
- C. Other predatory loans—payday and car title loans

You have the right to file complaints if you have a dispute or are treated unfairly. Credit protections include:

- Credit Card Accountability, Responsibility and Disclosure Act (CCARD Act): Prohibits a lender from extending credit to a borrower under the age of 21 unless the borrower can show that he or she can afford to repay the debt or the borrower has a co-signer, along with other protections.
- Equal Credit Opportunity: Everyone must be treated the same on credit decisions.
- Truth in Lending Act: Requires lenders to disclose interest rates in terms of an annual percentage rate (APR).
- Fair Credit Reporting Act: Ensures accuracy, fairness and privacy of information filed with credit bureaus.

We have included a summary of the Fair Credit Reporting Act {distribute handout}

Debt collection protections include:

- Fair Debt Collection Practices Act: Protects consumers from predatory and unfair debt collection

If you receive phone calls, emails or mail saying you owe money or are late paying a bill, BE CAREFUL.

And if you have been victimized, file a complaint. Call the Illinois Attorney General and file a complaint with the Consumer Financial Protection Bureau.

So, if you don't have credit, how do you build credit?

- Watch the video: [Better Money Habits - How to build credit from scratch](#)

One way to establish credit is through a secured credit card.

A secured credit card is a credit card which is backed up by a savings account. The savings account is used as collateral against the credit card. Money is deposited and held in the account, which backs up the card. {Distribute and review the Credit Builders Alliance "Pros & Cons of Obtaining a Secured Credit Card as a Credit Building Tool"}

Making Connections in Your Community: Guest Speaker (15 minutes)

Trainer will introduce the speaker: Representative from the State Treasurer's office or a financial institution to discuss credit.

Homework Assignment and Wrap-Up (10 Minutes)

- Order your free credit reports from [AnnualCreditReport.com](https://www.annualcreditreport.com)
- Check your report for errors
- Contact any lenders as necessary

Evaluation and Closing (5 minutes)

Trainer should thank the participants for participating in today's training and congratulate them on first steps toward improving their financial wellness.

REMINDER: Be sure to have the participants complete the second half of the evaluation and collect.

MODULE 4: CREDIT MATTERS

HANDOUT – “A SUMMARY OF YOUR RIGHTS UNDER THE FAIR CREDIT REPORTING ACT”



The Federal Fair Credit Reporting Act (FCRA) promotes the accuracy, fairness and privacy of information in the files of consumer reporting agencies. There are many types of consumer reporting agencies, including credit bureaus and specialty agencies (such as agencies that sell information about check writing histories, medical records and rental history records). Here is a summary of your major rights under the FCRA. **For more information, including information about additional rights, visit Consumer.FTC.gov/Topics/Credit-And-Loans or write to:**

**Consumer Response Center, Room 130-A, Federal Trade Commission,
600 Pennsylvania Ave. N.W., Washington, D.C. 20580**

- **You must be told if information in your file has been used against you.** Anyone who uses a credit report or another type of consumer report to deny your application for credit, insurance or employment – or to take another adverse action against you – must tell you, and must give you the name, address and phone number of the agency that provided the information.
- **You have the right to know what is in your file.** You may request and obtain all the information about you in the files of a consumer reporting agency (your “file disclosure”). You will be required to provide proper identification, which may include your Social Security number. In many cases, the disclosure will be free. You are entitled to a free file disclosure if:
 - A person has taken adverse action against you because of information in your credit report
 - You are the victim of identity theft and place a fraud alert in your file
 - Your file contains inaccurate information as a result of fraud
 - You are on public assistance
 - You are unemployed but expect to apply for employment within 60 days

In addition, all consumers are entitled to one free credit report every 12 months upon request from each nationwide credit bureau and from nationwide specialty consumer-reporting agencies. Visit Consumer.FTC.gov/Topics/Credit-And-Loans for additional information.

- **You have the right to ask for a credit score.** Credit scores are numerical summaries of your credit-worthiness based on information from credit bureaus. You may request a credit score from consumer reporting agencies that create scores or distribute scores used in residential real property loans, but you will have to pay for it unless you order it from CreditKarma. In some mortgage transactions, you will receive credit score information for free from the mortgage lender. See: CreditKarma.com/Free-Credit-Score for additional information.

- **You have the right to dispute incomplete or inaccurate information.** If you identify information in your file that is incomplete or inaccurate, and report it to the consumer reporting agency, the agency must investigate unless your dispute is frivolous. Visit [Consumer.FTC.gov/Search/Site/Dispute](https://www.consumer.ftc.gov/Search/Site/Dispute) for an explanation of dispute procedures.
- **Consumer reporting agencies must correct or delete inaccurate, incomplete or unverifiable information.** Inaccurate, incomplete or unverifiable information must be removed or corrected, usually within 30 days. However, a consumer reporting agency may continue to report information it has verified as accurate.
- **Consumer reporting agencies may not report outdated negative information.** In most cases, a consumer reporting agency may not report negative information that is more than seven years old, or bankruptcies that are more than 10 years old.
- **Access to your file is limited.** A consumer reporting agency may provide information about you only to people with a valid need – usually to consider an application with a creditor, insurer, employer, landlord or other business. The FCRA specifies those with a valid need for access.
- **You must give your consent for reports to be provided to employers.** A consumer reporting agency may not give out information about you to your employer, or a potential employer, without your written consent given to the employer. Written consent generally is not required in the trucking industry. For more information, visit [Consumer.FTC.gov/Search/Site/Employment Credit Check](https://www.consumer.ftc.gov/Search/Site/Employment Credit Check).
- **You may limit “prescreened” offers of credit and insurance you get based on information in your credit report.** Unsolicited “prescreened” offers for credit and insurance must include a toll-free phone number you can call if you choose to remove your name and address from the lists these offers are based on. You may opt-out with the nationwide credit bureaus at 1-888-5-OPTOUT (1-888-567-8688).
- **You may seek damages from violators.** If a consumer reporting agency, or, in some cases, a user of consumer reports or a furnisher of information to a consumer reporting agency violates the FCRA, you may be able to sue in state or federal court.
- **Identity theft victims and active duty military personnel have additional rights.** For more information, visit [FTC.gov/News-Events/Media-Resources/Military-Consumer-Protection](https://www.ftc.gov/News-Events/Media-Resources/Military-Consumer-Protection).

States may enforce the FCRA, and many states have their own consumer reporting laws. In some cases, you may have more rights under state law. For more information, contact your state or local consumer protection agency or your state Attorney General.

MODULE 4: CREDIT MATTERS

HANDOUT – “CREDIT BUILDER PRACTITIONER TIP SHEET”



PROS & CONS OF OBTAINING A SECURED CREDIT CARD AS A CREDIT BUILDING TOOL



PROS: Generally, a good option for someone:

- ✓ With no credit or banking history
- ✓ With fewer than three trade lines of credit
- ✓ With no other revolving credit account
- ✓ Can save the cash collateral to deposit
- ✓ Who needs an ongoing way to continue to build credit
- ✓ Has enough income to cover his or her monthly expenses, but may need some assistance managing monthly cash flow
- ✓ Can afford to pay the minimum monthly payment
- ✓ Who pays his or her bills on time
- ✓ Needs a safe way to manage financial emergencies

CONS: Generally, not a good option for someone who:

- ✓ Has a high credit score already
- ✓ Has more than three open lines of credit accounts
- ✓ Carries, or is likely to carry, a high monthly balance (i.e., over 30% of the credit limit)
- ✓ Does not have the capacity to save for a deposit
- ✓ Does not have enough income to cover his or her monthly expenses
- ✓ Misses payments or does not pay bills on time
- ✓ Experiences chronic financial emergencies

Learning More about Good Credit

A person who wants to learn more about how to develop good credit, manage their credit or who needs help to repay their credit can reach out to their local National Federation of Consumer Credit Counseling Services (NFCC). To find an office near you, visit: [NFCC.org/Our-Services/Credit-Debt-Counseling](https://www.nfcc.org/Our-Services/Credit-Debt-Counseling)