MODULE 4:
UNDERSTANDING YOUR CREDIT REPORT

Financial Education Tools and Resource Series

In today's world, credit is integrated into everyday life from renting an apartment to buying a car. However, using credit wisely is critical to building a solid credit history and maintaining fiscal fitness. This lesson provides an opportunity to discuss the types of information a credit report contains, how to read it, and what to do to get back on track when you have bad debt. Included in the lesson are videos and tools to use with your participants (a credit goal worksheet, credit score estimator, articles and a sample letter explaining why a payment was late.)

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The Financial Education Tools and Resource Series

The Financial Education Tools and Resource Series Guide developed by Coffey Consulting, LLC provides facilitators and trainers with tools and resources to complement or fill gaps in grantees' financial education curricula or one-on-one instruction with their participants. The Guide includes five modules on financial topics important to program participants. Each topic focuses on a key issue or challenge program participants encounter, followed by a strategy, lesson and resources (implementation plan). Included in each lesson are handouts (activities), online spreadsheets, videos and articles that can be facilitated in a group setting or one-on-one. These "train-the-trainer" modules are designed for trainers/staff working with program participants and are intended to be customized by program staff to match the knowledge and literacy levels of the participants.

The five topics include:

Module 1: Analyzing Your Paycheck
This lesson gives grantees the tools to coach their participants on how to read their pay stub and understand how the information it contains will play a vitally important role in financial management and proper budgeting.

Module 2: Negotiating Child Support Payments
This informational lesson plan reviews each state's "Changing a Child Support Order" as well as provides website links to state requirements, forms, brochures, important telephone numbers and frequently asked questions.

Module 3: Predatory Lending
This lesson plan tackles the common types of predatory lending, shares legal protections and provides tips on what to do when you are a victim of these practices.

Module 4: Understanding Your Credit Report
This lesson provides an opportunity to discuss the types of information a credit report contains, how to read it, and what to do to get back on track when you have bad debt. (Lesson includes a credit goal worksheet, credit score estimator, articles and a sample letter explaining why a payment was late.)

Module 5: Financial Guidance: Creating Goals and Saving
In this interactive lesson, participants will gain an understanding of personal financial management strategies based on learning and practicing budgeting, saving and setting financial goals. Resources in this lesson include videos, an on-line budgeting spreadsheet, and a goal-setting and debt worksheet.

The goal is to empower justice-involved individuals with "real world" tools to help them better manage their money and work towards achieving financial stability for themselves and their families.

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Topic: Understanding Your Credit Report

Situation:

It's important to understand the type of information your credit report contains and how to read it. When you have good credit, it's easy to qualify for financing when you need it, whether it's a new car loan, a mortgage, or a credit card. If you have bad credit, understanding your credit report helps you to identify the problem areas and your ability to work on improving them.

Facts:

- You're legally entitled to a free copy of your annual credit report from each of the three major credit reporting agencies: Equifax, Experian and TransUnion.
- Not everyone has a credit history. If you've never applied for or used credit, you won't have a credit history maintained by the three credit bureaus.
- FICO scores range from 300 to 850. Generally, a score below 550 is considered poor. According to FICO's data, 11.7% of the population has a score of 549 or less.

Delivery Method:

Practitioners can deliver the lesson in a group setting or one-on-one.

Objectives	Materials Needed	Time
• Participants will understand the components of a credit report and learn how to build and manage a good credit history. • Participants will learn how a credit score impacts the ability to borrow money. • Participants will understand how to make good choices regarding the use and management of credit and debt.	• Flip chart paper or whiteboard • Markers • Access to the Internet and projector *(video and activity links provided)* • Handout sheets to go over with participants *(Three Ways You Can Establish Credit*, *Secured Credit Card vs. Prepaid Card, My Credit Goals, and a Sample Letter Explaining Late Payments)*	**Approximately 2.5 hours** This can be broken into two or three sessions or you can choose which sections you would like to incorporate into your financial lesson planning.

Lesson:

1. **How to Read Your Credit Report** *(5 Minutes)*

   Open the lesson by watching a video on understanding how to read a credit report. To access the "How to Read Your Credit Report" video by Elizabeth Karwowski (3:03 minutes), visit https://www.youtube.com/watch?v=ejI9jUu78ZA.

   Discussion Question:
   - Name one important item on the credit report.

2. **Understanding Your Experian Credit Report** *(40 Minutes)*

   Next, participants will take part in an interactive activity entitled "Understanding Your Experian Credit Report."

   - Start by opening the link "Understanding Your Experian Credit Report" by visiting https://www.experian.com/blogs/ask-experian/credit-education/report-basics/understanding-your-experian-credit-report/.

   - Walk through each section of the credit report (each section allows for a question and answer period).

     Section 1: Personal Information

     State, "Personal information is only used for identifying you and is not considered in any scoring models."

     Section 2: Public Records

     State, "Public records are financial accounts attributed to legal actions. There are three types that can appear on a credit report: bankruptcies, tax liens, and civil judgments. They do not include information like arrests, misdemeanors, or other non-financial situations. Having a public record on your credit report can have a negative impact to your credit scores."

     Point Out: Court Section
     - Examples of a Negative Public Record – Judgment
     - Examples of a Negative Public Record – Tax Lien
     - Examples of a Negative Public Record – Bankruptcy Chapter 13 – Petition Filed

Section 3: Accounts

Discuss that accounts in a credit report include revolving credit and/or installment loans. In general, the status of these accounts is either categorized as Open, Negative, or Closed.

Point Out: Balances, Account Types and Payment Status

- Example of an Open Installment Account in Good Standing
- Example of an Open Revolving Account in Good Standing
- Example of a Closed Account
- Example of a Negative Account – Collections

Section 4: Credit Inquiries

Discuss how this section includes the names of businesses that have requested credit information about you. Inquiries may remain on your credit report for up to two years.

Point Out: Inquiry Date(s)/Date of Requests

Discussion Questions:

- How often should you check your credit report?
- How would an individual build good credit?
- How does a credit report impact the ability to borrow money or get a credit card?

***Remind participants that there are three credit bureaus (Equifax, Experian, and TransUnion) that have access to credit information.*

3. **What is a FICO Score?** *(10 Minutes)*

Next, participants will learn what a FICO Score is by viewing the clip "What is a FICO® Score? — FICO Credit Education Series" video by myFICO (2:06 minutes) at https://www.youtube.com/watch?v=LPR5I99tVE8.

Discussion Questions:

- Why does debt go into your credit report?
- FICO scores look at five areas – what are those areas?
- How can you personally increase your FICO score?

4. **Ways to Establish Credit** *(50 Minutes)*

Have participants create two columns on a piece of paper and label one column "Needs" and the second column "Wants."

- Define the terms, "Needs and Wants."
  - A *need* is something you cannot live without, such as air, water and food. A *want* is something that you don't absolutely need but will make your life a little better.
- Have participants write down a list of their needs and wants.

- Share with participants that on their list of needs and wants some of the items will require establishing credit.
- Also share with participants that the next step will be to discuss how to establish credit.
- Hand out the *Three Ways You Can Establish Credit* informational sheet (note: this informational sheet will accompany the YouTube Video discussed in the next bullet point) and share with participants that you will go over the handout after watching it.
- Watch YouTube video [“How To Be A Person | How To Establish Credit”](https://www.youtube.com/watch?v=SNum3tnhRL8) by VICE News (3.02 min) at https://www.youtube.com/watch?v=SNum3tnhRL8.
- Review handout, *Three Ways You Can Establish Credit.* Make sure individuals have a grasp of the various ways to establish credit.
- Next, use the statements below as a check for understanding.
  1. You apply for this and it goes into a limited-access savings account that you pay off within the time that you promised.
  2. This person is a second applicant that helps you receive credit.
  3. Which card is backed by a cash deposit you make upfront and the deposit amount is usually the same as your credit limit?
- Provide the scenario below and ask which choice would be best in establishing credit and why (note: there is no one right answer—the goal is for individuals to defend their answer based on their own experiences).
  - Michael completed his on-the-job training and interviewed for a job set up by the business service department. He had a great interview, but he knew if he received an offer he would need a car to get to and from work because public transportation does not run regularly where he lives. Michael does not have credit—what would be the best route for him to establish credit so he can buy a used car?
- *Secured Card vs. a Prepaid Card*. Share the definition of a prepaid card:
  - A prepaid card is not linked to a bank account. Generally, when you use a prepaid card, you are spending money that you have already loaded onto the card.
- Hand out the article, *Secured Credit Card vs. Prepaid Card*. (note: based on your participants’ reading level you can have them read it or pick out points in the article and share it with them)
- Write on the flip chart or whiteboard “Pros and Cons” for a Secured Credit Card and “Pros and Cons” for a Pre-Paid Card.
  - Have participants share the pros and cons based on the article
- Close out by stating that building credit takes time, but once you establish credit it is important to make your payments on time.

5. Getting on Track to Building a Good Credit History *(35 Minutes)*

Hand out the simple debt worksheet *My Credit Goals* to participants and assist them with completing the document (directions are listed on the worksheet). *Note to Facilitator: We dive deeper into debt in lesson/topic Financial Guidance where participants list all their debt and create an action plan through goal-setting and budgeting.*

Discussion Questions:

- Why it is important to make good choices when paying your debts?
- Why is managing the credit given to you key to a good credit history?

6. If I Have Bad Debt Where Do I Start? *(10 Minutes)*

Share with participants that it is important to clear debt and make sure to pay bills on time.

Additional Tips to Share:

- When reaching out to creditors to make payment arrangements, the first step is to assess your credit card debt by going through each statement and itemizing a list of how much you owe on each bill.
- The second step is to explain your financial situation clearly and inform the creditor about the following:
  - Why you're behind on payment(s)
  - Your current income and obligations
  - Your plans to get current on your debts
  - The exact amount you can pay monthly

  Don't offer an amount you can't afford.

  If the creditor accepts the amount you offer, make sure to obtain a written agreement including the terms and conditions for payment.

  Ensure you ask for the mailing address and fax number of your creditor along with the first and last name of the representative and his/her direct telephone number. You'll need these details if you have to contact him/her again.

Next, hand out the *Sample Letter Explaining Late Payments with a Creditor*. Review it with participants and provide it as a take-way. Explain that it can be tailored for their situation.

Wrap Up *(1 Minute)*: Share that financial empowerment begins with good credit.

Follow Up: On a monthly or quarterly basis, check on each participant's credit goals and see if they are meeting them.

Additional Resources

Free Credit Score Estimator
http://www.myfico.com/fico-credit-score-estimator/estimator/

The Seven Worst Things for Your Credit Report
https://www.thebalance.com/the-seven-worst-things-for-your-credit-report-960509

Three Ways You Can Establish Credit

1. Apply for a Secured Credit Card

If you're building your credit score from scratch, you'll likely need to start with a secured credit card. A secured card is backed by a cash deposit you make upfront; the deposit amount is usually the same as your credit limit. You'll use the card like any other credit card—buy things, make a payment on or before the due date, and incur interest if you don't pay your balance in full. Your cash deposit is used as collateral if you fail to make payments. You'll receive your deposit back when you close the account.

Secured credit cards aren't meant to be used forever. The purpose of a secured card is to build your credit enough to qualify for an unsecured card—a card without a deposit and with better benefits. Choose a secured card with a low annual fee and make sure it reports to all three credit bureaus (Equifax, Experian and TransUnion).

2. Apply for a Credit-Builder Loan

A credit-builder loan is exactly what it sounds like—its sole purpose is to help people build credit. Credit-builder loans do not require good credit for approval. They do require that you have enough income to make payments. The amount you borrow is held in a bank account while you make payments. Your on-time payments are reported to the three major credit bureaus (Equifax, Experian and TransUnion).

Typically, the money you borrow is held by the lender in an account and not released to you until the loan is repaid. It's a forced savings program of sorts, and your payments are reported to credit bureaus. These loans are most often offered by credit unions or community banks; at least one lender offers them online.

3. Get a Co-Signer

If you don't have a strong, consistent source of income to show on your credit application, you'll need a co-signer who does. Just make sure you have a way to pay off your balances once you get the card. Your co-signer's credit score will become tied to yours. If you're asking someone close to you to be your co-signer, your relationship with that person could be at risk if you fail to make your payments. Be sure to discuss what you and your co-signer both expect from the arrangement and what will happen if you miss a payment.

Secured Credit Card vs. Prepaid Card

Which Card is Better for You?

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BY Latoya Irby Updated March 7, 2018

If your credit history is suffering and you're looking for a credit card solution, you may consider either secured credit cards or prepaid cards. Both are commonly advertised as solutions for people with bad credit, but which one is the right one for you?

Secured Credit Cards and Prepaid Cards Explained

Secured credit cards and prepaid cards require you to deposit money before you can use them. Both can be used in the same places that credit cards can be used, e.g., grocery stores, gas pumps, etc. But, that's where the similarities end.

A secured credit card requires you to make a security deposit against the credit limit before you can be approved for the card. Your security deposit is placed in a savings account or certificate of deposit (CD) and kept there until your card is converted to an unsecured credit or until you default on the credit card (hopefully you never do).

Applying for a secured credit card is like applying for a regular credit card. Many card issuers still check your credit history, but you're more likely to be approved even if you have a bad credit history.

When you use a secured credit card, you're borrowing money just as with a regular credit card. Purchases made with a secured credit card go against your revolving credit limit, and you're required to make regular monthly payments toward your credit card balance.

When you pay off your credit card balance, your available credit goes up again just like a regular credit card. The security deposit is required because you're a riskier borrower.

Prepaid cards are different. Although they're often called prepaid credit cards, they're not credit cards at all. Instead, they're more like debit cards, which are tied to a checking account.

There's no credit limit for a prepaid card. You make a deposit onto the card and it goes into an account. When you swipe the card for purchases, instead of borrowing money from the credit card issuer, the purchase amount is deducted from your card balance. Once you spend up to your deposit, you must redeposit money before you can spend again.

With a prepaid card, you won't have to worry about making monthly payments on time to avoid late penalties and credit damage. There's no credit check for a prepaid card, so you won't be turned down because of a bad credit history.

Which Card Costs More?

Fees vary between the secured and prepaid cards. A secured credit card has fees typical of a credit card: application fee, annual fee, finance charge, and late fee. Some of these fees are required. Others can be avoided if you use your credit card responsibly.

Prepaid cards have entirely different fees and, depending on the card you choose, some of them can be high. Activation fees and monthly maintenance fees are charged the first time you open your account and each month the account is open. You may have to pay a fee to reload money onto the card, to withdraw money from an ATM, or to use bill pay.

There are some prepaid cards that are completely free. There are no interest charges or late fees with a prepaid card.

Should You Get a Secured Credit Card or Prepaid Card?

If you want to improve your credit score, a secured credit card is the best choice. Make sure you choose a secured credit card that reports to the three major credit bureaus. Some credit card issuers will convert your secured credit card to an unsecured one after 12 to 18 months of timely payments.

A prepaid card is often a choice for people who can't get a checking account or want to avoid banks. Many employers can direct deposit your paycheck onto a prepaid card, and some prepaid cards even let you send a few checks each month or enroll in online bill pay. Prepaid cards are also good for teenagers and students who get an allowance from parents.

Source: https://www.thebalance.com/secured-credit-card-vs-prepaid-card-960231

My Credit Goals

List your debt and next to your debt list a credit goal. *(Debt = credit cards, unpaid bills [i.e., telephone, cable, car, medical, etc.].)*

Example: ***Debt:*** *Unpaid cable bill, $450.00, 6 months behind.* ***Credit Goal:*** *Once I receive my first check, I will take 50% of my check and pay my outstanding bills. I will call the collection agency and share with them that I just became employed and that I will put $35.00 per check toward my cable bill.*

Debt	Amount	# of Months Behind	Credit Goal

Sample Letter Explaining Late Payments with a Creditor

Date

Name of Creditor or Collection Agency
Address
City, State, Zip Code

Subject: Account of [name account is under]; Account No. [insert account number]

Dear _________________:

This letter is being written in response to the attached letter you recently sent. I acknowledge owing this debt; however, I am unable to pay it in full at this time.

I would like to propose a pay-off schedule that is affordable to me. At this time, I can afford to make monthly payments in the amount of $ ________, which will result in this debt being paid in full on [month, year].

If this pay-off schedule is agreeable, please let me know in writing to my address shown below.

Thank you for your attention to this matter.

Sincerely,

Your Signature

Your Name
Mailing Address
Telephone Number

Attachment