

Young Money Classroom Activities

What is a Credit Score?

Summary

Your credit score is a number, from 300 to 800+, depending on which credit bureau you're dealing with—Equifax, Experian, or TransUnion. This number is used by lenders to help them decide: "If I give this person a loan or mortgage, how likely is it that I will get paid back on time?" A score is a snapshot of your credit risk picture at a particular point in time. People with lower scores are deemed to have a lower likelihood of repayment. They will pay higher interest rates or possibly be turned down altogether when they apply for credit.

Lenders use the information on your credit report to assess your credit status. They also look at other factors that are not included in your credit report, such as your income and its stability. But the credit score is used as a primary tool to measure your "risk."

Discussion

After your students have read *What is a Credit Score*, discuss as a group the following questions:

1. What does a FICO® credit score reflect?
2. How are credit scores calculated and who reports them?
3. Why is each individual responsible for his/her own credit report?
4. How can a credit score be obtained?
5. How can a credit score be corrected if you think it is not accurate?

Project Ideas

1. Have your students investigate the three credit bureaus and identify why it may be necessary to obtain credit reports from all three.
2. Have your students debate the "fairness" of each of the following criteria evaluated for a credit score:
 - Payment history
 - Outstanding debt
 - Credit account history
 - Recent inquiries
 - Types of credit.
3. Have your students explain why it is dangerous if you haven't seen your credit report in over a year, because of the information it contains or does not contain.
4. Have your students research how someone can use the Equal Credit Opportunity Act (ECOA) if he or she has been turned down for credit.
5. As there's no one "score cutoff" used by all lenders, it's hard to say what a good score is outside the context of a particular lending decision. Have your students assess what a good score would be.

Potential Test Questions

- 1 What are the three credit bureaus and why do they each have a different formula to calculate a credit score?
- 2 Why should you consult each separate credit report? Why are errors sometimes made in calculating a credit score?
- 3 Do the credit bureaus themselves make any decisions about extending credit to you?
- 4 How long does negative information stay on your credit report?
- 5 How can you improve your credit score?

Additional Challenges

- 1 Access free government publications that cover credit scoring, repairing credit, and related topics at these Web sites:
www.ftc.gov/ftc/consumer.htm
www.pueblo.gsa.gov
- 2 Identify factors that cannot be included in the FICO score.
- 3 What is the strategy for correcting a credit score you think is incorrect?

Glossary

Credit History—How you've used credit in the past

Credit Report—Record of your credit history

Credit Score—Probability that you'll pay back your debt

Equifax Inc./TransUnion/Experian—The three credit bureaus that calculate your credit score and release your credit report to interested parties.

FICO—A formula developed by Fair Isaac Corporation (FICO) for calculating a credit score, using data from a credit report. This number is called a FICO[®] score and is the template from which the other credit bureaus calculate their own credit scores.