

# Distinguishing between credit myths and realities

Students analyze and make judgments about credit and borrowing statements to better understand the reality of debt.

## Learning goals

### Big idea

Misconceptions about credit can keep people from making informed financial decisions.

### Essential questions

- How do strong financial knowledge and decision-making skills help people debunk myths and misinformation about credit?
- What concepts and analytical skills help people make informed choices related to credit?

### Objectives

- Determine which statements about credit and borrowing are true or false
- Participate in a class discussion about credit and borrowing

### NOTE

Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

### KEY INFORMATION

#### Building block:

-  Financial habits and norms
-  Financial knowledge and decision-making skills

**Grade level:** High school (9-12)

**Age range:** 13-19

**Topic:** Borrow (Getting loans, Managing credit)

**School subject:** CTE (Career and technical education), English or language arts

**Teaching strategy:** Gamification

**Bloom's Taxonomy level:** Remember, Understand

**Activity duration:** 45-60 minutes

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### National Standards for Personal Financial Education, 2021

Managing credit: 12-2, 12-7, 12-8, 12-9, 12-10, 12-11, 12-12

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

## What students will do

- Decide which statements about credit can be categorized as myth or reality.
- Engage in class discussion to debunk myths about credit and borrowing.

## Preparing for this activity

- While it's not necessary, completing the "Reading about credit scores" activity first may make this one more meaningful.
- Print copies of all student materials for each student, or prepare for students to access them electronically.
- Make 12 table tents using poster board or card stock to display in your classroom. Your table tents can look like the one illustrated here.
- Write the statements from the "Creating the table tents" section in this guide on the table tents.
- Place the table tents around the room in places where students can easily access and read them.
- Print a copy of the "Creating the table tents" section for yourself to provide answers during the activity.

*Debt is the same as credit.*

## What you'll need

### THIS TEACHER GUIDE

- Distinguishing between credit myths and realities (guide)  
[cfpb\\_building\\_block\\_activities\\_distinguishing-between-credit-myths-realities\\_guide.pdf](cfpb_building_block_activities_distinguishing-between-credit-myths-realities_guide.pdf)

### STUDENT MATERIALS

- Distinguishing between credit myths and realities (worksheet)  
[cfpb\\_building\\_block\\_activities\\_distinguishing-between-credit-myths-realities\\_worksheet.pdf](cfpb_building_block_activities_distinguishing-between-credit-myths-realities_worksheet.pdf)
- Table tents

# Exploring key financial concepts

Credit means borrowing money, or having the right to borrow money, to buy something. It's important to understand credit because it can have a major impact on your finances and your life. But there are many myths, misconceptions, and misinformation about credit and borrowing. Learning to separate fact from fiction can help you make informed decisions about using credit.

## TIP

Because financial products, terms, and laws change, students should be encouraged to always look for the most up-to-date information.

## Teaching this activity

### Whole-class introduction

- Ask students to share examples of things people borrow money to buy.
  - Examples may include a car, a house, concert tickets, or college textbooks.
- Read the "Exploring key financial concepts" section to students.
- Be sure students understand key vocabulary:
  - **Credit:** Borrowing money, or having the right to borrow money, to buy something. Usually it means you're using a credit card, but it might also mean that you got a loan.
  - **Credit score:** A number created from a scoring model that uses information from your credit history.
  - **Debt:** Money you owe another person or a business.
  - **Lender:** An organization or person that lends money with the expectation that it will be repaid, generally with interest.
  - **Loan:** Money that needs to be repaid by the borrower, generally with interest.

## TIP

Visit CFPB's financial education glossary at [consumerfinance.gov/financial-education-glossary/](https://consumerfinance.gov/financial-education-glossary/).

### Individual work

- Distribute the "Distinguishing between credit myths and realities" worksheet.
- Explain that students will walk around the room to read each statement and decide if it is true or false.
- Ask them to write an "M" on their worksheet if they believe the statement is a myth or an "R" if they believe it is a reality and to write the reason for each response.
- Have students return to their seats.

- Call on students to read a statement aloud, and then share whether they thought the statement was a myth or reality and why.
- Ask the rest of the students to raise their hands if they agree with the response.
- Then, for each statement, share the correct answer and reason from the “Creating the table tents” section and open the floor for discussion and debate.
- Repeat this process until you’ve discussed each statement.

## Wrap-up

If time allows, ask students to complete an exit ticket that includes three things they learned about credit and borrowing from this activity.

## Suggested next steps

Consider searching for other CFPB activities that address the topic of borrowing, including getting loans and managing credit. Suggested activities include “Describing credit scores” and “Identifying the missing credit score category”.

You also may consider having students get an estimated credit score at the FICO Score Estimator<sup>1</sup> at <https://www.myfico.com/fico-credit-score-estimator/estimator>.

## Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

The “Creating the table tents” section provides possible answers for the “Distinguishing between credit myths and realities” worksheet. **Keep in mind that students’ answers may vary.** The important thing is for students to have reasonable justification for their answers.

<sup>1</sup> The CFPB does not endorse this third party or guarantee the accuracy of this third-party information.

# Creating the table tents

Write the following 12 statements about credit or borrowing on table tents.

Be sure to write only the statement on the table tent. The answer and the description are included to support you in the follow-up discussion.

## Myths or realities about credit and borrowing

Statement	Myth or Reality (M or R)
1. Debt is the same as credit.	M
Reason: Credit is the ability to borrow money, while debt results from using credit.	This cell is empty.
2. There is no such thing as good debt.	M
Reason: Borrowing money to further your education with a certification, license, or a degree that can help you get a better-paying job can be an example of good debt if you finish your studies and your future income will support the amount that you borrow. Borrowing money to get a reliable car to get you to work might be another example of good debt if the loan terms fit your budget.	This cell is empty.
3. If you are worried about debt, you may have too much.	R
Reason: One way to know if you have too much debt is if your debt causes you a lot of stress.	This cell is empty.
4. Cosigning a loan may affect your future ability to get a loan.	R
Reason: A creditor usually considers the increased amount of debt that you now have as a result of cosigning for a loan. If the main borrower does not pay, the default will show up on both the borrower's and the cosigner's credit records.	This cell is empty.
5. If a debt collector calls you about repayment of a debt, you have the right to tell them to stop calling you.	R
Reason: The Fair Debt Collection Practices Act (FDCPA) gives you the right to tell the debt collector to stop contacting you. It does NOT cancel the debt that you owe. It also does not stop the debt collector from reporting nonpayment to the credit reporting company or from suing you.	This cell is empty.

Statement	Myth or Reality (M or R)
6. The majority of Americans who filed for bankruptcy due to medical debt had health insurance.	R
Reason: Medical debt can pile up when someone becomes seriously ill or is injured. Even with health insurance, copays and deductibles can add up. This is one reason it's helpful to have emergency savings.	This cell is empty.
7. Information in your credit report is used to make a lot of decisions about you.	R
Reason: An individual's credit report might be reviewed by a potential employer or to get security clearance for the military or a government job. It can be used by a landlord who is deciding whether to rent to the person, an insurer, a utility company deciding whether to impose a security deposit, and a lender deciding whether to issue a credit card and what interest rate to offer on the credit card.	This cell is empty.
8. Whenever you check your credit report, your credit score goes down a few points.	M
Reason: You can get a copy of your credit report once each year for free from each of the three nationwide credit reporting companies. The website is <a href="http://annualcreditreport.com">annualcreditreport.com</a> . Using this site does not affect your credit score.	This cell is empty.
9. It's not uncommon for people to have more than one credit score.	R
Reason: Different banks, credit card companies, and lenders may use different credit scores because they are based on different data, gathered at different times, and calculated in different ways.	This cell is empty.
10. Always close credit card accounts that you do not regularly use; keeping them open hurts your credit score.	M
Reason: If a person closes most of their credit card accounts and keeps only one credit card open with a high balance on it, that may end up hurting their credit score due to the high usage of available credit. It's helpful to keep unused credit cards open to bring down the amount of your overall credit in use. But if you keep old cards open, keep an eye on them to be sure that an identity thief is not using them.	This cell is empty.
11. About one in 10 U.S. consumers (or 26 million people) are considered "credit invisible."	R
Reason: People who do not have any credit record are considered "credit invisible." Having a limited credit history can make it very difficult for a lender to get a credit score for an individual.	This cell is empty.

Statement	Myth or Reality (M or R)
12. Credit reports and credit scores are created by the government and provide official information used to identify people, like a driver's license or a passport.	M
Reason: Credit reports and scores are created by credit reporting companies. These businesses collect and store financial data about you that is submitted to them by creditors, such as lenders, credit card companies, and other financial companies. Credit reports sometimes have errors. If you find errors, you should contact the credit reporting company who sent you the report and the creditor or company that provided the information.	