

LESSON: Understanding credit and your credit report

Financial Literacy Outcome

At the end of this lesson, students will:

- describe the impact of credit history and credit reports on their future borrowing capabilities.

Curriculum Expectations

Grades 11 and 12, Social Science and Humanities (2000)

Managing Personal and Family Resources (HIR3C)

Social Structures

- Evaluate the cost and implications for families of buying on credit (e.g., credit cards, bank loans, mortgages and) and assess the benefits of alternative approaches.

Grades 11 and 12, Mathematics (2007)

Mathematics for Work and Everyday life (MEL3E)

Comparing Financial Services

- Gather, interpret and compare information about the costs (e.g., user fees, annual fees, services charges, interest charges on overdue balances) and incentives (e.g. loyalty rewards; philanthropic incentives such as support for Olympic athletes or a Red Cross disaster relief fund) associated with various credit cards and debit cards.

What You Need

Analysing a credit report (Appendix 6.2)

The credit report (Appendix 6.1)

Internet/computer lab

Minds On Internet exercise

Review Industry Canada Publications: Dealing with Credit; You & Your Money; A Roof Over Your Head; In the Driver's Seat; Shopping for Satisfaction

http://strategis.ic.gc.ca/epic/site/oca-bc.nsf/en/h_ca02227e.html

- Review terms
- What determines the rate I get for a loan or credit card
 - Credit history → credit report

Distribute handout The credit report (Appendix 6.1)

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#axzz1z6rTnJ4x>

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.

Read more: <http://www.investopedia.com/financial-edge/0311/Do-You-Understand-Your-Credit-Score.aspx#ixzz1z6rYt3S8>

Individual: Credit score

Describe the online activity.

<http://www.getsmarteraboutmoney.ca/en/education-programs/for-teachers/curriculum-tools/multimedia-resources/Documents/CreditScores/index.html>

Individual: Worksheet

- Distribute Analyzing a credit report (Appendix 6.2)

Take up questions.

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

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.

Appendix 6.1: 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 and the landlord runs 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

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.

Judgements: Court orders obtained by a creditor when a debtor does not pay as agreed.

Appendix 6.2: 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" style="width: 100%; border-collapse: collapse;"> <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" style="width: 100%; border-collapse: collapse;"> <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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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?

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

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?
