



The Basics of Building Credit

Answer Guides

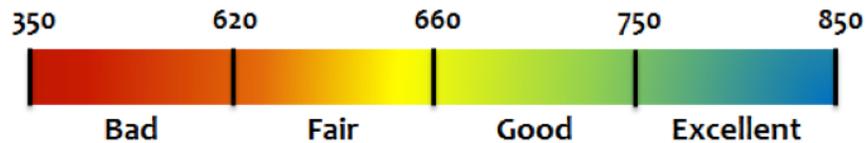
The answers below correspond to the exercises in *The Basics of Building Credit*. The correct ones are bolded for convenience, with detailed explanations where applicable. For a list of answers without explanations, see the *Quick Reference Answer Guide* in the back.

Exercise 1: What is credit?

1. What does credit measure?
 - A: How likely someone is to pay back a loan
 - B: How well someone has made payments in the past
 - C: How trustworthy someone is with money
 - D: All of the above**
2. When do you need credit?
 - A: When you apply for a loan
 - B: When you apply for a credit card
 - C: When you apply for a house
 - D: All of the above**
3. What does bad credit say about you?
 - A: That you are hard to trust with a loan or credit card**
 - B: That you do not make much money
 - C: That you are young
 - D: That you watch a lot of bad movies
4. What does good credit say about you?
 - A: That you make a lot of money
 - B: That you have many credit cards
 - C: That you are easy to trust with a loan or credit card**
 - D: That you have a lot of Facebook friends

Exercise 2: How is credit measured?

Most of these questions refer to the following chart.



1. What would a 622 credit score be considered?
A: Bad
B: Fair
C: Good
D: Excellent
2. What would a 425 credit score be considered?
A: Bad
B: Fair
C: Good
D: Excellent
3. What range of scores describes people with “good” credit?
A: 350 – 619
B: 620 – 659
C: 660 – 719
D: 720 – 850
4. What range of scores describes people with “bad” credit?
A: 350 – 619
B: 620 – 659
C: 660 – 719
D: 720 – 850
5. What is the national average credit score?
A: 455
B: 561
C: 691
D: 720

Exercise 3: How can I build good credit?

1. Which of the following probably has the highest credit score? Assume that all of them have made regular monthly payments on time.

A: An 18 year old college freshman

B: A 20 year old waitress with two active credit cards

C: A 40 year old business owner with two cars, a house, and four active credit cards

D: A 50 year old with five credit cards who rents his house.

Explanation: The 18 year old probably has no credit yet, and the 20 year old will have very little from just two credit cards. The 50 year old would be closer to the 40 year old, but the fact that he rents his house reduces his chances of having a high score.

2. What makes a person a good cosigner?

A: A high credit score

B: A steady income

C: The ability to pay for your loan if you can't

D: All of the above

Exercise 4: Why do some people have bad credit?

1. Which person probably has the lowest credit score?

A: A woman who has missed three credit card payments in a row

B: A man who has had three car repossessions

C: A woman who has a \$125,000 house loan

Explanation: While Person A and Person B both have bad credit histories, the cars from Person B's scenario count as more points against his credit. The value of the loan for Person C's report will not matter, assuming she has made her payments on time.

2. Which of these people has a bad credit score? Assume they are all making their payments on time.

A: A woman who owes money for a house, car, and loan

B: A man with five credit cards

C: A college freshman with \$15,000 in student loans

D: None of the above.

Explanation: This is a trick question. If all of the people have made their payments on time, they should not have bad credit scores. This refers to this statement, right above the bullet list on page 9: "You can be in a lot of debt and still have a good credit score if you are making all of your payments on time."

Exercise 5: Is no credit the same as bad credit?

1. Which of these people has bad credit?

A: A person who just turned 18

B: A 22 year old who has never missed a payment on anything

C: A 40 year old who has never had a loan or credit card

D: None of the above

Explanation: Person A and Person C will have no credit, and Person B will have good credit.

2. True or false: Bad credit is better than no credit.

A: True

B: False

Exercise 6: What do credit cards do for credit scores?

1. What does it take to keep a good credit score with credit cards?

A: Making your monthly payments on time

B: Making most of your payments most of the time

C: Thinking about making your payments but not actually making them

D: Never making your credit card payments

2. Will credit cards ever hurt your credit score?

A: No, just having them makes your credit score go up

B: Yes, because they are considered as debt

C: Yes, but only if you miss a payment

D: Yes, but only if you have a huge credit card balance

Continue to the next section for the Quick Reference Answer Guide.

Exercise 1: What is credit?

1. **D: All of the above**
2. **D: All of the above**
3. **A: That you are hard to trust with a loan or credit card**
4. **C: That you are easy to trust with a loan or credit card**

Exercise 2: How is credit measured?

1. **B: Fair**
2. **A: Bad**
3. **C: 660 – 719**
4. **A: 350 – 619**
5. **C: 691**

Exercise 3: How can I build good credit?

1. **C: A 40 year old business owner with two cars, a house, and four active credit cards**
2. **D: All of the above**

Exercise 4: Why do some people have bad credit?

1. **B: A man who has had three car repossessions**
2. **D: None of the above.**

Exercise 5: Is no credit the same as bad credit?

1. **D: None of the above**
2. **B: False**

Exercise 6: What do credit cards do for credit scores?

1. **A: Making your monthly payments on time**
2. **C: Yes, but only if you miss a payment**