

Understanding credit and your credit report



GRADES
9-12

In this lesson, students will learn how to read and interpret a credit report, and in the process they will develop an understanding of how their spending affects their credit history.



Subject

BBI10/20 - Introduction to Business
HIF10/20 - Exploring Family Studies
HIP40 - Personal Life Management

Suggested timing

70 minutes

Financial literacy objectives

At the end of this lesson, students will:

- be able to read and interpret a personal credit report and understand a credit score;
- describe the impact of credit history and credit reports on their future borrowing capabilities.

Curriculum expectations

Business Studies, grades 9 and 10 (2006)
Introduction to Business (BBI10/BBI20)

Finance

- Describe the process of establishing a credit rating and applying for and obtaining credit.

Social Sciences and Humanities, grades 9 to 12 (2013)
Exploring Family Studies (HIF10/20)

Communication and living

A4.2 Use terms relating to individual and family needs and resources correctly (e.g., abstract thinking, identity development, support, boundaries, empathy, division of labour needs, wants, rights, resources, budget, credit card, line of credit).

Daily living skills

C2.3 Describe and demonstrate financial strategies and the financial literacy skills necessary to manage financial resources to meet personal and family financial goals.

Curriculum expectations (cont'd)

Assessment

What you need

Minds on

Personal Life Management (HIP4O)

Daily living skills

- C2.2 Demonstrate the use of effective money management strategies.
- C2.4 Demonstrate the use of strategies for effectively managing finances and planning next steps.
- C2.5 Explain the advantages and disadvantages of buying on credit.

Collect: exit cards

- The credit report – your financial responsibility report card (Appendix A)
- Analyzing a credit report (Appendix B)
- Computer, data projector and Internet access

Internet exercise

Research information about credit report and credit score, visit:

<http://www.getsmarteraboutmoney.ca/en/managing-your-money/planning/managing-debt/Pages/Check-your-credit-report.aspx>

- Review terms
 - Discuss what determines the rate you get for a loan or credit card.
- Distribute The credit report – your financial responsibility report card (Appendix A)

Context for learning

Bill Fold is a fictional character who is constantly getting himself into financial scrapes. Use the scenario below to provide students with a context for learning.

Bill Fold just received his first credit card. He has heard of a credit report and knows that if he makes any late payments on his credit card bills, it will be reflected in his credit file. There is no way Bill plans to let that happen! He has decided he will make the minimum payment on his credit card bill on time, every month. Will this ensure Bill has a good credit track record?

Action

The purpose of a credit score

A credit score helps lenders to assess an individual's risk of not repaying a loan. It is *not* to assess borrowers' knowledge of consumer credit, their attitude toward consumer credit, their amount of consumer debt or the financial resources they have to repay a loan.

<http://www.investopedia.com/financial-edge/0311/Do-You-Understand-Your-Credit-Score.aspx>

Action (cont'd)

Lenders use the credit score to determine the rates at which they will lend out money. The better the score, the lower the lending rate. Landlords, cell phone companies, and even employers also use a person's credit score to determine his/her potential risk. It is important that students understand what a credit score is, how to improve or maintain their score and why they need to check it yearly.

Individual: credit IQ

Direct students to the online quiz, Credit IQ at <http://www.inspirefinanciallearning.ca/index.php/tools-videos/interactive-tools/credit-iq-quiz/>

- Play the quiz.
- Discuss any misconceptions brought about by the quiz.

Individual: worksheet

- Distribute Analyzing a credit report (Appendix B).
- Take up questions.

If you have not previously done this activity, you may wish to do all, otherwise only focus on credit IQ.

Consolidation/ debrief

Individual: exit cards

- List 3 things you learned about credit scores and report.
- List 2 ways to improve your credit score.
- List 1 concept you think all Canadians should understand about their credit score and report. Explain your answer.



Understanding credit and your credit report

The credit report – your financial responsibility report card

(Adapted with permission from the Toronto District School Board)

Did you know? When you are granted credit from a lending institution such as a bank or credit card company, a credit file/report is kept on you. Your credit file or report is like an ongoing financial responsibility report card of your actions. A credit report/file keeps track of your financial responsibility from the number of missed payments on a loan to the number of loans you have received. So it is important to know that how/when you pay your account(s) will affect your financial future. Your credit reports track your financial responsibility skills from today to the last six years.

Every month creditors send information about each person's account to the credit bureaus. A credit bureau is a company that collects and gathers individual consumer credit information and then sells the information, in an organized form, back to the credit grantors. In most provinces, the credit bureaus are regulated by the consumer ministries.

EQUIFAX The two credit bureaus in Canada are Equifax and TransUnion. The information they compile on an individual's debt is called a credit file or credit report. Credit grantors (e.g., banks or credit card companies) can access your credit files online and see how much, and to whom you owe, and whether you have made payments on time or late payments. Credit grantors can then use this information to determine whether or not they will approve a credit application.



Only members of the credit bureau like major creditors including banks or those you give permission to can access your credit files. But did you know that landlords or potential employers may also have access to your credit file? Suppose you want to rent an apartment, the landlord (with your permission) can run a credit check on you. If you have a bad credit report because you pay your bill late then your application to rent that cool apartment will probably be rejected. So it is essential that you know and understand the impact of your credit track record and pay your bills on time resulting in a good credit report.

The manner that this information is presented may differ among each credit bureau, but the information is essentially the same. Your credit files also contain basic information such as name, address, telephone number, birth date, social insurance number and employment history.

Consumers can obtain a free copy of their credit file by providing appropriate identifications and request forms to the Canadian credit bureaus:

Equifax – www.equifax.ca

TransUnion – www.transunion.ca



Understanding credit and your credit report

The credit report – your financial responsibility report card (cont'd)

1. List the two main credit bureaus in Canada.

2. What information can you find in a credit file?

3. Who regulates the credit bureaus?

4. Who can view a consumer's credit file?

5. What does your credit file tell us about you?

Features and information on a credit file

Credit ratings: indicate how you have paid a debt, on time or late. Each debt is assigned a credit rating on a scale from 0 to 9. Credit ratings appear on your credit file for six years from the date reported.

Balance: the amount you owe on a debt at the time the creditor reported to your credit file.

Inquiries: are the names and telephone numbers of all the creditors who have viewed your credit file over the last 4 years.

Registered lien: a claim the creditor has registered against property you have listed as collateral. A lien enables a creditor to repossess the property if the debtor does not pay as agreed. An example is a lien registered against a car by the creditor who granted the car loan.

Judgments: court orders obtained by a creditor when a debtor does not pay as agreed.



Understanding credit and your credit report

Analyzing a credit report

<p>EQUIFAX CONSUMER RELATIONS P.O.BOX 190 STATION JEAN TALON MONTREAL QUEBEC H1S 2Z2</p> <p>JANE DOE 10 PLEASANT ST. TORONTO ONTARIO M2N 1A2</p> <p>CONFIDENTIAL INFORMATION NOT TO BE USED FOR CREDIT PURPOSES RE: EQUIFAX UNIQUE NUMBER: 3140123054</p> <p>Dear JANE DOE, Further to your request, a disclosure of your personal credit file as of 03/27/01 follows:</p> <p>PERSONAL IDENTIFICATION INFORMATION: The following personal identification information is currently showing on your credit file.</p> <p>DATE FILE OPENED: 07/04/92</p> <p>NAME: Doe, Jane CURRENT ADDRESS: 10 PLEASANT ST. TORONTO, ON DATE REPORTED: 12/96 PREVIOUS ADDRESS: 2 AVENUE ST, TORONTO, ON DATE REPORTED: 12/93 PRIOR ADDRESS: 3 DU BOULEVARD, MONTREAL, PQ DATE REPORTED: 07/92</p> <p>BIRTH DATE/AGE: 10/05/1963/33 SOCIAL INSURANCE NUMBER: 123-456-789</p> <p>OTHER REFERENCE NAMES: CURRENT EMPLOYMENT: EDITOR PREVIOUS EMPLOYMENT: TRANSLATOR PRIOR EMPLOYMENT: CHEF OTHER INCOME:</p> <p>SPOUSES NAME: JOHN SPOUSES EMPLOYMENT: CHEF</p> <p>CREDIT INQUIRIES ON YOUR FILE: Following is a list of Equifax members who have received a copy of your credit file for credit granting or other permissible purposes. Addresses are available by calling Equifax at 1-800-465-7166.</p> <table border="1"> <thead> <tr> <th>DATE</th> <th>REQUESTOR NAME</th> <th>TELEPHONE</th> </tr> </thead> <tbody> <tr> <td>03/02/00</td> <td>CANADA TRUST MTG</td> <td>(416) 361-8518</td> </tr> <tr> <td>02/22/00</td> <td>TD BANK</td> <td>(800) 787-7065</td> </tr> <tr> <td>01/16/00</td> <td>BQE NATIONALE</td> <td>(450) 677-9122</td> </tr> </tbody> </table>	DATE	REQUESTOR NAME	TELEPHONE	03/02/00	CANADA TRUST MTG	(416) 361-8518	02/22/00	TD BANK	(800) 787-7065	01/16/00	BQE NATIONALE	(450) 677-9122	<p>The following inquiries are for your information only and are not displayed to others. They include requests from authorized parties to update their records regarding your existing account with them.</p> <table border="1"> <thead> <tr> <th>DATE</th> <th>REQUESTOR NAME</th> <th>TELEPHONE</th> </tr> </thead> <tbody> <tr> <td>03/23/00</td> <td>SOC ALCOOLS (not displayed)</td> <td>(514) 873-6281</td> </tr> <tr> <td>03/22/00</td> <td>CANADA TRUST MTG (not displayed)</td> <td>(416) 361-8518</td> </tr> <tr> <td>02/16/00</td> <td>CMHC SCHL (not displayed)</td> <td>(888) 463-6454</td> </tr> <tr> <td>01/16/00</td> <td>AMERICAN EXPRESS (not displayed)</td> <td>(416) 123-4567</td> </tr> </tbody> </table> <p>CONSUMER INTERVIEWS AND OTHER SERVICES: You contacted our office in 12/98 to request a review of your credit file.</p> <p>CREDIT HISTORY AND/OR BANKING INFORMATION: The following information was reported to us by organizations listed below. Information is received every 30 days from most credit grantors.</p> <p>GMAC last reported to us in 01/01 rating your installment account as I1, meaning paid as agreed and up to date. The reported balance of your account was \$1000. Your account number: 23456789012345. The account is in the subject's name only. Date account opened: 04/99. Credit limit or highest amount of credit advanced: \$4400. DATE OF LAST ACTIVITY meaning the last payment or transaction made on this account was in 12/00. Additional comments: auto loan. Monthly payments.</p> <p>CANADA TRUST MC last reported to us in 01/01 rating your revolving account as R1, meaning paid as agreed and up to date. At the time the reported balance of your account was \$285. Your account number: xxx...234. Date account opened: 06/99. Credit limit or highest amount of credit advanced \$2000. DATE OF LAST ACTIVITY meaning the last payment or transaction made on this account was in 12/00.</p> <p>PREVIOUS PAYMENT STATUS: 30 DAYS: 1 time (s) account previously R2 meaning one payment past due</p> <p>PUBLIC RECORDS AND OTHER INFORMATION: The following information was reported to your file on the date indicated.</p> <p>A COLLECTION was assigned in 10/96 to Commercial Credit by Transamerica Financial in the amount of \$2675. Date reported paid: 07/97. Collection status: PAID. DATE OF LAST ACTIVITY was in 04/96. Collection agency reference number: 222222.</p> <p>A JUDGEMENT was FILED IN 01/96 in Min Govt Serv. Plaintiff and/or case number: Chrysler Canada 4444. Defendant/other info: joint with Dossier. Amount reported: \$7525. Status reported: Satisfied. Date satisfied: 09/97.</p>	DATE	REQUESTOR NAME	TELEPHONE	03/23/00	SOC ALCOOLS (not displayed)	(514) 873-6281	03/22/00	CANADA TRUST MTG (not displayed)	(416) 361-8518	02/16/00	CMHC SCHL (not displayed)	(888) 463-6454	01/16/00	AMERICAN EXPRESS (not displayed)	(416) 123-4567
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Analyzing a credit report (cont'd)

1. What is Jane Doe's current employment?

2. How old was she when her credit information file was first "opened"?

3. Which Equifax members received a copy of Jane Doe's credit file for credit granting or other permissible purposes?

4. How can you get the addresses of these companies?

5. On the first occasion Jane Doe did not pay on a debt, a collection agency was assigned to collect money from her.

6. What was the name of the collection agency assigned to Jane Doe?

7. As of today, what is the status of this collection?

8. How much did Jane Doe owe Chrysler Canada when the case went to court?

9. Who made Jane Doe pay the loan off? What do you think this did to her credit rating?

10. When was this credit report generated? How many years have passed since the incident with Chrysler and when this particular credit report was generated?

11. What advice do you have for Jane Doe to keep her in "good" credit standing?



Understanding credit and your credit report

Analyzing a credit report (cont'd)

Translating the credit code

Your guide for using the common language for consumer credit
Analyzing the ranking categories and types of debt to be paid

O = Open account (personal lines of credit; e.g., Royal bank personal line of credit)

R = Revolving account (credit card accounts; e.g., MasterCard, Visa)

I = Instalment (loans; e.g., payments on a car loan)

Usual manner of payment	O	R	I
Too new to rate; approved but not used	0	0	0
Pays (or paid) within 30 days of billing; pays account as agreed	1	1	1
Pays (or paid) in more that 30 days, but not more than 60 days, or not more than one payment past due	2	2	2
Pays (or paid) in more that 60 days, but not more than 90 days, or not more than two payment past due	3	3	3
Pays (or paid) in more that 90 days, but not more than 120 days, or not more than three payment past due	4	4	4
Account is at least 120 days overdue but is not yet rated "9"	5	5	5
Making regular payments under a consolidation order or similar arrangement through a third party	7	7	7
Repossession (indicates if it is a voluntary return of merchandise by the consumer)	8	8	8
Bad debt; placed for collection; skip	9	9	9



Analyzing a credit report (cont'd)

Sample question

What does code I1 mean?

I indicates it is loan; 1 means the account was paid as agreed.

An I1 rating would indicate that you can manage your money and pay as agreed.

1. What does R1 mean?

2. What does R2 mean?

3. What does O4 mean?

4. What does I8 mean?

5. What does R9 mean?

6. Which rating would you prefer R1 or R2; why?
