



Part 2, Module 9: Your Credit Score

Lesson Overview:

The purpose of this lesson is to help students understand how a credit score is determined and what it is used for. In the online learning module, students will learn the factors that make up a credit score and ways to start and rebuild your credit history

As a result of this lesson, students will:

- Identify factors that raise and lower credit scores
- Construct a plan for building a higher credit score

Materials you will need to teach this lesson include:

- Open space for an activity based on class size

Instructions:

Have students stand up and form a line toward one side of a room (make sure they have room to travel forward and backwards). Give students the following instructions:

I will read out factors that may affect your credit score in one way or another. Take a step forward for anything that will raise your credit score, take a step back for anything that would lower your credit score and stay standing in place if you think it will not affect your credit score.

Once the students are ready, read the following statements and let them determine what action to take (the justification for each statement is below). Point out discrepancies if students have different answers and have them explain their decisions.

- **“You pay off your credit card each month in full”**
 - (Raises) Payment history is the biggest factor in raising your score.
- **“You have never had any loans or credit cards”**
 - (No Impact) You probably have a “thin” credit report and no credit score now.
- **“You are an 18 year old male”**
 - (No impact) Age and gender cannot be used to determine your credit score.
- **“You maintain a small balance on your credit card each month”**
 - (Might lower) You are spending unnecessary money on interest and increasing your debt to limit ratio.
- **“You just got a new job as a manager with a substantial raise.”**
 - (No impact) Your salary and occupation have no impact on your score.
- **“You have an old credit card that you are not using so you cancel it”**
 - (Lowers) This action probably shortens your credit history. A longer credit history positively impacts your score. Sometimes, what seems to be good for your overall financial position (closing an old unused account) can actually hurt your credit score.



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- **“A credit card company checked your credit to send you a pre-approved offer”**
 - (No impact) Soft credit inquiries do not affect your score
- **“You made a late payment on your credit card, but it was only one time”**
 - (Lowers) Payment history is the most important factor in your score and even one late payment can negatively impact your score
- **“You were born in Pakistan but now live in the United States”**
 - (No impact) Race and National Origin cannot be taken into account.
- **“You are trying to be financially independent so you apply for a car loan and a credit card within a week through your new bank”**
 - (Lowers) Multiple hard inquiries all at once will lower your score. This is especially true if you have a short credit history.
- **“You come from a family that has a lower income and receives public assistance”**
 - (No impact) Receipt of public assistance cannot be used as a factor.
- **“You have one active mortgage, car loan and credit card on your credit report”**
 - (Raises) Having a mix of different types of credit will raise your score, whereas having only multiple types of revolving credit will lower it.
- **“You have had the same job for the last 5 years”**
 - (No impact) Your employment history is not taken into account.
- **“You have a credit limit of \$3,000 and your balance just went from \$0 to \$1,900”**
 - (Lowers) There is a large percentage of your limit owed
- **“Your car loan started as a \$10,000 debt and now you owe \$2,000”**
 - (Raises) You have a low balance compared to your starting balance

Homework Assignment:

Have students reflect on how good their credit score might be based on their understanding of the contributing factors. Have students write out an action plan for building or improving their credit score based on their individual factors.

Variations on this lesson:

If there are limitations on space to do the activity, you can read the statements and have students explain how each statement would impact their score.