



Understanding the Credit Score (2023)

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Understanding the Credit Score Infographic Activity

In this activity, students will use the Federal Reserve Bank of Atlanta's *Why Good Credit Is Important* infographic (bit.ly/frba-infographic-credit) to learn the basics of what credit is, why it is important to maintain good credit, what a credit history says about you, the difference between credit reports and credit scores, and what makes up a credit score. Students will learn that a higher score is better when it comes to credit and determine the consequences of having poor credit. They will also discover what steps they can take to build and/or keep good credit. Students will participate in an activity where they read various scenarios regarding credit and decide if the scenario is describing an action that could increase or decrease your credit score (good credit versus bad credit). They will also put together a puzzle/tangram to demonstrate their understanding of what makes up a credit score.

Grade Level

6–8, 9–12

Concepts

Credit Credit History Credit Report Credit Score

Objectives

Students will be able to:

- Explain what credit is and what a credit history says about an individual.
- Understand the difference between credit reports and credit scores.
- Identify what components make up a credit score and which components are most important.
- Determine the consequences of having poor credit.
- Evaluate the impact of financial behaviors on credit scores.

Time Required

45 minutes

Essential Question

Why is good credit important?

Materials

- Infographic: *Why is Good Credit Important?* Physical copy or internet access and projector to show the infographic bit.ly/frba-infographic-credit. (If you are using physical copies of the infographic in the classroom, you may want to cut the infographic into blocks so the students can learn the content sequentially rather than by looking ahead. You may also make copies of the infographic.)
- Handout 1: Credit Scenarios, one copy for the class or one copy for each group if you are doing the activity in groups rather than together as a class, cut apart into cards.
- Handout 2: Credit Score Arrows, one set of arrows
- Handout 3: Factors Influencing Credit Scores, one for each student group, preferably each page copied on different colored cardstock (five pages).

- The article “Credit Bureaus: The Record Keepers,” (bit.ly/credit-bureaus-article) one copy for each student, or access to the internet so that students can view online or in the Econ Lowdown (www.econlowdown.org) portal (if you have a registered class).
- Optional: White paper for mounting puzzles/tangrams, scissors, glue for each student group

Procedure

1. Ask students if they have heard of **credit** and if they can define the term. (*Answers will vary*). (Define credit as any arrangement in which you receive goods, services, or money in exchange for a promise to repay at a later date.)
2. Display the infographic and read the definition of credit together.
3. Direct students to the question “Why is Good Credit Important?” on the infographic and ask them if they can explain the answer to the question. (*Answers will vary, but may include being able to borrow to buy things, being able to borrow at a lower cost, etc.*)
4. Refer to the second section of the infographic, “Maintaining a Good Credit History is Critical to Financial Stability,” and go over each bullet point. (Define credit history as a person’s payment activity over a period of time.) Emphasize the importance of paying bills on time and explain that establishing a relationship with a financial institution is an important step to building credit and can make it easier to borrow in the future if you maintain good credit habits. Let students know that it is important to monitor your credit report for possible errors or fraud. Point out that credit reports can be obtained for free at <https://www.annualcreditreport.com>.
5. Refer to the third section of the infographic, “Credit History,” and show the consequences of paying bills on time or paying late. Ask students for their input for additional consequences (*answers will vary according to their knowledge*) and if not mentioned, let them know that **credit reports** are checked for buying not just homes or cars, but by utility and cell phone companies, credit card issuers, insurance companies, landlords, and sometimes even future employers. (Define credit report as a record of your credit history.)
6. Refer to the fourth section of the infographic, “Credit Report,” and read the content together, making sure that students understand that credit scores and credit reports are not the same thing.
7. Refer to the fifth section of the infographic “Credit Score.” Highlight that your **credit score** is a number based on information in a credit report that assesses a person’s credit risk. In other words, a number assigned to you indicating your ability to repay a loan can have major impact on your life, so it is important to maintain good credit. Read the definition together and explore the pie chart describing what makes up a credit score. Point out the following:
 - At 35 percent, payment history is the largest part of your credit score. Paying all of your bills on time is very important if you want to build and/or keep good credit.
 - At 30 percent, amount owed is the second most important part of your credit score. Payment history and amount owed together are nearly two-thirds of your credit score. Amount owed is also known as credit utilization, or the amount of available credit that has been borrowed. Maxing out credit cards or carrying high balances would have a negative effect on this part of your score. A common rule of thumb is

to use less than 30 percent of your available credit. The lower your utilization rate the better.

- Length of credit history accounts for 15 percent of your score. This reflects how long each account has been open and the length of time since any action has been taken on the account. Those who are newly building their credit can still have good scores if they pay their bills on time and keep credit utilization low.
 - New credit accounts for 10 percent of a credit score. Opening many new accounts may signal to credit bureaus that a consumer is in financial trouble, so it is best to only apply for credit when you need it. New accounts also affect the part of your score that measures the length of your credit history. *(Students may have seen their parents shop for cars or mortgages and have multiple credit inquiries made, so you may want to clarify that when shopping for a car or a mortgage, multiple applications may be made in a short period of time as you look for the best rates or terms. Credit bureaus will look at the type of credit you are applying for and realize that you are comparison shopping; if the inquiries are made within a certain time period (usually 30 days), several inquiries into to your credit, while listed on your credit report, will only count as one inquiry when calculating your credit score. Requesting a copy of your own credit report or inquiries that are made for pre-screened credit offers are not counted as applications for credit. This is the difference between a soft inquiry that does not negatively affect your credit score and a hard inquiry that will likely take points off your credit score.)*
 - The last 10 percent of your credit score is made up of types of credit used. Also known as “credit mix,” consumers with a good credit history and a mix of both revolving credit such as credit cards, personal lines of credit or home equity lines of credit and installment loans such as home mortgages, car loans, or student loans are viewed as being less risky by credit bureaus since they demonstrate the ability to handle different types of credit responsibly. Possessing too many credit cards or finance company loans can have a negative effect on your score in this category.
8. Tell students they will apply their knowledge to a few scenarios. Explain that you will need eleven volunteers to complete the exercise.
 9. Give one student Handout 2: Credit Score Arrows. Instruct this student to hold up one of the cards based on the class’s vote for whether the scenario would tend to lower or increase the credit score of the individual mentioned in the scenario. Ask your volunteers to stand at the front of the class. Distribute the ten scenario cards from Handout 1: Credit Scenarios.
 10. Have each student with a scenario card read the card out loud to the class. The class will then vote on whether the actions of the individual in the scenario would tend to increase or decrease their credit score, and then have the student with the “increases credit score” and “decreases credit score” signs hold up the appropriate sign. As each scenario is read, you may want to ask students why they voted the way they did. You can refer them to the infographic or the following websites for help in deciding:
 - bit.ly/5-tips-credit-score
 - bit.ly/ftc-credit-scores
 - bit.ly/credit-reports-scores
 - bit.ly/improving-your-credit-score



Note: As an alternative to working through each case as a class, you may also divide students into groups of 2–4 and give each group a copy of the ten scenarios in Handout 1, cut apart. Have the students place each scenario in a pile for “increase score” or “decrease score,” then review together as a class.

11. After students have completed the scenario card activity from Handout 1, tell them that they are going to participate in an activity focusing on what makes up a credit score. Divide students into groups (2–4 depending on class size) and give each group a complete set of Handout 3: Factors Influencing Credit Scores and a pair of scissors to cut out the blocks. Tell students to use the squares to make a picture that is correct regarding the weight that each factor has on credit scores. Each block represents 5 percent. Students may arrange the blocks into a circle as demonstrated on the infographic or use their creativity to create another shape. *(Give students a white sheet of paper and glue if you want to mount their work and/or display it in the classroom).*
12. When students have completed their shapes, check them for accuracy, using the infographic as an answer key.

Closure and Assessment

As a closure and assessment, you may have students read the article “Credit Bureaus: The Record Keepers” (<https://bit.ly/credit-bureaus-article>) and answer the questions at the end of the article. Students may also read the article online and answer the multiple choice questions online if you register your class through the free Econ Lowdown portal (<https://www.econlowdown.org>).

Handout 1: Credit Scenarios

Students will read their card aloud and the class will vote together on whether the actions of the person described in the scenario are likely to raise or lower their credit score. The student holding the “Credit Score” sign will then raise or lower the sign in accordance with the class vote.

Tanya always pays her bills on time. She puts the due dates into an app on her phone so that she never forgets when a bill is due.

Card 1

James receives many offers for credit cards in the mail. Since he has been wanting to get some new furniture for his apartment, including a new big screen TV, he decides to apply for every offer that he receives so that he will have a large amount of credit available.

Card 2

While she was in college, Anya got a couple of credit cards and spent up to the limit on each one. Because she makes only the minimum payment on the cards, they are still maxed out even though she graduated two years ago.

Card 3

Darrell has three credit cards, but he usually pays them off in full each month. When he bought a new computer he charged \$1,000 to his card that had a \$5,000 limit, but paid it off in three months to keep his credit usage low.

Card 4

Erika pays her bills online but doesn't check her email account frequently. Sometimes she misses the due dates and has to pay a late fee on her credit cards or utility bill. She would like to find a better system to keep track of her finances, but hasn't figured one out yet.

Card 5

Brandon is looking to buy a new car and would like to get the best rate. He goes to a couple of dealerships and they run his credit report to see what offer he may qualify for. He shops around for just two weeks so that credit bureaus will understand that he is looking for a good deal.

Card 6

Dominique received a medical bill from the hospital that treated her after her car accident and is unable to pay the full amount. The bill says that if she does not pay, the hospital will refer the bill to collections. She calls the finance department of the hospital and sets up a payment plan so that her account remains current and delinquent payments are not shown on her credit report.

Card 7

Antonio only applies for credit when he needs it. He has two credit cards, a student loan and an auto loan. He pays each bill on time every month.

Card 8

Tracy has a credit card with a \$500 credit limit. She carries a balance each month and has gone over the credit limit a few times since the card is almost maxed out. She has paid an over the limit fee twice and now has a higher interest rate charged on her card. She holds a credit card and has a loan from a finance company, but no installment credit.

Card 9

Michael’s teacher encouraged his class to check their credit reports, even though they may not have applied for credit. Michael went to annualcreditreport.com and pulled his credit report. Michael doesn’t even have a driver’s license, but he found out that a car loan was taken out in another state by someone with the same name as his and is listed on his credit report. He is working with the credit bureau to remove this error on his report.

Card 10

Handout 2: Credit Score Arrows

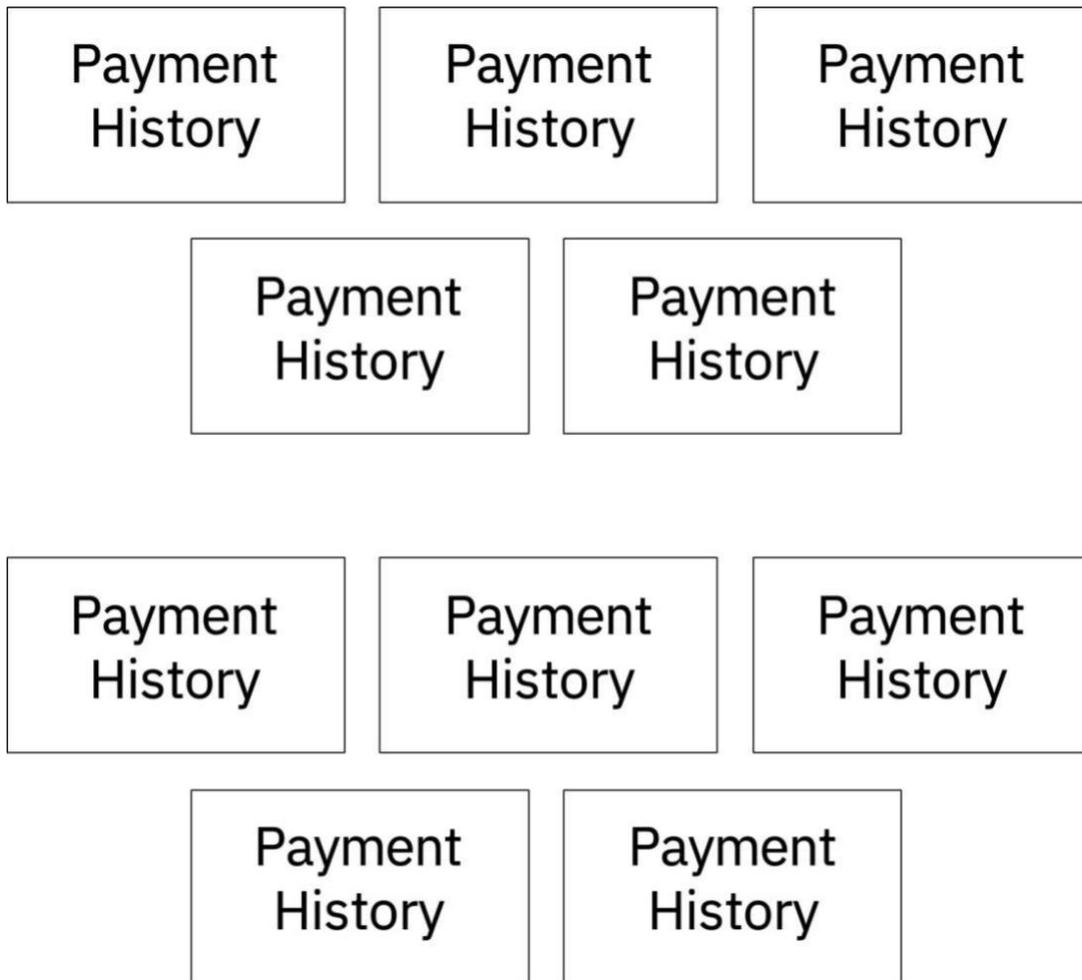




**Increases
Credit
Score**

Handout 3: Factors Influencing Credit Scores

Make a shape using the correct amount of blocks to indicate the weight of each factor on a credit score. Each block represents 5 percent.

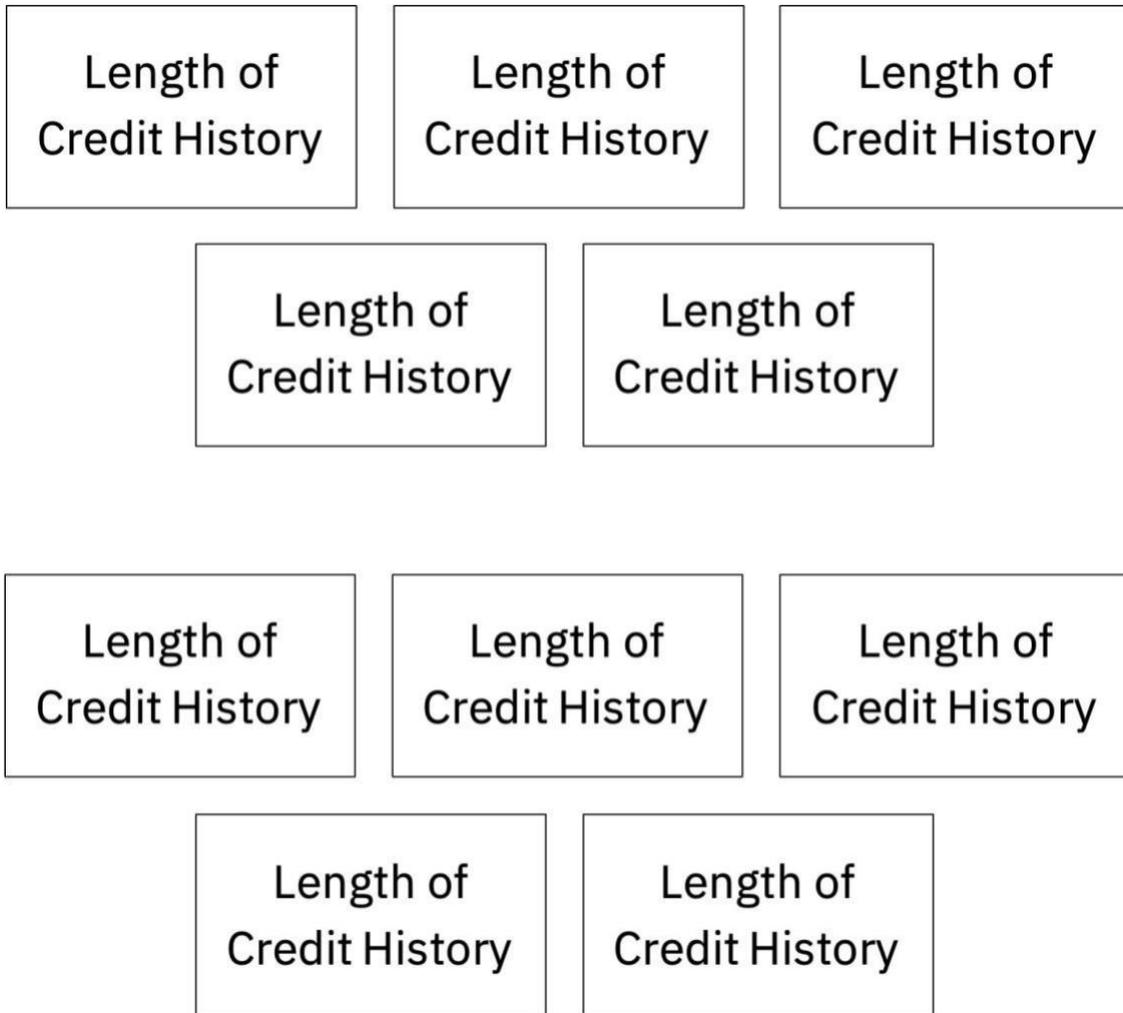


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Credit

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