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Concept 48 – Credit Worthiness Companion Activity

**Teacher Key**

So you want to borrow some money? I need to know that you are very likely to repay it. But how? This lesson explains what lenders look for before making important loans. In order to use credit, a borrower must first convince a lender they are credit worthy, or likely to repay their debt. The amount of credit and the interest rate a borrower can get are both related to their creditworthiness.

If you have not explored the uses of credit and why it may be necessary to borrow money over the course of one’s lifetime, consider utilizing the Concept 47: Uses of Credit lesson on *Econ Express* before proceeding.

To introduce the topic of credit worthiness, handout Activity Practice (page 3) and show this Edpuzzle video intro: <https://edpuzzle.com/media/5ca28ac6b23d15416fbc06ff>.

1. Discuss the two questions accompanying the video:

A) Your credit score gives lenders an idea of how likely you are to pay your debt and determines what loans you can get. What is the FICO score range? ***(Answer: 300-850)***

B) Which of the following is NOT a factor is determining your credit score? ***(Answer: Employment History)***

2. Either have students navigate to *Econ Express* Concept 48 or navigate there and project for everyone to see. Direct students to begin working through their Activity practice handout (page 3).

Review the correct responses and feel free to use the handout as an assessment on this topic.

***Lesson Extension****: to explore more on this important topic, see FTC’s* [*Consumer.gov website*](https://www.consumer.gov/articles/1009-your-credit-history#!what-to-know)*. This site can be reviewed with students to cover many FAQ, such as: learn how to know if you have good credit based on your credit report, what to do when you receive your credit report, how to make corrections if inaccurate information is posted on your credit report, or how to improve your credit, etc.*

*An excellent video on how to avoid getting scammed when requesting your credit report can be found here:* [*https://vimeo.com/352068774*](https://vimeo.com/352068774)

***Suggested Answers to Student Practice Activity***

Navigate to Concept 48 Credit Worthiness on *Econ Express.* What are the “Three C’s of Creditworthiness”?

|  |  |
| --- | --- |
| **Trait** | **Description** |
| Capacity | ***the ability to repay, meaning the borrower has a steady source of income*** |
| Character | ***the borrower has been reliable in the past and based on that, seems likely to repay*** |
| Collateral | ***the borrower possesses something of value that can be collected if they fail to repay*** |

3. Use Concept 48’s Intermediate page to determine what can and cannot be used by creditors to make lending decisions. Mark each of the following with 🗸(Yes) or ⮽ (No) if a lender can/cannot use the following to determine the interest rate you may pay:

🗸 Current employment & income ⮽ Marital status

🗸 Monetary obligations (debts outstanding) ⮽ Religious affiliation

🗸 Banking information & account statements 🗸 Current address

⮽ Race or ethnicity 🗸 Pay stubs

4. What are the most important factors that make-up a person’s credit score? *(see Intermediate page)*

***One-time payments, Percentage of available credit used (not exceeding 30% is ideal), Length of credit history without missed payments (longer is better), Type of credit they carry (variety is key), Frequency of asking for new credit (less often is better)***

5. Navigate to <https://www.consumer.gov/articles/1009-your-credit-history>. What is the phone number, ***1-877-322-8228*** or website [***AnnualCreditReport.com***](http://annualcreditreport.com/)to receive your free annual credit report?

6. Does your credit score come with the free report? (Yes or No): ***No, your credit score can be purchased for a fee. There are three credit reporting companies. You get one free report from each credit reporting company every year. That means you get three reports each year. You don’t need to know your exact credit score to know if you have good or bad credit. The report is enough to know if you have good or bad credit.***

***Here is what that means…***

***Good credit= paying your bills on time and minimizing your debt to income ratio; That means: I have more loan choices, It is easier to get credit cards, I pay lower interest rates, I pay less for loans and credit cards.***

***Bad credit= paying bills late and owing a lot of money; That means: I have fewer loan choices, It is harder to get credit cards, I pay higher interest rates, I pay more for loans and credit cards.***

7. Navigate to the Advanced page for this concept on *Econ Express.* What is a near perfect credit score? ***840***

What is considered pretty good? ***620*** What is a poor credit score? ***465***

8. Use the practice feature on *Econ Express* to analyze the important of maintaining a high credit score.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Credit Score*** | ***Loan Type (6 year)*** | ***Interest Rate*** | ***Monthly Payment*** | ***Total Interest Owed*** |
| 495 | $26,000 Auto Loan | ***10%*** | ***$482*** | ***$8,680*** |
| 585 | $26,000 Auto Loan | ***8.5%*** | ***$462*** | ***$7,281*** |
| 630 | $26,000 Auto Loan | ***6%*** | ***$431*** | ***$5,024*** |
| 675 | $26,000 Auto Loan | ***4%*** | ***$401*** | ***$3,287*** |
| 780 | $26,000 Auto Loan | ***3%*** | ***$395*** | ***$2,442*** |

9. Why is it important to maintain a high credit score, especially when borrowing large amounts over a long time period?

***The interest rate is the price you pay for borrowing money. Notice how the interest rate increases as the credit score decreases. A higher interest rate translates to a higher monthly payment, and a higher total cost of the loan. The amount borrowed is only part of the amount owed. You must add the total interest payments to the amount borrowed to calculate the true cost of the loan. Maintaining a good credit score will not increase your savings (savings only happens when you are not spending or borrowing), but it will decrease your expenses as a borrower which can help you save money for retirement or other personal goals.***

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Concept 27– Unemployment Companion Activity

Student Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

So you want to borrow some money? The lender needs to know that you are very likely to repay it. But how? This lesson explains what lenders look for before making important loans. In order to use credit, a borrower must first convince a lender they are credit worthy, or likely to repay their debt. The amount of credit and the interest rate a borrower can get are both related to their creditworthiness.

**Practice Activity:**

1. View the [video](https://edpuzzle.com/media/5ca28ac6b23d15416fbc06ff) assigned, “Kal Penn Explains Credit Scores” and answer the two questions:

A) Your credit score gives lenders an idea of how likely you are to pay your debt and determines what loans you can get. What is the FICO score range? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

B) Which of the following is NOT a factor is determining your credit score? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. Navigate to Concept 48: Credit Worthiness on *Econ Express.* What are the “Three C’s of Creditworthiness”?

|  |  |
| --- | --- |
| **Trait** | **Description** |
| Capacity |  |
| Character |  |
| Collateral |  |

3. Use Concept 48’s Intermediate page to determine what can and cannot be used by creditors to make lending decisions. Mark each of the following with 🗸(Yes) or ⮽ (No) if a lender can/cannot use the following to determine the interest rate you may pay:

\_\_\_ Current employment & income \_\_\_ Marital status

\_\_\_ Monetary obligations (debts outstanding) \_\_\_ Religious affiliation

\_\_\_ Banking information & account statements \_\_\_ Current address

\_\_\_ Race or ethnicity \_\_\_ Pay stubs

4. What are the most important factors that make-up a person’s credit score? *(see Intermediate page)*

5. Navigate to <https://www.consumer.gov/articles/1009-your-credit-history>. What is the phone number, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and website \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_to receive your free annual credit report?

6. Does your credit score come with the free report? (Yes or No): \_\_\_\_\_\_\_\_

7. Navigate to the Advanced page for this concept on *Econ Express.* What is a near perfect credit score? \_\_\_\_\_

What is considered pretty good? \_\_\_\_\_\_ What is a poor credit score? \_\_\_\_\_

8. Use the practice feature on *Econ Express* to analyze the important of maintaining a high credit score.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| ***Credit Score*** | ***Loan Type*** | ***Interest Rate*** | ***Monthly Payment*** | ***Total Interest Owed*** |
| 495 | $26,000 Auto Loan |  |  |  |
| 585 | $26,000 Auto Loan |  |  |  |
| 630 | $26,000 Auto Loan |  |  |  |
| 675 | $26,000 Auto Loan |  |  |  |
| 780 | $26,000 Auto Loan |  |  |  |

9. Why is it important to maintain a high credit score, especially when borrowing large amounts over a long time period?