

# *Credit and Debt*

## Understanding Credit Reports and Managing Debt

PwC's *Earn Your Future*<sup>™</sup> Curriculum

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# *Table of Contents*

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Introduction.....	3
Lesson description.....	3
Grade(s) .....	3
Lesson time .....	3
Pre-visit prep .....	4
Student learning objectives.....	4
Materials .....	4
<hr/>	
5 Minute Prep .....	4
<hr/>	
Background.....	4
Vocabulary .....	5
Sources .....	5
Pre and Post Assessments .....	5
Lesson activities.....	5
Evaluation/assessment of student learning.....	11
Extensions/enrichment.....	11

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## **Introduction**

*“The reality is that all children don’t know the basics of saving and investing. It’s a skill they need to be successful in our economy.”*

-Education Secretary Arne Duncan, April 2011.

Recent history underscores the immediate need for youth to develop skills in math and financial literacy, and yet, current data shows there is a lack of access to curricula for students to learn:

- A 2011 survey conducted by American Express found that a majority of parents with children in high school or college gave schools below-average or failing grades in teaching responsible spending.
- A 2012 survey by Junior Achievement and Allstate Foundation showed 23 percent of teens are uncertain about their ability to budget successfully.
- Despite the fact that 13 states mandate personal finance coursework as a high school graduation requirement, there is no national legislation mandating that it be a requirement in schools.\*

The enclosed lesson plan about financial literacy is designed to increase students’ proficiency in financial literacy. Your expert knowledge and real-life examples, coupled with this one-hour lesson plan aligned to national standards in personal finance education, will fill a critical gap in our current education system, and better prepare the next generation of leaders to make sound financial decisions and be productive citizens.

We applaud your efforts to bolster students’ understanding of concepts critical to the health of our economy and stability of our nation. Furthermore, we thank you for serving as an ambassador for PwC, reinforcing our commitment to helping students improve their skills in financial literacy and to youth education overall.

## **Lesson description**

Students will analyze the information contained in a credit report, indicate the time that certain negative data can be retained, and describe how to dispute inaccurate entries. Students will examine possible consequences of excessive debt and list actions that a consumer could take to reduce or better manage excessive debt.

## **Grade(s)**

9-12

## **Lesson time**

45-60 min

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## ***Pre-visit prep***

- Review the 5-minute prep to familiarize yourself with the lesson topic vocabulary
- Review the handouts to familiarize yourself with their structure and requirements
- Obtain lesson materials listed under the “Materials” section below

## ***Student learning objectives***

Students will:

- Identify and analyze information contained in a credit report
- Identify time periods for retaining negative information on a credit report
- Explain how to dispute inaccuracies on a credit report
- Discuss consequences of excessive debt
- List actions for reducing or managing excessive debt

## ***Materials***

For up to 30 students, obtain ahead of time:

### ***Class/Group***

- Chart paper
- Markers
- Handout A – Impact Statements Worksheet (1 copy for facilitator)
- Handout B Answer Key– Viewing Your Credit as Spendable Income Anticipation Guide (1 copy for facilitator)
- Handout C Answer Key – Viewing Your Credit as Spendable Income T/F Worksheet (1 copy for facilitator)
- Handout E Answer Key – Sample Credit Report Question Sheet (1 copy for facilitator)

### ***Student (one for each student)***

- Handout B – Viewing Your Credit as Spendable Income Anticipation Guide
- Handout C – Viewing Your Credit as Spendable Income T/F Worksheet
- Handout D – Sample Credit Report
- Handout E – Sample Credit Report Question Sheet

# ***5 Minute Prep***

## ***Background***

A variety of organizations with lending capacity use credit reports to make lending decisions and to determine the amount of interest they will charge on a loan. Anyone who has used credit at any point will have a credit report which reveals everything about that person’s payment history. This information is used to determine a person’s creditworthiness. People should engage in fiscally-sound practices that positively impact their credit history. If a person should engage in poor financial behavior, it is important that they understand how this behavior affects their credit report. More importantly, they should take the necessary steps to repair any damage that has been done to their credit history. The first step in knowing how to manage your credit history is to be knowledgeable regarding what information is contained in your credit report.

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## Vocabulary

- **Credit:** the providing of money or goods with the expectation of payment in the future
- **Credit Report:** a record of your credit history that includes information about your identity, existing credit, public record, and inquiries about you
- **Creditworthiness:** trustworthiness with money based on prior history; a general qualification for borrowing

## Sources

Background information and vocabulary adaptations based on information from:

- \*Council for Economic Education 2011 Survey of the States
- Vocabulary adapted from Merriam Webster Dictionary for Kids: [www.wordcentral.com](http://www.wordcentral.com)
- Vocabulary adapted from WordNet (<http://wordnet.princeton.edu/>)
- Sample Credit Report obtained from TrueCredit: [www.truecredit.com/pdf/learnCenter/Reading\\_Your\\_Report.pdf](http://www.truecredit.com/pdf/learnCenter/Reading_Your_Report.pdf)
- Negative Credit Information obtained from FICO: <http://www.myfico.com/crediteducation/questions/negative-items-on-credit-report.aspx>
- Disputing Credit Report Inaccuracies obtained from FICO: <http://www.myfico.com/crediteducation/questions/Error-On-Credit-Report.aspx>

## Pre and Post Assessments

Before beginning the lesson, facilitators should introduce themselves and **distribute** the Pre-Assessment to the students. If time allows, consider conducting a mini icebreaker before the Pre-Assessment.

**Note:** It is highly recommended that facilitators read the questions aloud to the students and encourage students to select answers as they move through the questions. Reassure the students that the assessments are not graded tests or quizzes, and they do **not** need to put their names on the assessments. The assessments are a tool to measure classroom comprehension of a given module and gauge effectiveness of instructor delivery.

**Collect the Pre-Assessments** once completed.

Facilitators should teach the lesson to the students and administer and collect the Post-Assessment at the end of class, **keeping in mind the same considerations outlined above**. Again, students do **not** need to put their names on Post-Assessments.

## Lesson activities

### Greeting

**Say:** Good morning/afternoon everyone. My name is \_\_\_\_\_. Thank you for having me in your class today. Today we are going to talk about credit and credit reports.

### Activity A – Positive and negative impact (10 minutes)

#### Materials

Class/Group

- **Handout A** – Impact Statements (1 copy for the facilitator)

**Say:** I am sure that many of you are familiar with the term “credit.”

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**Ask:** Can anyone define the term “credit” for me? What is credit?

**Select** 1-2 volunteers to share responses.

**Say:** Good. Credit is basically when we receive a good or service at the moment and make a promise to pay for it later.

**Say:** Many people find themselves in financial trouble because they misuse their credit.

**Ask:** How many of you have heard people talk about being in debt?

**Scan** the room for head nods and hands.

**Say:** Debt essentially means that you owe someone or you owe a company. When you buy lots of things on credit, you run the risk of accumulating a lot of debt. One way to avoid this is to understand credit and to monitor your borrowing.

**Ask:** Have any of you heard of a credit report before?

**Count** the number of hands that are raised.

**Say:** A credit report is a document that keeps a record of your credit history, which includes information about your identity, existing credit, public record, and inquiries about you. Anyone who has ever used credit has a credit history.

**Ask:** How many of you have a cell phone in your name?

**Say:** If you opened up a cell phone contract in your own name, then your payment history is recorded and that means you have a credit history and a credit report.

**Say:** A credit report follows you basically for your entire life. Some things you do will have a positive impact on your credit history and other things you do will have a negative impact on your credit history.

**Say:** I think a good way to get your brain juices flowing around this topic is to do a little activity. I want everyone to stand up.

**Allow** time for all students to stand.

**Say:** I am going to read some statements. If you think the activity I read would have a positive impact on your credit history then remain standing. If you think the activity I read would have a negative impact on your credit history, I want you to sit down.

**Ask:** Does everyone understand the directions?

**Say:** Okay, let’s get started.

**Read** each statement from Handout A.

**Allow** time between each statement for students to scan the room and see how others have responded. Once the students have made their decisions, be sure to tell them whether the activity has a positive or negative impact.

**Say:** You may all be seated.

**Allow** time for students to sit and settle in their seats.

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**Say:** I want to take a minute to talk about a few of the things that may have surprised you. First, let's talk about the fact that one of the negative impact activities was applying for many credit cards to receive free gifts.

**Ask:** Why might this be seen as negative? Don't we want people to have credit cards? Don't people like getting free gifts? Does anyone have any ideas?

**Select** 1-2 volunteers to share ideas.

**Say:** Although it is good to have some credit, having a lot of credit cards makes lenders nervous. They realize that you could go out and spend to the limit on all of those cards and then you might not be able to pay any of them back.

**Say:** Another negative statement that may have surprised you was that having a little credit history is seen as a negative thing.

**Ask:** Why might lenders think it is a bad thing if you have a little credit history?

**Select** 1-2 students to share ideas.

**Say:** If you don't have a solid credit history, then lenders don't have a clear picture of you as a borrower. They are not sure if you can handle a large loan and again that makes them nervous. It is better to see a steady history so that they have a pretty good idea of what kind of borrower you are.

**Say:** The last one that may have surprised you or maybe you just never thought about is one that has a positive impact. Maintaining a savings and a checking account has a positive impact on your credit report.

**Ask:** Why do you think that is the case?

**Select** 1-2 students to share their ideas.

**Say:** If you maintain a savings and checking account, which you can open by making a visit to your local bank, it says something about how you manage your money. It lets creditors, people who give credit, know that you are responsible and that you have a reserve of money that you can access when you need to pay bills.

**Ask:** How many of you have a bank account?

**Count** the raised hands.

**Say:** If you don't have a bank account, opening one and using it to begin saving money would be a great way to start building a positive credit history.

**Say:** Now let me say this: it is not necessary for you all to have credit cards right now. Like I just said, though, opening a savings account is a great way for you to begin putting aside money. In general, we are going over this information so that you can be better prepared to handle your credit when the time comes. The more you learn now, the better chance you will have of maintaining good credit in the future.

## *Activity B – Viewing your credit as spendable income (5 minutes)*

### **Materials**

*Class/Group*

- **Handout C Answer Key**– Viewing Your Credit as Spendable Income T/F Worksheet (1 copy for the facilitator)

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### Students (one per student)

- **Handout C** – Viewing Your Credit as Spendable Income T/F Worksheet

**Say:** People often damage their credit history because they don't really understand how credit works. I am going to give you all a worksheet to see what you understand about credit.

**Distribute** Handout C

**Say:** I want you to read each of the statements that are listed. If you think the statement is true, circle the letter T. If you think the statement is false, circle the letter F.

**Ask:** Does everyone understand what they are supposed to do?

**Allow** students 1 minute to complete this part of the activity.

**Say:** Alright, let's go over our worksheet and see how we did.

**Read** the first statement.

**Ask:** How many of you thought this statement was true?

**Count** the number of raised hands.

**Ask:** How many of you thought this statement was false?

**Count** the number of raised hands.

**Review** the correct answer, using the Handout C Answer Key.

**Answer** any questions, if necessary.

**Continue** this procedure until all the statements have been read.

## *Activity C – Credit Report Scavenger Hunt (20 minutes)*

### Materials

#### Class/Group

- **Handout E Answer Key**– Credit Report Questions (1 copy for the facilitator)

Students (one per student)

- **Handout D** – Sample credit report
- **Handout E** – Credit Report Questions

**Say:** We have mentioned the terms “credit” and “credit report” several times. I want us to take some time to view a sample credit report so that you can have a better understanding of what they are and the types of information they contain.

**Say:** I am going to distribute two handouts. The first handout is the sample credit report. The second handout is a set of questions. You need to look through the sample credit report in order to answer the questions. You may

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choose one partner to work with you. I will give you 7 minutes to work on this activity. When time is up, we will discuss what we found.

**Note:** On page 2 of the Credit Report, in the Two Year Payment History, CO stands for “Charge-Off” and is defined as a debt that has become more than 6 months delinquent without payment.

**Distribute** Handouts D and E.

**Walk** around the room as students are working, and answers questions as needed.

**Say:** Alright, you have one minute left.

**Say:** Now let’s take a minute to discuss what we found and where we found the information.

**Read** through the questions on Handout E. After each question, ask for a volunteer to share his/her answer. Be sure to have students tell where they found their answers.

**Guide** students to the correct answer if they have answered the question incorrectly. Use the Handout E Answer Key as your guide.

**Say:** This sample report contains some negative information.

**Ask:** How do you think future creditors might react to this information?

**Select** 1-2 students to share their ideas.

**Ask:** If you were the owner of a bank and this person came in to obtain a loan, how many of you would give the person a loan?

**Count** the number of raised hands.

**Ask:** How many of you would not give this person a loan?

**Count** the number of raised hands.

**Say:** I would like for one person who said they would give the person a loan to explain why you would give them a loan. Then I want one person who said they would not give the person a loan to explain why you would not give them a loan.

**Select** 2 volunteers—one who would give the loan and one who would not give the loan.

**Say:** You can see from your classmates that there are lots of factors that go into deciding whether or not a person will receive a loan. Sometimes, people might be border-line cases. The best way to improve your chances of getting the loan or credit you want is to make sure that your credit history is as clean as possible. That means that you need to be responsible with your borrowing habits and your payment of debts.

### *Activity D – How Long Does it Stay? (10 minutes)*

*Note: If running short on time, consider skipping this activity and providing an overview of how long credit stays with each person.*

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## Materials

### Class/Group

- Chart Paper OR Whiteboard/Blackboard
- Markers

**Say:** You are starting to see how your credit report and credit history really impact your life. One thing you need to know is that even though your credit report is with you for life, all of your credit information doesn't stay there forever.

**Ask:** Why do you think some information may eventually get removed from your credit report?

**Select** 2-3 volunteers to share their ideas.

**Say:** By having some information eventually removed, it is an opportunity for people to get a fresh start. If it were never removed, then you could possibly be punished for the rest of your life for a mistake you made. I don't think any of us would like that.

**Say:** You should know that it does take time for some things to come off your record.

**Ask:** May I have a volunteer to do some writing for me?

**Select** 1 volunteer

**Note:** You may choose to select multiple volunteers and give each student a smaller amount to write.

**Say:** I want you to write each piece of information as I read it off.

**Read** the following statements. Read slowly so that the student has time to write on the board. You may consider shortening the statements to make it easier to write:

- Late payments: 7 years
- Bankruptcies: 7 years for completed Chapter 13 bankruptcies and 10 years for Chapter 7 bankruptcies
- Foreclosures: 7 years
- Collections: About 7 years, depending on the age of the debt being collected
- Public Record: Generally 7 years, although unpaid tax liens can remain indefinitely

**Ask:** Are there any terms up here that are unfamiliar to you? Does everyone know what I mean by collections?

**Clarify** any confusing terms.

**Say:** As you can see, it is possible to eventually have debt issues cleared from your record. The most important thing to take away from this activity, however, is the importance of saving money and using your credit wisely and within your limits. Keep track of how much money you have and how much money you owe. If you do find yourself in debt, create a budget that will help you pay your debt back – and stick to it! Review your credit report and pay your payments on time. Though it is possible to have poor credit information removed your record, it's of course better if you never have to do this!

## Closing Reflections (5 minutes)

**Say:** Because our credit reports carry so much weight, it is important that the information on the report is accurate. I would like to quickly share with you the steps you should take if you find inaccurate information on your credit report.

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**Write** the following information on the board:

- **Write** a letter of dispute to the credit bureau that is reporting the inaccurate information.
  - **Say:** Once you review your credit report, if you find information that doesn't look correct, you need to write a letter to each credit agency. In the letter you want to explain what you saw and why you believe it is incorrect. The companies will investigate and get back to you with the information they find.
- **Write** a letter of dispute to the company that reported the inaccurate information to the credit bureau.
  - **Say:** Just like you can write to the credit bureau, you need to write to the company that reported the information. So if a store says you didn't pay a bill and you know you did, then you need to write a letter to them and explain the situation. You also need to ask them to have the negative report removed from your credit. Add a summary explanation to your credit report if the issue isn't resolved the way you would like.

**Say:** Let's say you write your letters but the company doesn't agree with your side and they refuse to remove the information. Then you can write a statement that will show up on your credit report. In the statement you can briefly explain your side and anyone who views your credit report will also know what your position is.

**Say:** Again, these are important steps to be aware of in case you ever find yourself in a situation where you see inaccurate information on your credit report. You should check your credit report once a year or when you are about to apply for a big loan—like for a car or house. Most importantly, though, I want to remind you again to always spend wisely in order to stay out of debt and maintain good credit. Thank you for having me today – I think you learned some useful information!

## *Evaluation/assessment of student learning*

### *During lesson/in-class*

- Students evaluate activities to determine the positive or negative impact on credit history
- Students reveal knowledge of how credit works by responding to statements
- Students find key information on a credit report
- Students list ways to control or reduce debt

### *Ideas for post-lesson assessments*

- Students outline how to avoid debt and then devise a plan of what to do if they find themselves in debt
- Students write dispute letters to credit bureaus
- Students write dispute letters to companies
- Students role play scenarios to determine appropriate uses for credit

### *Extensions/enrichment*

- Teachers can have students explore the FICO site ([www.myfico.com](http://www.myfico.com)) for important information. Students can then create informational brochures to share the information they found.
- Students can go to the federal government website ([www.annualcreditreport.com](http://www.annualcreditreport.com)) and request a copy of their credit report.

Students can generate a plan of action for someone who has a bad credit report. Students can outline the specific steps the person can take in order to repair his/her credit report in a 1-3 year time span