

Quiz Answers

- 1. Answer: B.** The formulas used to determine your “credit score” place the most weight on your bill paying habits. Paying your bills on time is the best way to build a positive credit history. It’s also the best way to improve a low credit score.
- 2. Answer: D.** Credit cards, as revolving accounts, have no set period of time in which they must be paid off. You can take as long as you like to repay, during which time you are free to borrow-up and paydown the balance repeatedly. Most auto, mortgage and student loans are installment loans, requiring a predetermined number of equal monthly payments.
- 3. Answer: D.** Credit grantors check your credit history before deciding whether or not to lend to you. Many insurers also check your credit, because poor credit history is an indication that a person is more likely to result in financial loss to an insurer. Prospective employers can check the credit history of a job applicant, but not without the applicant’s permission. For employers, credit history can be an indication of your reliability and integrity.
- 4. Answer: A.** Credit cards usually use a combination of two factors: Average daily balance or twocycle average daily balance; and “including new purchases” or “excluding new purchases.” A twocycle card retroactively eliminates your grace period by going back to the previous billing cycle and charging you interest for any balances you carried, as well as on the current billing cycle. With an average daily balance card, balances paid off within the billing cycle incur no finance charges. “Including new purchases” means that new charges made during the current billing cycle will incur finance charges right away, while a card that uses “excluding new purchases” will not hit you with a finance charge for the added amounts until next billing period.
- 5. Answer: B.** Although each of these should be considered when choosing a credit card, the one that will most directly affect how much you pay in finance charges, other than the annual percentage rate, is the balance calculation method.
- 6. Answer: B.** The Fair Credit Billing Act limits your liability for unauthorized use of your credit card to \$50. If you had reported the card stolen before the thief was able to make charges, or if the loss involves your credit card number but not the card itself, you have no liability for unauthorized charges.
- 7. Answer: E.** None of these debts can be discharged in a bankruptcy. They will remain as financial obligations even after bankruptcy is filed.
- 8. Answer: A.** The annual percentage rate (APR) includes the interest and all mandatory fees in order to give you the true cost you’ll pay each year to borrow the money. Many cards have no acceptance fees or annual fees. Penalty fees are not calculated in the APR. Credit-loss insurance is always an optional feature.
- 9. Answer: C.** The cost of credit increases with risk, so the lower the risk to the lender, the cheaper the loan. When a guarantor, such as the federal government, insures the loan, the lender’s risk is lessened. A cosigner reduces the lender’s risk by agreeing to pay the loan if the primary borrower defaults. Securing a loan with property or something of value gives the lender collateral to offset a loss to default.
- 10. Answer: B.** The Fair Credit Reporting Act of 2003 makes available to consumer one free consumer report from each of the major consumer reporting agencies per year. But any time you apply for credit and are denied based on what your consumer report says, you have the right to check your report for errors at no cost.

11. **Answer: C.** Creditors report on their customers to a consumer reporting agency in order to share with each other information on a customer's creditworthiness. Information in a consumer report is generally limited to seven years in order to give consumers a chance to recover from past mistakes and improve their credit.

12. **Answer: C.** Savings account information is not reported to a consumer reporting agency because it is not a consumer credit obligation. Government assistance programs, check cashing businesses, payday lenders and rent-to-own retailers usually do not report to credit bureaus. Utility companies generally do report to consumer reporting agency, so having household utility accounts in your name can be a simple way to start building positive credit history.

13. **Answer: C.** By cosigning a loan, you are agreeing to repay the loan if the primary applicant defaults. Debbie's car is not the collateral for her son's loan, so the bank cannot repossess Debbie's car.

How Did You Do?

10+

Way to go! You are on your way to being a credit pro. But remember that having the answers only helps when you also apply them in practice to your daily life. The whole idea is to develop sound money habits that will benefit you for years to come.

8-9

Pretty good. You're familiar with most of those tricky terms that were thrown at you. Congratulate yourself and stay encouraged to keep learning about credit.

5-7

Not bad. But before you pat yourself on the back, take another look at how you use credit. Consider checking your consumer report and reviewing it with someone you trust on financial matters.

4 or less

Learning about credit is a lifelong process! We've only scratched the surface with this quiz—there's so much to know when it comes to your personal finances. And the more you know, the more you realize how important credit is to achieving your financial goals.