

GET **READY**, GET **SET**, GET **GOING**.

# LESSON 11: UNDERSTANDING CREDIT



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## Learning Objectives

After completing this lesson, participants will be able to:

- Obtain a free copy of their credit report.
- List three ways to build their credit score.
- Describe at least three ways to borrow money.

## Time

- 60 Minutes

## Materials Needed:

- Handouts (1 per participant):
  - Credit Myths and Facts
  - Credit Myths and Facts Answer Sheet
  - Pick a Strategy for **Requesting Your Free Credit Reports\***
  - Monitor and Find Errors by **Reviewing Your Credit Reports Regularly\***
  - **Disputing Errors** on Your Credit Reports\*
  - How Are Credit Scores Calculated?
  - Other Credit Sources
  - Build Habits for **Getting and Keeping a Good Credit History\***
  - Make a Plan for **Putting Goals Into Action** (from previous lessons)
- Name tents
- Markers, crayons, pencils, or other writing utensils
- Discussion Questions
- Flip chart
- Stress reliever hand squeezes (1 per participant) (optional)

\*Instead of using “Pick a Strategy for **Requesting Your Free Credit Reports**,” “Monitor and Find Errors by **Reviewing Your Credit Reports** Regularly,” and “**Disputing Errors** on Your Credit Reports” handouts, order free copies of the Consumer Financial Protection Bureau publication *Want Credit to Work for You? Start With These Steps* (2018) for each participant. (Omit making these copies if using this booklet.) Find the publication online at <https://pueblo.gpo.gov/CFBPubs/CFBPubs.php?PubID=13414>.

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## Preparation

Review the entire lesson. Make copies of handouts you plan to use for participants. If using 3-ring binders to organize and store handouts, 3-hole punch the handouts. Collate the handouts into one set for each participant.

Gather all needed materials. Prepare materials accordingly. Review and choose several questions from the “Discussion Questions” section. If desired, repost the ground rules you wrote on flip chart paper before Lesson 1 on a wall in the classroom.

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## Lesson Plan Overview

Facilitator may use a flip chart and a marker to visualize any important terms introduced during the lesson. Use the lecturette concepts and activities covered in the lesson plan as a guide.

## Lesson Plan Overview

TIME ALLOTTED	ACTIVITY
5 minutes	Welcome, overview of lessons, ground rules, assignment review, lesson objectives, distribute handouts
5 minutes	Introduce Credit Basics
10 minutes	Activity 1: Credit Myths and Facts Handout: Credit Myths and Facts Handout: Credit Myths and Facts Answer Sheet
5 minutes	Activity 2: Check Your Credit Report Handout: Pick a Strategy for <b>Requesting Your Free Credit Reports</b>
5 minutes	Activity 3: Writing a Dispute Letter Handout: Monitor and Find Errors by <b>Reviewing Your Credit Reports</b> Regularly Handout: <b>Disputing Errors</b> on Your Credit Reports
5 minutes	Activity 4: Ways to Build Your Credit Score Handout: How Are Credit Scores Calculated?
10 minutes	Activity 5: Alternative Credit Sources Handout: Other Credit Sources
5 minutes	Activity 6: Getting and Keeping Good Credit Handout: Build Habits for <b>Getting and Keeping a Good Credit History</b>
5 minutes	Discussion Questions and Are You Ready for Change? Make a Plan for <b>Putting Goals Into Action</b>
5 minutes	Wrap-Up

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### Welcome, Review Assignments, and Distribute Handouts

**Share:** Welcome the group, take attendance, review ground rules, and distribute handouts for today's lesson. To review the assignments from the previous "Lesson 10: Paying Bills," ask for a couple of volunteers to share their action plan that include finances, using their stated goal on their name tent as a reminder.

**Share:** *State the learning objectives for this lesson. If you have stress reliever hand squeezes for each participant, distribute them. Say that having and building credit can be stressful but doable over time with a good action plan. Let's begin to talk about credit and what you should know.*

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### ACTIVITY 1: CREDIT MYTHS AND FACTS

#### Credit Basics

**Share:** Credit is a way to borrow money now and promise to pay for it later. Credit is different from debt, which can result from using credit.

#### ACTIVITY 1: CREDIT MYTHS AND FACTS

**Share:** *The first activity is to take the credit quiz on the handout “Credit Myths and Facts” to find out what you know about credit plus find out correct information.*

**Ask:** *Who will volunteer to read the first statement and decide if it is true or false?*

**(Leader Note:** Use the “Credit Myths and Facts Answer Sheet” handout to explain the correct answer. Go around the room or ask for volunteers to read the remaining nine statements.)

**Share:** *Credit is good to have if you can afford it. It is possible to build a good credit record for future major purchases such as a car or a house. A person with no credit or poor credit may not be able to get a loan or may pay higher interest rates on credit cards and other services. When you use credit and pay loans, your track record in making payments becomes part of your credit history. Credit reporting companies pull this history into credit reports, including bill paying, public record information, and a record of how often you applied for credit. Credit reports show how much credit you have, how much credit you are using, whether or not you have made timely payments, and whether debt collectors have reported that they are attempting to collect debt you owe (Anderson-Porisch et al., 2007).*

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### ACTIVITY 2: CHECK YOUR CREDIT REPORT

#### ACTIVITY 2: CHECK YOUR CREDIT REPORT

**Share:** You can check your credit report once a year for free from each of the three major credit reporting companies. Use the information on the handout “Pick a Strategy for **Requesting Your Free Credit Reports**” to order a copy of your credit report from each of the three credit reporting companies: Experian, Equifax, and Transunion.

**Share:** A Credit report has the following information:

- Identifying information: name, birthdate, social security number, spouse’s name, employer
- Credit history: Payment history showing how much credit you have and if you pay on time
- Inquiries from creditors and other authorized parties: Individuals or companies who have requested your credit history
- Public record information: Bankruptcies, foreclosures, tax liens

Information in your credit report is also used by companies you apply at to make other decisions about you, including employment, an apartment or house, insurance coverage, utility and cell phone deposits, and credit cards. You must pay bills on time and pay attention to what is in your credit report (Anderson-Porisch et al., 2007). For example, your renter or home insurance annual premium amount will depend some on your credit score. How much you must put down to set up an electric company account or buy a new cell phone will also depend on your credit score.

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## ACTIVITY 3: WRITING A DISPUTE LETTER

## ACTIVITY 3: WRITING A DISPUTE LETTER

**Share:** I also encourage you to review your credit report from each company for mistakes and correct the errors, using the “Monitor and Find Errors by **Reviewing Your Credit Reports Regularly**” handout. If needed, use the “**Disputing Errors on Your Credit Reports**” handout to write a letter with your own details added and send with copies of written documents and a copy of the credit report with disputed items circled. To “dispute” means that you disagree with something in the report and that you want the error corrected.



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### ACTIVITY 4: WAYS TO BUILD YOUR CREDIT SCORE

#### ACTIVITY 4: WAYS TO BUILD YOUR CREDIT SCORE

**Share:** *Having a poor credit score will likely mean you will pay a much higher interest rate for the same loan as compared to someone with a high credit score, who will pay a lower interest rate.*

**Share:** *Credit scores are calculated using the information in your credit report. A credit score is a three-digit number that lenders use to decide the likelihood that you will pay them back. “Excellent credit” scores are over 750. “Fair” credit scores are between 620 and 660. Scores below 620 could be improved (Consumer Financial Protection Bureau, 2020).*

**Share:** *Look at the pie chart on the “How Are Credit Scores Calculated?” handout to understand more about how credit scores are computed (Consumer Financial Protection Bureau, 2020). The best actions to take to build your credit score are to pay your bills on time and to pay down or pay off debts and credit cards. Those two factors make up about two-thirds of your credit score calculation.*

**(Leader Note:** For a visual tool, draw a pie chart on your flip chart showing the percentage of a credit score for each of the five categories: Payment history=35%, Amounts owed=30%, Length of credit history=15%, Types of credit used=10%, New credit=10%)

*Lenders use credit scores to decide how much money they lend you and how much interest to charge. The Annual Percentage Rate (APR) increases as the credit score lowers. For example, a person with a credit score in the low 700s might have an APR of around 4% but a person whose credit score was in the high 500s might have an APR of around 16%. That could mean a difference of thousands of dollars owed. The lower your credit score the higher the interest rate charged to you. This helps us understand the interest costs when comparing a good credit score to a poor one. If you can improve your credit score, you can reduce your interest costs.*

**Share:** *Credit should be affordable and used for some purpose. Repaying the credit on time each month shows other lenders that a person is trustworthy and reliable. Misusing credit is expensive. It can include interest and other fees. You will pay more for your purchases if you make only the minimum payment each month and take longer to pay off the purchase or loan (Anderson-Porisch et al., 2007).*

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### ACTIVITY 5: ALTERNATIVE CREDIT SOURCES

## Other Credit Sources

**Share:** *The safest place to get credit is at a bank or credit union. Alternative credit sources are pawnshop loans, payday loans, rent-to-own, and refund anticipation loans (RALs). Generally, these lenders take advantage of people in difficult financial situations. They pressure people into borrowing more money than they need. They charge higher interest rates and fees (Anderson-Porisch et al., 2007).*

### ACTIVITY 5: ALTERNATIVE CREDIT SOURCES

**Share:** *As a group, we will do the matching activity on the “Other Credit Sources” handout to identify how alternative loan services work.*

**(Leader Note:** See Appendix 11-1 for definitions and answers for this activity.)

**Share:** *We are going to brainstorm as a group some options to help you if you are short on cash.*

**(Leader Note:** Use a flip chart and a marker to write down participant responses. Answers might include:

- Use your own emergency savings.
- Use a low-cost, short-term loan from a credit union or bank.
- Borrow from a family member or friend.
- Use a credit card if it will be cheaper in the long run.
- Negotiate for more time to pay the bill that is due now.
- Think about if the reason you are borrowing money is a need or want. If it is a want, can you spend less money, not purchase it, or wait until you have the money?)

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## ACTIVITY 6: GETTING AND KEEPING GOOD CREDIT

**Getting and Keeping Good Credit**

**Share:** *Having access to affordable credit within your spending plan is important. It is equally important to manage credit by paying back the money you borrow. Keep track of credit purchases and receipts for your records. This helps check all charges on your monthly statements and challenge any errors (Anderson-Porisch et al., 2007).*

## ACTIVITY 6: GETTING AND KEEPING GOOD CREDIT

**Share:** *Let's review the "Build Habits for **Getting and Keeping a Good Credit History**" handout and discuss ways to maintain or improve a credit score.*

**Ask:** *What is one thing you will try to do going forward to build your credit, if that is important to you for your financial future?*

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### Discussion Questions

**(Leader Notes:** Choose several questions from the following list to begin wrapping up the lesson.)

- Do I need this item right now? If not, how soon will I need it?
- Can I save money to pay with cash?
- If I use a credit card or charge card, will I be able to pay more than the minimum payment?
- Would a used item work as well as a new item?
- Have I checked my credit report recently? Any errors to dispute?

### Are You Ready for Change?

**Share:** *I encourage you to think about the concepts covered in this lesson “Understanding Credit.” What actions or behavior changes do you plan to do?*

**(Leader Note:** Encourage participants to use the “Make a Plan for **Putting Goals into Action**” handout to write down SMART goal(s), supports, resources needed, and Action Plan Step(s). Some participants may choose to keep working on their original SMART goal steps for many weeks. They can revisit and revise their SMART goal as needed to be more realistic and doable. Some may want to add a new SMART goal based on this lesson; you may want a few extra copies of this handout ready. It is important that participants focus on one or maybe two SMART goals at a time so that they do not feel overwhelmed and are confidently making progress to successfully achieve their goals toward desired behavior outcomes.)

**Ask:** *On a scale of 1 (not at all ready) to 10 (extremely ready), where are you?*

*Are you ready to make a change with confidence toward your SMART goal?*

*How important is the change for you?*

*How confident are you about making this change? Why?*

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### Wrap-Up

**Share:** *Credit is a way to borrow money now and promise to pay for it later. Credit is good to have if you can afford it. Today we discussed the way to get a free copy of your credit report and review it, ways to build your credit score, places to get credit, and ways to decide how much credit you can afford. You also received many tools to make your choices about using credit wisely.*

### Additional Resources

- Credit Counseling. Consumer Financial Protection Bureau: Find out how credit counseling can help you manage your debt and find a credit counselor in your area.  
<https://www.consumerfinance.gov/ask-cfpb/what-is-credit-counseling-en-1451/>
- Credit Reports and Scores. Consumer Financial Protection Bureau: Answers to common questions about credit reports and scores.  
<https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/>
- [Consumer.gov](https://www.consumer.gov/). Get help building a better credit report. <https://www.consumer.gov/>
- myFICO. Fair Isaac Corporation. FICO Score Estimator.  
<https://www.myfico.com/fico-credit-score-estimator/estimator>
- myFICO. Fair Isaac Corporation. Loan Savings Calculator.  
<https://www.myfico.com/credit-education/calculators/loan-savings-calculator/>
- myFICO. Fair Isaac Corporation. “What Credit Score Do You Need to Buy a Car?”  
<https://www.myfico.com/credit-education/blog/credit-score-to-buy-car>

To order a free credit report, call 1-877-322-8228 or visit <https://www.annualcreditreport.com/index.action>.

To understand credit reports and scores, visit <https://www.consumerfinance.gov/about-us/blog/askcfpb-your-questions-about-credit-reports-and-scores/>.

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## References

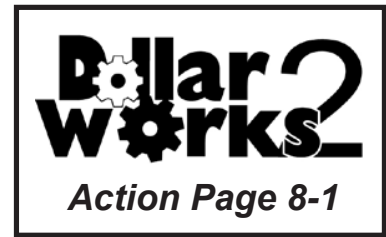
Anderson-Porisch, S. A., Heins, R. K., Petersen, C. M., Hooper, S. E., & Bauer, J. W. (2007). *Dollar works 2: A personal financial education program* (Item 08503). University of Minnesota Extension.

Consumer Financial Protection Bureau. (2018). *Want credit to work for you? Start with these steps*. <https://www.consumerfinance.gov/consumer-tools/educator-tools/your-money-your-goals/booklets-talk-about-money/>

Consumer Financial Protection Bureau. (2020). *Your money, your goals: A financial empowerment toolkit*. [https://files.consumerfinance.gov/f/documents/cfpb\\_your-money-your-goals\\_financial-empowerment\\_toolkit.pdf](https://files.consumerfinance.gov/f/documents/cfpb_your-money-your-goals_financial-empowerment_toolkit.pdf)

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

## *Credit Myths and Facts*



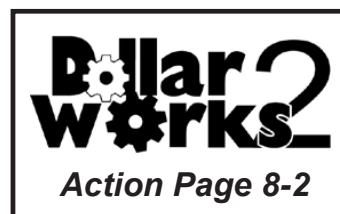
Take this true and false quiz to see how much you know about credit. Place a check mark under the true or false answer you feel is correct for each statement.

STATEMENT	TRUE	FALSE
1. Credit reporting agencies approve or reject a person's request for credit.		
2. Information in a credit report only affects a person's finances.		
3. My credit score will not be lower if I view my credit reports.		
4. I must keep a balance on my credit cards in order to build a credit history.		
5. All credit repair companies can fix credit problems.		
6. Credit reports are not all the same.		
7. I must give my employer permission to see my credit report.		
8. Credit is something we should all understand.		
9. The safest place to get a loan is at a bank, credit union or savings bank.		
10. If I qualify for credit I must be able to afford it.		

Anderson-Porisch, S.A., Heins, R.K., Petersen, C.M., Hooper, S.E., & Bauer, J.W. (2007). *Dollar Works 2: A Personal Financial Education Program* (Item 08503). University of Minnesota Extension. Action Page 8-2 Credit Myths and Facts, page 183.

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## *Credit Myths and Facts Answer Sheet*



Here are the answers to the true and false quiz on Action Page 8-1. Find more information on these topics on other Action Pages in this unit.

- 1. False.** Credit reporting agencies give your credit information to lenders. The lenders make the decision to approve or reject your request for credit.
- 2. False.** Information in a credit report does affect your finances. However it can also affect your car insurance rates and whether you get rental housing. Many employers review credit reports before hiring for a job. Employers know that people with money problems are often less productive at work, miss more workdays, and have problems at home, as well as other problems employers do not want to deal with.
- 3. True.** Viewing your credit report will have no negative impact on your credit score. You should review your credit reports at least yearly.
- 4. False.** Credit use and on-time payments are what build a credit history. You can do this and still pay the balance in full each month.
- 5. False.** Most credit repair companies are scams. You can fix errors yourself for no cost.
- 6. True.** Not all companies or businesses will report to all three credit bureaus (Experian, Equifax, and Trans Union). Also, the speed at which the credit bureaus update information is not the same.
- 7. True.** Your employer does need permission to view your credit report. However, all other companies do not need permission from you. Look at the inquiry section of your report and you will see that you have been pre-approved for credit offers that you never gave consent to.
- 8. True.** Everyone can and should understand credit. There are many reliable resources available to help you learn more about using credit.
- 9. True.** The safest place to get a loan is at a bank, credit union, or savings bank. Credit is available from other sources, such as payday lenders or pawnshops, but these are much more expensive and often are not safe ways to obtain credit.
- 10. False.** You may qualify for an amount of credit that is more than you can afford the payment for. You must decide if you can afford the new payment by estimating how this payment will fit with your other payments and expenses.



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## Pick a strategy for **Requesting your free credit reports**

1. Pick when you'll request your credit reports using the strategy that works best for you.
2. Write down when you'll request them from each company, Experian, Equifax, and TransUnion. You can get a free report from each company once every 12 months.
3. Create a reminder on your calendar or phone to help you follow through.

### Strategies for requesting your credit reports

REQUEST ON THREE SEPARATE DATES		REQUEST ON A SINGLE DATE	
Check your reports on three different dates throughout the year. Staggering them can help you see if anything is changing throughout the year or if any fraud has occurred.		Choose a single date that's easy to remember, like a birthday or holiday, to request all three of your reports at once. This is good if you're buying something big soon, that requires new credit, so you can correct errors right away.	
<input type="checkbox"/> I will request my reports on these three separate dates:		<input type="checkbox"/> I will request a report from all three companies on this day:	
DATE	COMPANY	DATE	COMPANY
	Equifax		Equifax, Experian, TransUnion
	Experian		
	TransUnion		

### How to request your free reports

The federal government authorizes only one source for your free credit reports. You can make a request online, by phone, or by mail.

Visit [AnnualCreditReport.com](https://www.annualcreditreport.com)

Call (877) 322-8228

**Request by mail.** Download and complete the form at [annualcreditreport.com/manualRequestForm.action](https://www.annualcreditreport.com/manualRequestForm.action).

Mail the completed form to:  
Annual Credit Report Request Service  
P.O. Box 105281  
Atlanta, GA 30348-5281

Bureau of Consumer Financial Protection. (2020). *Your money, your goals: A financial empowerment toolkit*, p. 171

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## Monitor and find errors by **Reviewing your credit reports** regularly

1. Make a copy of this tool, one for each of the three nationwide credit reporting companies.
2. Use the checklist to review the five sections of each of your credit reports.
3. Write down any questions you have or incorrect information you need to dispute.

Name of credit reporting company: \_\_\_\_\_

SECTION	IS THIS INFORMATION CORRECT?	QUESTIONS OR ERRORS
<b>Header and Identity Information</b>	<input type="checkbox"/> My name (including spelling)	
	<input type="checkbox"/> My Social Security number	
	<input type="checkbox"/> My current telephone number	
	<input type="checkbox"/> My current address	
	<input type="checkbox"/> My previous addresses	
	<input type="checkbox"/> My employment history	
<b>Public Record Information</b>	<input type="checkbox"/> My financial public record information, like bankruptcies, judgments, or tax liens	
<b>Collection agency account information</b>	<input type="checkbox"/> My accounts, if any, in collections	
	<input type="checkbox"/> The status of each of my accounts	

Bureau of Consumer Financial Protection. (2020). *Your money, your goals: A financial empowerment toolkit*. pp. 173-174.

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SECTION	IS THIS INFORMATION CORRECT?	QUESTIONS OR ERRORS
<b>Credit account information</b>	<input type="checkbox"/> All of the accounts are mine	
	<input type="checkbox"/> The status of each of my accounts, such as whether they are open or closed; and whether I paid on time, missed payments, or paid less than the amount due.	
	<input type="checkbox"/> I'm accurately listed as an authorized user, co-signer, or joint owner	
	<input type="checkbox"/> All accounts I've closed are listed as "closed by the consumer"	
<b>Inquires made on your account</b>	<input type="checkbox"/> I recognize all "hard inquiries" or times when I've applied for credit and a lender reviewed my credit report. To learn more about inquiries, visit <a href="https://consumerfinance.gov/ask-cfpb/whats-a-credit-inquiry-en-1317">consumerfinance.gov/ask-cfpb/whats-a-credit-inquiry-en-1317</a>	

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## Disputing errors on your credit reports

If you find mistakes on your credit reports, you should dispute them. Here's how you can dispute errors you find.

Errors can appear on one or more of your credit reports due to an error in the information provided about you or as the result of fraud or identity theft.

If you find errors on your credit reports, you should dispute them with the credit reporting company (most often Equifax, Experian, or TransUnion) and the furnisher of the information.

### GETTING READY TO DISPUTE

Review the mistakes you identified in the “Reviewing your credit reports” tool. Then gather any documents you have that support your dispute.

This can include things like:

- Your credit report with the mistake circled or highlighted
- Copies of anything that proves there is an error—for example, if your report incorrectly shows that you're late paying a credit card, make copies of bills or cleared checks (or money order stubs) that show you've paid on time
- Copies of your Social Security card, birth certificate, or other personal identity information, if you're disputing a mistake related to that information

If you suspect that the error on your report is a result of identity theft, visit [identitytheft.gov](https://www.identitytheft.gov).

See Module 9: Protecting your Money for more information about identity theft and steps to take if you are a victim, including filing a fraud alert or security freeze.

### SUBMITTING THE DISPUTE

You can submit a dispute to the credit reporting company by phone, by mail, or online. **Explain the error and what you want changed.** Clearly identify each mistake separately, state the facts, explain why you are disputing the information, and request that it be removed or corrected.

Some of the credit reporting companies provide a dispute form you can use. You'll also want to send a letter explaining the mistake(s)—there's a letter template you can use on the next page.

Make sure you also include copies of all of your supporting documentation. Keep your originals.

You can also choose to send a copy of the dispute to the business or individual that provided the incorrect information (furnisher). You can usually find that address on your credit report.

If you're mailing the dispute information, it's a good idea to use certified mail with a return receipt requested, if that's available to you. That way, the post office will send a postcard telling you when your dispute letter was delivered.

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### WAITING FOR MISTAKES TO GET FIXED

The credit reporting company generally has 30 calendar days (45 days in some cases) to investigate your dispute. They have five business days to notify you of the results once the investigation is complete.

If the error is fixed, you'll receive a copy of your updated credit report, which doesn't count as your free annual report.

If, as a result of your dispute, a furnisher determines they sent the wrong information to a credit reporting company, they must send the correction to various credit reporting companies to which they had provided the incorrect information.

### IF YOU DISAGREE WITH THE RESULTS

You can send the credit reporting company a letter stating you don't agree with the outcome. The credit reporting company has to clearly note that the information has been disputed and provide your explanation on any future reports.

You can also submit a complaint with the Bureau at [consumerfinance.gov/complaint](https://consumerfinance.gov/complaint). We'll forward it to the company and work to get you a response. See Module 9: Protecting your Money for more information on how to submit a complaint.

You may also want to seek assistance from a lawyer. Learn more at [consumerfinance.gov/askcfpb/1549](https://consumerfinance.gov/askcfpb/1549).

### Ways to contact the credit reporting companies

	EQUIFA X	EXPERIAN	TRANSUNION
Online	<a href="https://equifax.com/personal/disputes">equifax.com/personal/disputes</a>	<a href="https://experian.com/disputes">experian.com/disputes</a>	<a href="https://transunion.com/credit-freeze/place-credit-freeze">transunion.com/credit-freeze/place-credit-freeze</a>
Mail	Mail letter explaining mistakes and completed dispute form	Mail letter explaining mistakes	Mail letter explaining mistakes and completed dispute form
	<b>Dispute form:</b> <a href="https://equifax.com/cp/MailInDislosureRequest.pdf">equifax.com/cp/MailInDislosureRequest.pdf</a>	<b>Dispute form:</b> None needed	<b>Dispute form:</b> <a href="https://transunion.com/docs/rev/personal/InvestigationRequest.pdf">transunion.com/docs/rev/personal/InvestigationRequest.pdf</a>
	<b>Mail to:</b> Equifax Information Services LLC P.O. Box 740256 Atlanta, GA 30348	<b>Mail to:</b> Experian P.O. Box 4500 Allen, TX 75013	<b>Mail to:</b> TransUnion Consumer Solutions P.O. Box 2000 Chester, PA 19016
Phone	(800) 864-2978	(888) 397-3742	(800) 916-8800

Bureau of Consumer Financial Protection. (2020). *Your money, your goals: A financial empowerment toolkit*. pp. 175-176.

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

**I am writing to dispute information that appears on my consumer report.**

I am disputing the items on the following page. Please investigate the items I have described below, make necessary corrections and notify me when complete.

Thank you for your assistance. Sincerely,

Name

## My information

Name and return address

Today's date

Credit reporting company name and address

Phone number

 -  - 

Date of birth (any format)

Report confirmation number, if available

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

I am disputing the following:

- My report includes accounts with a reported name that is different than mine.**
- I don't recognize the accounts in question.**
- The report shows I owed money to the company that I have already repaid.**
- The current status of my account is not correct. The report shows that I am delinquent but I have made all of my payments on time.**
- I'm the victim of identity theft and I don't recognize one or more of the accounts on my report.**
- Other, see additional information.**

## Additional information about the disputed item

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Description including account numbers, dates, source of disputed information (like a company or bank), previous addresses related to the dispute

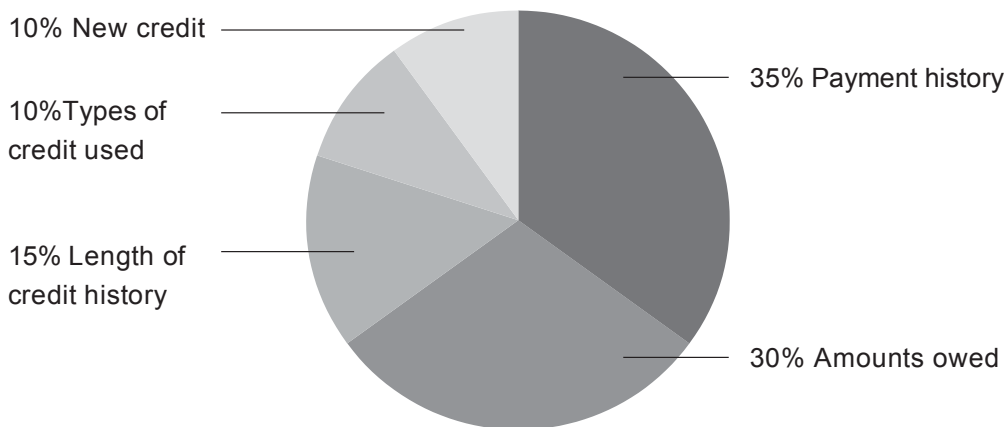
- I have attached a copy of my report with the issues in question circled.**

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

## HOW ARE CREDIT SCORES CALCULATED?

Scoring companies have different mathematical formulas to calculate credit scores, all typically starting with the information from your credit report. Two of the most commonly used credit scores are FICO (calculated using formulas from Fair Isaac Corporation) and VantageScore (calculated using formulas from VantageScore Solutions). Each of these companies produces multiple versions of their scores for different purposes. These scores usually range from 300 to 850. A FICO score above 700 is considered good by most businesses, and scores of 750 and higher are considered the best.

FICO shares this information with the public about what goes into its scores:<sup>11</sup>



**Payment history** tracks whether you’re paying your bills on time. This is the biggest factor in your FICO scores. Paying bills late, not paying bills at all, and having bills that go to collections will likely cause your scores to drop. Paying your bills on time may help increase your scores.

**Amounts owed** tracks what you owe, including debts that you are paying down over time. It also includes your credit utilization rate, which is how much of your available credit you’re using. When the credit that’s available to you decreases because you’ve used a portion of it and now owe money, your scores may drop.

**Length of credit history** tracks how long you’ve had credit accounts—the longer the history, the more positive affect on your scores. A long credit history provides strong evidence of how you use credit and patterns of your payment behavior.

<sup>11</sup> Pie chart values are from FICO. See [myfico.com](http://myfico.com).

Bureau of Consumer Financial Protection. (2020). *Your money, your goals: A financial empowerment toolkit*. pp. 165-166.



# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

**New credit** is tracked by measuring credit inquiries about you made by creditors and others. If there are too many inquiries, it may signal that you have a high demand for credit. Because this may be an indicator of risk, your scores may drop. **Your scores are not affected at all when you check your credit reports yourself.**

**Types of credit used** are also considered. For example, your FICO scores may increase if you have both revolving credit (such as credit cards) and other types of credit, such as a mortgage or an auto loan that you repay in installments, in good standing. Generally, it's considered a good thing to have a mix of credit, such as a mortgage, an auto loan, and not too many credit cards.

VantageScore shares this information with the public about how its scores are calculated.<sup>12</sup>

### Factors that influence VantageScore credit scores

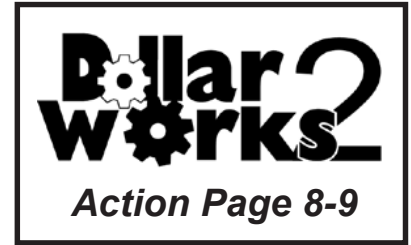
	<p><b>Payment history</b> Extremely influential</p>
	<p><b>Age and type of credit</b> Highly influential</p>
	<p><b>Percent of credit limit used</b> Highly influential</p>
	<p><b>Total balances/debt</b> Moderately influential</p>
	<p><b>Available credit</b> Less influential</p>
	<p><b>Recent credit behavior and inquiries</b> Less influential</p>

<sup>12</sup> "Age of credit" refers to the length of time accounts have been open.

Bureau of Consumer Financial Protection. (2020). *Your money, your goals: A financial empowerment toolkit*. pp. 165-166.

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

## Other Credit Sources



Some types of credit are referred to as predatory, abusive, or sub-prime credit sources. These loans are expensive and often not a safe way to borrow money. Think of these as a last resort when you need a loan, cash, or credit. See if you can identify these loan types. Match the brief explanation of the loan with the type of loan it describes. When you are finished, read below for more information about each loan and the correct answers.

<b>Loan Type</b>	<b>Brief Explanation</b>
1. ___ Auto Title Loan	A) The dollar amount loaned is based on a dollar value of personal property you pledge
2. ___ Bounce Protection Loan	B) You take a loan against your own taxrefund
3. ___ Pawnshop Loan	C) You rent an item for a period of time before you own it
4. ___ Payday Loan	D) You use your car to secure the loan
5. ___ Refund Anticipation Loan	E) Your personal check is held by a lender until payday
6. ___ Rent-to-Own	F) Overdraft fees are charged until you have a positive balance in your account

Correct Answers: (1) D (2) F (3) A (4) E (5) B (6) C

Anderson-Porisch, S.A., Heins, R.K., Petersen, C.M., Hooper, S.E., & Bauer, J.W. (2007). *Dollar Works 2: A Personal Financial Education Program* (Item 08503). University of Minnesota Extension. Action Page 8-9 Other Credit Sources, page 189.

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT



## Build habits for **Getting and keeping a good credit history**

1. Read the different strategies for improving and maintaining your credit history.
2. Check the box of one that you can commit to trying now.
3. Once that one is complete, try one or two more to keep improving your score.

**HABIT**

**TIPS FOR IMPROVING YOUR CREDIT**

**I'll pay my loan and utility bills on time, every time.**

Missing bill payments may hurt your credit scores because it may establish a poor payment history and can lead to debt collection. Help make sure your payments are on time by setting up automatic payments or electronic reminders. If you've missed payments, get current and stay current. You can use the "Bill calendar" (in Module 4) to help track when your bills are due and decide when you'll pay them.

**I'll spend under my credit limit and won't get anywhere close to "maxing out" my credit cards.**

Credit scoring models look at how close you are to being "maxed out," so try to keep your balances low compared to your total credit limit. Experts advise keeping your use of credit (credit utilization) at no more than 30 percent of your total credit limit.

If you close some of your credit card accounts and put most or all of the balances onto a single card, your total credit limit may be lower than before. If doing this means that you're using a higher percentage of your total limit than you were before, it may hurt your credit scores because it's increasing your credit utilization. In some cases, it's better to leave credit cards open even if you don't use them, to increase your total credit limit. But it depends on how many cards you have and if you can avoid using all of them.

**I'll pay off my credit card balance on time each month.**

**If you use credit cards, try to pay your balances off each month.** Paying off the balance each month may help you get better scores. You'll build a credit history by paying it off on time and keeping your balance low. Think about setting up text alert reminders for when your bill is due, to help you pay on time.

Bureau of Consumer Financial Protection. (2020). *Your money, your goals: A financial empowerment toolkit*. pp. 180-181.

# GET **READY**, GET **SET**, GET **GOING**. HANDOUT

**HABIT**

**TIPS FOR IMPROVING YOUR CREDIT**

**I'll only apply for credit that I need.** Credit scoring formulas look at your recent credit activity as a signal of your need for credit. If you apply for a lot of credit over a short period of time, it may appear to lenders that your economic circumstances have changed for the worse.

**I'll make sure that negative information on my credit reports (like judgments, bankruptcies, or evictions) is accurate.** If it's not accurate or if it's listed multiple times, submit a dispute with the credit reporting company and the company that provided the information (the furnisher). You can use the "Disputing errors on your credit reports" tool to get started.

**I'll use credit building products to establish a credit history if I'm new to using credit.** **Secured credit cards can be a way to build a positive credit history if you're just starting out.** You typically need to provide the deposit upfront, so you'll need to have enough money saved for the deposit before you open one. Because credit limits tend to be low with these cards, be sure to watch your credit utilization rate and avoid getting too close to using the full limit.

**Credit builder loans help you avoid taking on debt while you build a positive payment record.** With some loans, you make monthly payments first, and receive the loan amount when it's paid off.

These loans can be very effective in creating new history and can have a positive affect on your credit reports and scores.

Some non-profit organizations provide access to secured credit cards or credit builder loans. Be sure to ask about the terms, just like you would ask a bank or credit union for details about its products.

# GET **READY**, GET **SET**, GET **GOING**.

## APPENDIX 11-1

### Alternative Credit Sources Activity

Definitions of matching activity terms:

**Auto title loans** are short-term loans, usually 30 days or less, that use a person's car to secure the loan. If the loan is not repaid the lender may take the car and sell it to get the loan money back. Lenders make money by charging high interest rates and by repossessing cars when the borrower cannot pay off the loan.

**Bounce Protection Loans** cover checking account overdrafts and are similar to payday loans. They are small loans aimed at low and moderate income people who have short-term cash flow problems. This plan lets lenders charge overdraft fees for each check written plus a per-day fee until the account has a positive balance. Borrowers sometimes pay triple digit interest fees without giving their consent and sometimes without knowing it.

**Pawnshop loans** are single-payment loans given for short periods of time, usually one to two months. The dollar amount loaned is based on the dollar value of personal property that you turn over to the pawnshop. Usually the pawnshop only loans cash equal to one-third or less of the value of the property held. The pawnshop owner can legally sell the item if you fail to redeem it by paying the amount due plus interest in the time specified.

**Payday loans** are short-term cash loans, usually for about two weeks. You write the lender a personal check for the amount borrowed plus the finance charge and receive cash. Lenders hold the check until the next payday when the loan and the finance charge must be paid in full.

To repay a payday loan, you can:

- Repay the check with cash.
- Allow the check to be deposited at the bank.
- Pay the finance charge to extend the loan for another pay period.

Payday loans are very expensive compared to other cash loans. You can be trapped in repeat borrowing cycles due to the:

- Extremely high cost to borrow.
- Very short repayment term.
- Consequences of failing to repay the check used to secure the loan.

**Refund anticipation loans (RAL)** are offered to people when taxes are filed, usually January through April. A refund anticipation loan is borrowing against your own tax refund money. Before applying for a RAL you need to consider the high cost of the loan, which includes the loan amount, loan fees, electronic filing fees, and tax preparer fees. You also need to consider the consequences if you cannot repay the loan. The loan may be turned over to a debt collector and negative information reported on your credit record.

**Rent-to-own** businesses allow you to make purchases with little or no down payment by first renting the item for a period of time before owning it. Even if you do not qualify for traditional credit purchases you may use this form of credit, but it can be very expensive.

# GET **READY**, GET **SET**, GET **GOING**.

## APPENDIX 11-1

Before you buy an item with a rent-to-own contract, find out the total cost of the item and compare it to the price of buying with cash, on an installment plan, or with other forms of credit. Also be sure to ask the following:

- Are there any extra charges for insurance, handling, or delivery service?
- Will there be any balloon payments?
- Is the rented item new or used?
- Will I get a manufacturer's warranty and owner's manual?
- Will I get credit for all my payments if I decide to buy the item?
- What is my responsibility for loss, damage, or repair?
- Will I get a replacement while the item is being repaired?
- What happens if I cannot make a payment? Will the item be repossessed?
- Will I pay a penalty if I return the item before the end of the contract?

**Correct Answers:** (1) D (2) F (3) A (4) E (5) B (6) C

Anderson-Porisch, S. A., Heins, R. K., Petersen, C. M., Hooper, S. E., & Bauer, J. W. (2007). *Dollar works 2: A personal financial education program* (Item 08503). University of Minnesota Extension.