Keeping Score: Why Credit Matters

LESSON 6: TEACHERS GUIDE

In the middle of a championship football game, keeping score is the norm. But when it comes to life, many young adults don't realize how important it is to keep track of another score—their credit score. This lesson provides strategies for understanding credit reports and scores, enabling students to make smart money decisions. Students will explore different scenarios that challenge their assumptions about credit and "creditworthiness," while debating the impact certain decisions can have on their credit scores.

Topic: Credit Reports and Scores

Time Required: 55 minutes

SUPPLIES:

- Notebooks
- Take Control of Your Credit Score brochure available at practicalmoneyskills.com/HS12
- Student activity sheet

PREPARATION:

- Copy student activity sheet
- Download and copy brochure
- Read brochure ahead of class to familiarize yourself with credit terms

STUDENT ACTIVITY SHEET:

Spot the Credit Crisis

This activity sheet provides situations that are potentially damaging to credit scores and encourages students to recognize how each will impact credit; then evaluate credit recovery methods and explain their reasoning.

LEARNING OBJECTIVES:

Students will...

- Evaluate and explain the purpose of a credit score
- Understand the elements of credit scores, and what impacts them
- Discover the best way to maintain a high credit score

STANDARDS:

Jump$tart Standards:

- Credit Standards 1, 2 and 3
- Planning Standard 3

National Economics Standards:

- Standard 10: Institutions

Common Core ELA Anchor Standards:

- Reading: Key Ideas and Details
- Reading: Integration of Knowledge and Ideas
- Speaking and Listening: Comprehension and Collaboration
- Speaking and Listening: Presentation of Knowledge and Ideas
- Language: Vocabulary Acquisition and Use

Common Core Math Standards:

- Numbers and Quantity: Quantities

Essential Question | *"What does it mean to be "creditworthy?"*

Investigate: What is Credit?

[Time Required: 15 minutes]

1. Begin by asking students to think about their last purchase and how they paid for it. Did they use cash, debit, credit or did they write a check?
2. Invite volunteers to share their purchases, and engage the class in a discussion about the differences between paying with cash, debit, credit and checks. How does one get **credit** and who provides credit?
3. Ask students if they've ever loaned money, clothes or even their car to a friend, and whether or not they expected to get the item back. Explain that loaning out money, clothes and cars are all examples of **lending credit**.
4. Now ask students to imagine that they are going to loan their brand new car to a stranger. What factors would they consider before letting someone borrow their car? Would they consider age, gender, religion, work history, driving record, race, language, education or income? Write a list of potential factors on the board and ask students to vote on whether each factor would affect their decision. Tally votes on the board.
5. Next, explain that lenders use specific factors to determine whether or not a person is **"creditworthy"** and eligible for a loan. Tell students there are five key factors that are considered when determining "creditworthiness":
    - Payment history (whether or not you pay your bills on time)
    - Amount owed to current creditors (e.g., whether you have a car payment or a balance on a store credit card)
    - Length of credit history (in general, the longer you've had access to credit and paid your bills on time, the better)
    - Types of credit used (e.g., car and mortgage payments are often viewed as "better" debt than consumer credit card debt)
    - Number of open accounts (lenders can be wary of borrowers with too much credit available)

    These factors are compiled on a person's credit report, with an overall **credit score** that lets lenders know how risky it is to lend to that borrower. Explain that some of the factors students believed should matter when it comes to getting credit actually don't (e.g., education, race, gender, age, religion, etc.).

TEACHER'S TIPS

What is the Essential Question?
The Essential Question is designed to "hook" the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher order thinking skills.

Get Graphic:
Do you have cell phones, tablets or Internet access in your classroom? Use a free website such as polleverywhere.com to capture student answers and instantly display results in chart or graph form.

Student Preparation: Understanding Credit Scores

[Time Required: 15 minutes]

6. Ask students which they would rather earn on a math test: a 95 out of 100 or a 55 out of 100? Explain that just like test scores in school, the higher your credit score, the better. This is because a higher number means you are a lower risk as a borrower.
7. Distribute the Take Control of Your Credit Score brochure, and ask students to read the information.
8. Engage the class in a discussion on "creditworthiness" and discuss the components of a credit score. How is a credit score calculated? What is considered a good score? What actions impact a credit score? Why does having a good score matter? Why would a bank or cell phone company care about your credit?

Challenge: Imagine the Impact

[Time Required: 15 minutes]

9. Distribute the student activity sheet, ***Spot the Credit Crisis***, and break students into groups of four. Working as a team, students will discuss the scenarios on the activity sheet and determine how and why each scenario would impact their credit. Students should be prepared to justify their answers to the class.
10. Ask a volunteer from each group to share one scenario with the class and explain the impact that scenario has on credit and "creditworthiness."

Reflection

[Time Required: 10 minutes]

Ask students to reflect in their notebooks about how their credit scores might impact their short-, medium-, and long-term goals; such as finding a job, buying a house or selecting a cell phone plan.

TEACHER'S TIPS

Link to Lesson 3:
For more on "creditworthiness," review **Lesson 3** in which students experience some of the practical applications of credit as they walk through the steps of buying a car.

Did You Know?
Students can get a free credit score estimate by answering the questions at whatsmyscore.org.

Extension Idea:
To help students get the hang of short-, medium-, and long-term goals, sync this lesson with **Lesson 2**.

What is Reflection?
The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalize some of the concepts and ideas learned about in the class.

Spot the Credit Crisis

LESSON 6: ANSWER KEY

Scenario 1:

Does your credit score go up or down?
Your credit score goes down.

Why does it go up or down?
Falling behind on payments, or making late payments on your auto loan over time, will have a negative impact on your credit score.

If your score goes down, how can you fix it?
To fix your credit score, make all payments in full on time going forward, and check your credit score and report periodically to ensure that your positive habits are impacting your score. If you cannot afford to make the payments, consider selling or trading in your SUV for a model you can afford.

Scenario 2:

Does your credit score go up or down?
Your credit score goes up.

Why does it go up or down?
Charging your monthly cell phone bill on your credit card and paying off the balance immediately demonstrates to lenders that you utilize credit and handle your credit accounts responsibly.

If your score goes down, how can you fix it?
N/A

Scenario 3:

Does your credit score go up or down?
Your credit score goes up.

Why does it go up or down?
Paying back your student loan ahead of time demonstrates responsible use of credit. It also helps to lower your credit utilization ratio (the percentage of available credit you're using).

If your score goes down, how can you fix it?
N/A

Spot the Credit Crisis

LESSON 6: ANSWER KEY

Scenario 4:

Does your credit score go up or down?
Your credit score goes down.

Why does it go up or down?
Charging up to your credit limit on accounts can impact your credit score negatively, as it increases your credit utilization ratio—that is, it shows you're using a higher percentage of available credit. The lower the credit utilization ratio, the better.

If your score goes down, how can you fix it?
You can fix it by paying off your balance as aggressively as possible, making payments on time and charging less than your credit limit going forward.

Scenario 5:

Does your credit score go up or down?
Your credit score goes down.

Why does it go up or down?
It has a negative impact on your credit score because each time you apply for a card, the inquiry goes on your record. Opening too many accounts over a short period of time demonstrates that you may be using credit unwisely.

If your score goes down, how can you fix it?
To fix your score, refrain from opening additional accounts for the next several months, make payments on time and keep balances low on your existing cards. Do not close the accounts you've opened, as this can also negatively impact your score.

Spot the Credit Crisis

LESSON 6: STUDENT ACTIVITY SHEET

You're holding the keys to a brand new car, longing for a cell phone upgrade and planning a trip to Disney World. But wait ... will doing these things affect your credit? Determine how the scenarios below might impact your credit score. (Remember—it can go up or down.) Justify your reasoning and offer a solution to any negative impacts.

Scenario 1:

You want to purchase a new vehicle and you have your heart set on a brand new SUV. You take out a loan to pay for the car, but after six months you begin to fall behind on payments and incur late fees.

Does your credit score go up or down?

Why does it go up or down?

If your score goes down, how can you fix it?

Scenario 2:

You've been eager to buy a new cell phone for months, and now you're ready to make it happen. You use your credit card to purchase the phone and you set up automatic billing to pay the monthly expenses. At the end of each month, you pay the credit card bill in full.

Does your credit score go up or down?

Why does it go up or down?

If your score goes down, how can you fix it?

Continued on the next page.

Spot the Credit Crisis

LESSON 6: STUDENT ACTIVITY SHEET

Scenario 3:
Your first semester of college, you take out a small loan to help pay for books. Despite being busy, you get a part-time job. Although you don't have to pay your loan back until you graduate, you've saved enough by the end of the semester and you will pay off the loan in full.

Does your credit score go up or down?

Why does it go up or down?

If your score goes down, how can you fix it?

Scenario 4:
You just got the keys to your first apartment. You also have a new credit card with a $4,000 limit and you use it to furnish your new place. Before you know it, you've bought a TV, a couch and a dining room table. When you get the credit card bill, you realize you've spent your full credit limit of $4,000.

Does your credit score go up or down?

Why does it go up or down?

If your score goes down, how can you fix it?

Continued on the next page.

Spot the Credit Crisis

LESSON 6: STUDENT ACTIVITY SHEET

Scenario 5:

You're planning a trip to Disney World with friends over winter break. You get a credit card offer in the mail that lets you earn airline miles for every $1 you spend, plus bonus miles for opening a new account. Even though you opened three other credit cards this year, you jump on the opportunity and sign up immediately because you haven't bought your flight to Florida yet.

Does your credit score go up or down?

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Why does it go up or down?

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If your score goes down, how can you fix it?

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