

Lesson 1: Introduction to Credit

Student Guide Pages: 92-93

Lesson Objectives: By the end of this lesson, your students should be able to:

- define *credit*
- explain how credit reports and scores are tallied
- identify the three major credit reporting agencies

Lesson Summary:

Credit is a measure of people's faith in you, at least in a financial sense. A person with good credit has a written track record of paying their debts and bills on time.

People with good credit have an easier time getting a loan, and they may enjoy cheaper insurance premiums. They seldom have to pay any deposit to get a cellphone or cable TV. Good credit can help you rent an apartment and even help you get a job.

Credit is typically measured using two tools: a *credit report* and a *credit score*. The credit report is nothing more than a written history of how well you have paid your bills, how well you have handled the money lent to you, and how aggressively you have tried to borrow money. The *credit score* is simply the numeric summary of a credit report.

Equifax, Transunion, and Experian are credit reporting agencies that handle about 80 percent of all credit reports in the United States; these are sometimes referred to as the Big Three. They compile your credit report by gathering information from the companies you are already doing business with, like cellphone and car loan companies. Unfortunately, though, these companies you are doing business with have the right to report *only* the dumb things you do, without ever giving you credit for the smart and responsible things.

Review Questions:

- Can someone look at your credit report without your permission?

Answer: No. You usually must give a company permission before they do business with you. If you want a new cellphone, before they sign you up for a plan, they will ask you to sign a form giving them permission. While this is not discussed in the lesson, companies you are currently doing business with often

have *permissible purpose*, which means they can check a limited version of your credit report anytime, though this does no damage to your credit score.

- Who uses credit scores?

Answer: These days, it seems like everyone does! Anytime you apply for a loan, a credit card, a new apartment, or a cellphone, your credit will be checked. Some employers and insurance companies also check credit scores before they hire or do business with you.

Class Activity:

As a class, create a list of rumors students have heard about credit reports and scores. As your class goes through the lessons on credit, check the list to see which rumors are true and which are false.

Additional Information:

The Big Three credit reporting agency websites can be reached at www.equifax.com, www.experian.com, and www.transunion.com.

Fun Facts:

Credit reports have actually been around since the late 1800s. They started as handwritten reports kept by store owners, to keep track of customers who bought items on credit. Slowly, these became more and more standardized, so they could be sent between stores. Sears was one of the first major companies to make use of standardized credit reports.

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