Answers To Everfi Module 5

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UNDERSTANDING EVERFI MODULE 5: A COMPREHENSIVE GUIDE TO KEY CONCEPTS AND ANSWERS

Navigating the Everfi financial literacy curriculum can be challenging, especially when you reach Module 5. This module typically covers critical topics like credit scores, borrowing, and responsible debt management. Whether you are a student completing the course or a teacher seeking to verify understanding, having a clear grasp of the core concepts is essential. This article provides a thorough breakdown of the material found in Everfi Module 5, offering detailed explanations and practical insights that will help you find the correct **answers to Everfi Module 5** while building genuine financial knowledge.

Rather than simply listing answers, we will explore the reasoning behind each key topic. This approach ensures that when you encounter questions on credit reports, interest rates, or loan types, you understand the *why* behind the correct choices. Let's dive into the essential lessons of Module 5 and learn how to apply them in real-world situations.

What Is Covered in Everfi Module 5?

Everfi offers several courses, but one of the most common is **Financial Literacy**. In many versions, Module 5 focuses on **Credit and Debt**. The module explains how credit works, how to build a positive credit history, and how to avoid common pitfalls. Students learn about credit scores, credit reports, loans, and the consequences of poor debt management. Mastering these topics is crucial because they affect everything from renting an apartment to buying a car or obtaining a mortgage.

Key Concepts You Need to Know for the Module 5 Test

To correctly answer questions on the Everfi assessment, you should be comfortable with the following fundamental ideas. We will break each down with clear explanations and examples.

1. What Is a Credit Score and How Is It Calculated?

A credit score is a three-digit number that lenders use to evaluate your creditworthiness. The most common scoring model is the FICO score, which ranges from 300 to 850. The higher your score, the more likely you are to be approved for loans and credit cards, and the better interest rates you will receive.

The five factors that make up a FICO score are:

- **Payment History (35%):** Do you pay your bills on time? Late payments hurt your score.
- **Amounts Owed (30%):** This is your credit utilization ratio — how much of your available credit you are using. Keeping it below 30% is ideal.
- **Length of Credit History (15%):** A longer credit history generally improves your score.
- **New Credit (10%):** Opening several new accounts in a short time can lower your score.
- **Credit Mix (10%):** Having different types of credit (credit cards, mortgage, auto loan) can be beneficial.

A common question on the Everfi module is: *What factor has the greatest impact on your credit score?* The answer is **payment history**. Another frequent question: *What is a good credit score range?* Generally, scores above 700 are considered good, and above 750 are excellent.

2. Understanding Credit Reports and Where They Come From

Your credit report is a detailed record of your borrowing and repayment activity. It is maintained by three major credit bureaus: Experian, Equifax, and TransUnion. You are entitled to one free credit report from each bureau every 12 months through AnnualCreditReport.com.

Module 5 often asks about what information appears on a credit report. Typical items include:

- Personal information (name, address, Social Security number)
- Credit accounts (credit cards, loans, mortgages)
- Payment history (on-time or late payments)
- Credit inquiries (when a lender checks your credit)
- Public records (bankruptcies, foreclosures, tax liens)

A common test question: *Which of the following is NOT found on a credit report?* The answer is usually something like **your checking account balance** or **your income**. Credit reports do not include income, education, or race. Another question might ask: *How often can you check your credit report for free?* The answer: once every 12 months from each bureau, or more frequently if you use free services like Credit Karma (but those are not the official government-mandated reports).

3. Types of Credit: Secured vs. Unsecured

Credit can be broadly divided into two categories:

- **Secured Credit:** Backed by collateral (e.g., a car loan where the vehicle is the collateral). If you default, the lender can seize the asset.
- **Unsecured Credit:** Not backed by collateral (e.g., credit cards, personal loans). Since there is no asset to seize, interest rates are typically higher.

Module 5 may ask you to differentiate between these. For instance: *Which type of credit requires a down payment or collateral?* Secured. Another question: *Why do unsecured loans have higher interest rates?* Because they pose a greater risk to the lender.

4. APR vs. Interest Rate: What's the Difference?

One of the most important concepts in Module 5 is understanding **APR (Annual Percentage Rate)** versus the simple interest rate. The interest rate is the cost of borrowing expressed as a percentage. The APR includes not only the interest rate but also any fees or other costs associated with the loan (e.g., origination fees, points). Therefore, the APR is typically higher than the interest rate and gives a more complete picture of the true cost.

A frequent test item: *When comparing loans, which figure should you use to determine the total cost?* The correct answer is **APR**. A related question: *How can lower APR save you money?* Over the life of a loan, a lower APR means you pay less in total interest and fees.

5. Minimum Payments and the True Cost of Credit Card Debt

Credit cards require only a minimum payment each month, usually a small percentage of the balance. If you pay only the minimum, you will accumulate significant interest charges over time. Module 5 covers the danger of paying only the minimum and the importance of paying off the full balance each month to avoid interest.

You might see a question like: *If you make only the minimum payment on a credit card each month, what happens?* Your balance decreases very slowly, and you pay a lot in interest. Or: *What is the best way to avoid paying interest on a credit card?* Pay the full statement balance by the due date.

6. Loans: Installment vs. Revolving Credit

Another distinction in Module 5 is between installment loans and revolving credit:

- **Installment Loans:** Borrow a fixed amount and repay it in equal monthly payments over a set term (e.g., auto loans, student loans, mortgages). Once paid off, the account is closed.
- **Revolving Credit:** You have a credit limit and can borrow up to that limit repeatedly (e.g., credit cards). You can carry a balance from month to month and pay interest on the unpaid balance.

A typical evaluation question: *Which type of credit allows you to continuously borrow and repay?* Revolving credit. Another: *What is the difference between a secured loan and an unsecured loan?* As discussed, secured loans require collateral.

7. How to Build Good Credit

Module 5 also teaches strategies for building and maintaining a strong credit profile. These include:

- Paying all bills on time.
- Keeping credit card balances low.
- Only applying for new credit when necessary.
- Having a mix of credit types.
- Becoming an authorized user on a parent's credit card (if you are a student).

One frequently asked question: *What is the first step to establishing credit?* Usually, opening a secured credit card or becoming an authorized user. Another question: *How long does negative information stay on your credit report?* Most negative items (like late payments) stay for seven years; bankruptcies can stay for up to ten years.

8. Debt Management and Avoiding Pitfalls

Module 5 emphasizes the consequences of mismanaging debt. Late payments, defaulting on loans, or maxing out credit cards can damage your credit score and lead to higher costs. The module discusses debt collection, debt consolidation, and bankruptcy as last-resort options.

A possible question: *What is the best way to manage multiple debts?* Consider the avalanche method (pay off highest interest rate first) or the snowball method (pay off smallest balance first). Another: *What is a red flag that you have too much debt?* If you can only afford minimum payments on all credit cards, or if your debt-to-income ratio exceeds 40%.

Sample Questions and Answers for Everfi Module 5

To help you prepare, here are several typical questions that appear on the Module 5 assessment, along with explanations of the correct choices.

1. **Question:** Which of the following contributes the most to your FICO credit score?
   Answer: Payment history. (35% weight)
2. **Question:** If you have a credit card with a 20% APR and you only pay the minimum each month, what is likely to happen?
   Answer: You will pay a lot of interest, and it will take much longer to pay off the balance.
3. **Question:** Which credit bureau provides free annual credit reports?
   Answer: All three (Equifax, Experian, TransUnion) through AnnualCreditReport.com.
4. **Question:** What is a secured credit card?
   Answer: A credit card that requires a cash deposit as collateral, usually for people with limited or poor credit.
5. **Question:** What is an example of an installment loan?
   Answer: An auto loan, a mortgage, or a student loan.
6. **Question:** How can checking your credit report help you?
   Answer: It helps you detect errors or signs of identity theft.
7. **Question:** What is a good debt-to-income ratio?
   Answer: Ideally below 36% for home loans, but lower is better for overall financial health.
8. **Question:** Should you close old credit card accounts?
   Answer: Generally no, because closing them shortens your credit history and may increase your credit utilization ratio.

Tips for Studying Everfi Module 5

To succeed on the module test, follow these practical study strategies:

- **Take notes while working through the module.** Pause after each screen and jot down key definitions.
- **Use the glossary.** Everfi often includes a built-in glossary for terms like APR, grace period, and principal.
- **Review the example calculations.** Some modules include scenarios where you calculate

interest or minimum payments. Practice those.
- **Discuss with classmates or use flashcards.** Teaching the concepts to someone else reinforces your understanding.
- **Take the practice quiz.** If available, it will simulate the actual test format.

Why Understanding Module 5 Matters

Beyond the Test

The topics in this module are not just academic exercises. Your credit score will follow you through life