

LESSON 18.2 Protecting Your Credit

TEKS Personal financial literacy—**6.14.D** Explain why it is important to establish a positive credit history. Also 6.14.E, 6.14.F



ESSENTIAL QUESTION

How do you establish a positive credit history?

EXPLORE ACTIVITY 1



TEKS 6.14.D

Establishing Credit History

Your **credit history** includes information about how well you manage your money and pay your bills. To build a positive credit history, you must first obtain a small loan or begin buying on credit. Then you must make regular payments to repay your debt.

Banks and other lenders use this information to decide whether they should loan you money for large purchases. Landlords use your credit history to decide whether or not to rent an apartment or house to you.



Raphael's older brother has applied for a bank loan to buy a jet ski. Each statement below tells something about the brother's credit history. Decide whether the bank would regard each statement as a positive or negative factor in deciding whether to approve the loan application.

- A** Pays credit card balance monthly and on time

- B** Recently lost his job and is looking for work

- C** Is currently repaying student loans and a loan to start a business

- D** Answered all questions on the application honestly, even those that reflected poorly on his past credit history

Math Talk Mathematical Processes

Explain why it is important to have a good credit history.



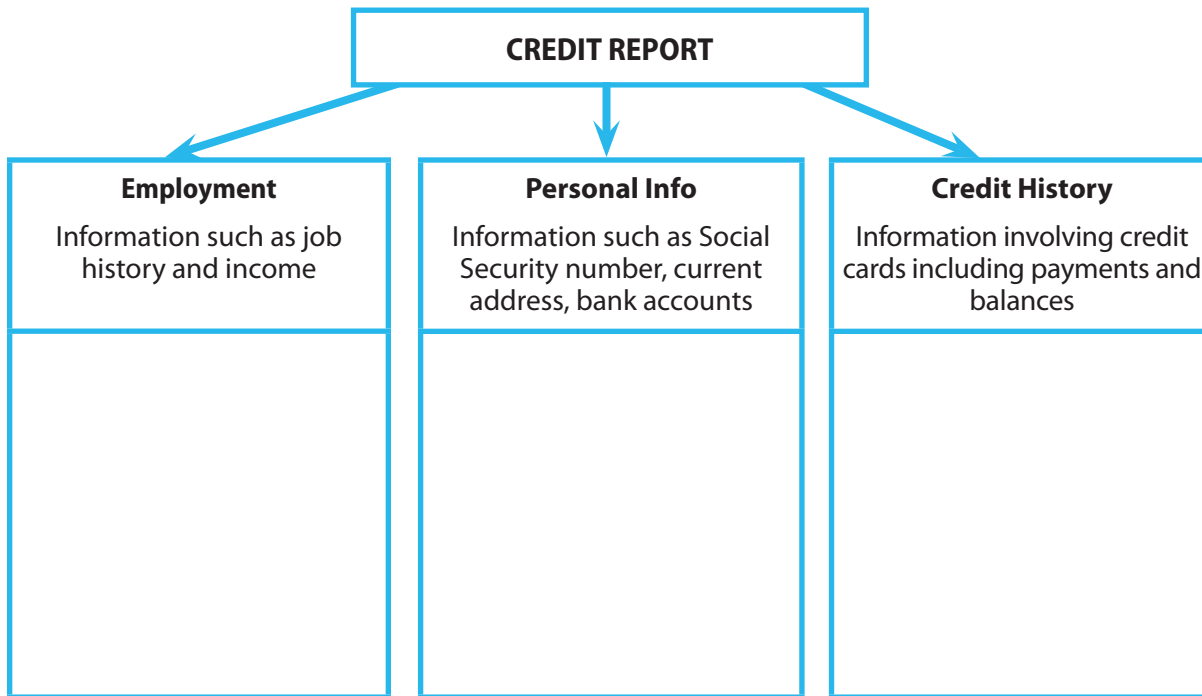
Credit Reports

Credit reports are compiled by agencies to help lenders decide whether or not to loan money to consumers. A credit report includes a person's credit history as well as personal information, employment background, and income.

Sort the following information about Christina into the table.

Christina's Credit Information	
<ul style="list-style-type: none"> • She lives at 4316 Woodland Road in Yellowstone, Texas. • Her credit card has a 19.95% annual interest rate. • She currently has a balance of \$1,956 on her credit card. • Her Social Security number is 123-45-6789. 	<ul style="list-style-type: none"> • She has a checking account and a savings account at Yellowstone Bank. • From 2010–2012, her annual earnings were \$14,600, \$15,800, and \$18,000 working part-time at Egan's Grocery. • She was one week late on her May 2012 credit card payment.

Negative credit information usually stays on your credit report for 7 years.



Reflect

- Jason made several late payments on his credit card four years ago. What effect does that have on his credit report now? Explain.

How Credit Reports Are Used

The information in your credit report is used to calculate a **credit score**. A good credit history will give you a high credit score. Late payments, high credit card balances or owing a lot of money are likely to result in a low credit score. Lenders use credit scores to decide whether to give you a loan or a credit card. Your credit score can also affect the interest rate you have to pay for a loan or a credit card.



EXAMPLE 1



TEKS 6.14.F

Credit histories for Deena and Ariel are given below. One received a credit score of 760, which is considered an excellent credit score by most lenders. The other received a credit score of 590, which is considered a poor credit score by many lenders. Match the person with the score.

Deena	Ariel
<ul style="list-style-type: none"> Monthly income: \$3,200 Time at present job: 8 months Monthly debt payments: \$350 on car loan, \$180 on credit card, \$300 on student loan Late payments: 3 times on credit card 	<ul style="list-style-type: none"> Monthly income: \$2,250 Time at present job: 4 years Monthly debt payments: \$45 on credit card Late payments: 0 times



STEP 1 Compare monthly debt with monthly income.

$$\text{Deena: } \frac{350 + 180 + 300}{3,200} = \frac{830}{3,200} \approx 25.9\% \quad \text{Ariel: } \frac{45}{2,250} = 2\%$$

Ariel has the lower monthly income of the two. But she spends only 2% of her income on debt repayment. Deena spends more than one-quarter of her income on debt repayment.

STEP 2 Compare other factors.

Deena has been at her job for less than a year. That and her 3 late payments will lower her score even more. Ariel has held her job for 4 years and has never missed a credit card payment.

STEP 3 Match the score with the person.

Ariel: 760 Low debt-to-income ratio, excellent job and credit history

Deena: 590 High debt-to-income ratio, good job history, poor credit history



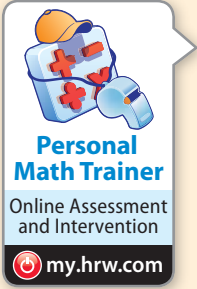
Math Talk

Mathematical Processes

How might Deena's credit score affect her search for a new job?

Reflect

2. Which of the two women would be more likely to get a car loan? Explain.



YOUR TURN

Match the credit score with the credit history. Credit scores: 760, 600

- | | |
|---|--|
| <p>3. Monthly income: \$1,900
Credit card payment: \$48
Credit card balance: 3,857
Car loan payment: \$218
Two late car loan payments</p> <p>_____</p> | <p>4. Monthly income: \$3,300
Credit card balance:
pays full balance
Monthly student loan
payment: \$100</p> <p>_____</p> |
|---|--|

Guided Practice

- 1.** Explain why it is important to have a good credit history. (*Explore Activity 1*)

- 2.** List two items that could appear on a person's credit report that might hinder the person in his or her effort to get a loan to buy a boat. (*Explore Activity 2*)

Match the credit score with the credit history. Credit scores: 700, 620

(*Example 1*)

- | | |
|--|---|
| <p>3. Monthly income: \$3,200. Credit card 1 payment: \$151. Credit card 2 payment: \$61. Car loan payment: \$365. Three late credit card payments</p> <p>_____</p> | <p>4. Monthly income: \$2,800. Student loan payment: \$140. Car loan payment: \$276. Credit card balance: pays full balance monthly; no late payments</p> <p>_____</p> |
|--|---|




ESSENTIAL QUESTION CHECK-IN

- 5.** Angela has a credit score of 800. Describe reasons why her score might be so high.

18.2 Independent Practice



TEKS 6.14.D, 6.14.E, 6.14.F



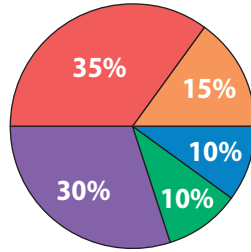
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Five factors are used to calculate your credit score. The circle graph shows the relative importance of each factor. The two factors represented by 10% on the graph are (1) new credit and (2) the types of credit you use.

The other factors represented on the graph are (3) length of time you have been borrowing on credit, (4) your record of paying on time, and (5) the total amount you owe.



6. Which factor do you think is represented by the 35% sector of the graph? Explain your reasoning.

7. Which factor do you think is represented by the 30% sector of the graph? Explain your reasoning.

8. Describe possible consequences of each of the following.

a. failing to pay your cell phone bill

b. failing to pay your credit card bill on time

9. Whitney and Jonathan each take out a \$15,000 loan for a new car. Each has to repay the loan in 4 years. Whitney will pay an interest rate of 3% per year. Her monthly payments will be \$332.01. Because Jonathan has a lower credit score, he will have to pay an interest rate of 3.5% per year. His monthly payments will be \$335.34.

a. How much will Whitney repay the lender in 4 years?

b. How much will Jonathan repay the lender in 4 years?

c. How much more will a \$15,000 loan cost Jonathan than it will cost Whitney?



10. Critical Thinking You have just obtained a copy of your credit report and are disappointed with your score. Describe steps you could take to raise the score.

11. Critical Thinking Tom Smith obtains a copy of his credit report and is certain that it contains errors. Should he (a) assume that he is wrong and do nothing, or (b) contact the company that issued the report and inform them of the errors? Explain.

12. Critical Thinking You are a bank loan officer. Elena comes to you seeking a loan. She tells you that she has a sure-fire idea for a business that simply cannot fail. She states further that the bank will not be risking a penny by granting her the loan. Do Elena's claims encourage you or discourage you from approving the loan?
