

# LESSON PLAN

## *Understanding Credit Scores*

- IT'S A -  
**MONEY  
THING®**

### INCLUDED IN THIS PACKAGE

- **LESSON PLAN** (2 pages)
- **ACTIVITY A** (3 pages)
- **ACTIVITY B** (1 page)
- **QUIZ** (1 page)
- **ACTIVITY A ANSWER KEY** (2 pages)
- **ACTIVITY B ANSWER KEY** (2 pages)
- **QUIZ ANSWER KEY** (1 page)

### COLLECT FROM YOUR LIBRARY

- **VIDEO 02** (Breakdown of a Credit Score)
- **VIDEO 04** (Boost Your Credit Score)
- **HANDOUT 02** (Breakdown of a Credit Score)
- **HANDOUT 04** (Boost Your Credit Score)
- **PRESENTATION 02** (Breakdown of a Credit Score)

# 765





# LESSON PLAN

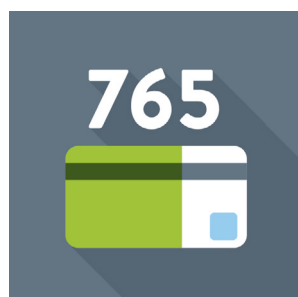
## Understanding Credit Scores

GRADES

7 to 12

TIME

45 minutes



### OVERVIEW

As young people begin to create their credit history, it's easy for a lack of knowledge and experience to create long-term financial detriments. The mindset of 'buy now, pay later' can be addictive for youths, and influence their financial trajectory for years to come. By learning how credit scores work, and the various factors that are used to calculate them, young people can empower themselves to make better financial decisions.

### GOALS

- Introduce students to the concept of credit scores, how they're calculated and why they're important
- Provide students with the knowledge to form good credit habits

### OBJECTIVES

- Define a credit score and identify its contributing factors
- Demonstrate both positive and negative practices that influence credit scores
- Read and interpret a monthly credit card statement
- Read and interpret a credit report

### ASSESSMENT

Activities A and B can be used to gauge student understanding. An optional quiz has been provided with this lesson plan (the quiz is not factored into the lesson's 45-minute runtime).

***Did you know?** This lesson plan explores concepts from Standard 4 (Using Credit) from the Council for Economic Education's National Standards for Financial Literacy.*

### MATERIALS

- VIDEO 02**—*Breakdown of a Credit Score*
- VIDEO 04**—*Boost Your Credit Score*
- HANDOUT 02**—*Breakdown of a Credit Score*
- HANDOUT 04**—*Boost Your Credit Score*
- PRESENTATION 02**—*Breakdown of a Credit Score*
- ACTIVITY A**—*Credit Score Match and Answer Key*
- ACTIVITY B**—*Spot the Bad Credit Choices and Answer Key*
- QUIZ**—*Understanding Credit Scores and Answer Key*

### PREPARATION

- Gather digital materials (videos and presentation)
- Print **HANDOUT 02** and **HANDOUT 04** for each student
- (Optional) Print **QUIZ** (Understanding Credit Scores) for each student
- Print and cut out cards for **ACTIVITY A**
- Prepare **ACTIVITY B** by either printing out physical copies for students or by preparing a copy for in-class display



# LESSON PLAN

## Understanding Credit Scores

### TIME LINE

- 5 minutes** Introduce topic and show **VIDEO 02** (*Breakdown of a Credit Score*)
- 10 minutes** Go over **PRESENTATION 02**
- 10 minutes** Distribute **ACTIVITY A**
- 5 minutes** Show **VIDEO 04** (*Boost Your Credit Score*)
- 10 minutes** Divide students into small groups and distribute **ACTIVITY B**; go over correct answers together as a class
- 5 minutes** Wrap up and distribute **HANDOUT 02** and **HANDOUT 04**
- (Optional)** Assessment: **QUIZ** (*Understanding Credit Scores*)

6. Distribute **ACTIVITY B**
- Have students break into small groups and give each group a copy of the provided sample credit card statement
  - Allow students time to fill out their activity sheets
  - Go over the answers together as a class
7. Wrap up by sharing the following:
- Monitoring your credit score is important—you are entitled to one free credit report per year from each of the major credit bureaus
  - Contact the credit bureau if you spot any inaccuracies or suspicious activity on your credit report
8. Distribute **HANDOUT 02** and **HANDOUT 04** as take-home materials
9. (Optional) Distribute **QUIZ** for individual assessment, or answer the questions together as a class

### INSTRUCTIONS

1. Introduce and determine students' familiarity with the topic by asking:
  - What is a credit score?
  - How is it calculated?
2. Show **VIDEO 02**
3. Go over **PRESENTATION 02**
4. Distribute **ACTIVITY A**
  - Hand out cards with different behaviors to students
  - Create a 'Positive Impact' and a 'Negative Impact' pile and have students place their card in the pile they deem appropriate
  - Go over each card and confirm whether it was placed in the appropriate pile; discuss any misplaced cards with the class before moving them to the correct pile
5. Show **VIDEO 04**

### NOTES

Notes area with horizontal lines for writing.



# ACTIVITY A

## Understanding Credit Scores

### CREDIT SCORE MATCH

Directions: Place cards in 'Positive Impact' and 'Negative Impact' piles.

01

**PAID BILLS ON TIME,  
EVERY TIME**

02

**OPENED A FEW  
CREDIT ACCOUNTS  
AND NEVER  
USED THEM**

03

**HAVE A CREDIT  
CARD WITH HIGH  
LIMIT AND LOW  
BALANCE**

04

**HAVE A  
LONG CREDIT  
HISTORY**

05

**USING 10%  
OF AVAILABLE  
CREDIT**

06

**HAVE A BROAD  
MIX OF DIFFERENT  
CREDIT TYPES**

07

**USE A CREDIT CARD  
FOR REGULAR  
EXPENSES, PAYING  
IT OFF IMMEDIATELY  
EACH TIME**

08

**CHECKED CREDIT  
REPORT AND HAD  
INCORRECT INFO  
REMOVED**

09

**SKIPPED A PAYMENT  
THEN MADE IT UP  
THE NEXT MONTH**

## CREDIT SCORE MATCH

Directions: Place cards in 'Positive Impact' and 'Negative Impact' piles.



10

**PAID BILLS ON TIME,  
ONCE**

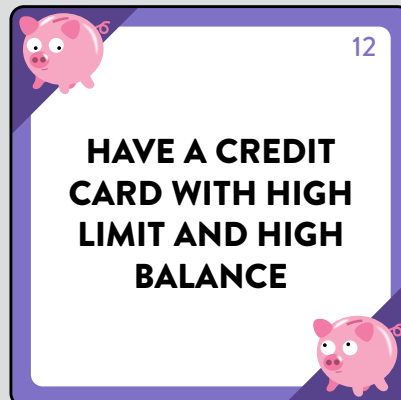
This card features a pink piggy bank icon in the top-left and bottom-right corners.



11

**OPENED A FEW  
CREDIT ACCOUNTS  
AND USED THEM ALL  
TO THE MAX**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



12

**HAVE A CREDIT  
CARD WITH HIGH  
LIMIT AND HIGH  
BALANCE**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



13

**HAVE NO CREDIT  
HISTORY**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



14

**USING 60%  
OF AVAILABLE  
CREDIT**

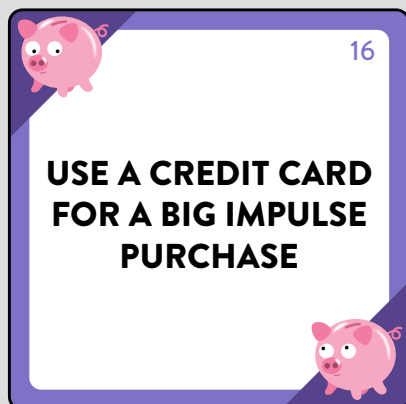
This card features a pink piggy bank icon in the top-left and bottom-right corners.



15

**USE A SINGLE LINE  
OF CREDIT FOR  
ALL YOUR NEEDS**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



16

**USE A CREDIT CARD  
FOR A BIG IMPULSE  
PURCHASE**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



17

**HAD MANY  
CREDIT CHECKS  
PERFORMED BY  
LENDERS**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



18

**FINALLY PAID OFF A  
BIG OUTSTANDING  
BALANCE**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



19

**HAVE A CREDIT  
CARD WITH LOW  
LIMIT AND LOW  
BALANCE**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



20

**USING 30%  
OF AVAILABLE  
CREDIT**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



21

**OPENED A FEW  
CREDIT ACCOUNTS  
AND USED THEM  
SPARINGLY**

This card features a pink piggy bank icon in the top-left and bottom-right corners.

## CREDIT SCORE MATCH

Directions: Place cards in 'Positive Impact' and 'Negative Impact' piles.



22

**PAID BILLS LATE,  
ONCE**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



23

**CLOSED A CREDIT  
CARD ACCOUNT  
TO BEGIN PAYING  
IT OFF**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



24

**HAVE A CREDIT  
CARD WITH A HIGH  
INTEREST RATE  
AND UNUSED  
REWARDS**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



25

**DECLARED  
BANKRUPTCY  
FIVE YEARS AGO**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



26

**USING 90%  
OF AVAILABLE  
CREDIT**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



27

**OPENED MANY  
CREDIT ACCOUNTS  
IN A SHORT TIME**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



28

**USED A CREDIT  
CARD TO PAY OFF  
ANOTHER  
CREDIT CARD**

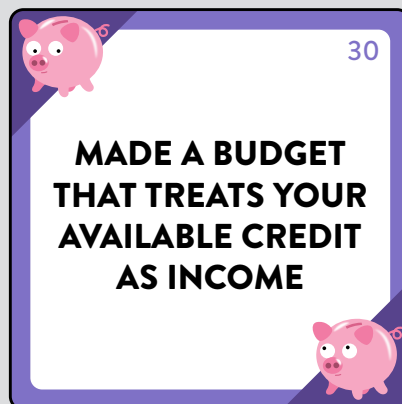
This card features a pink piggy bank icon in the top-left and bottom-right corners.



29

**USING 70%  
OF AVAILABLE  
CREDIT**

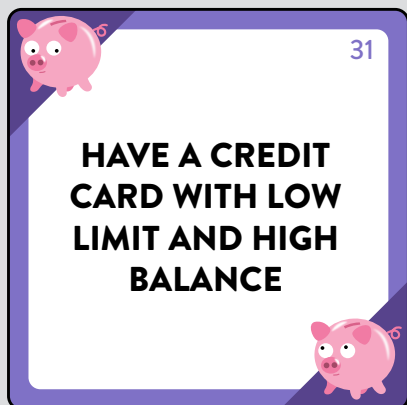
This card features a pink piggy bank icon in the top-left and bottom-right corners.



30

**MADE A BUDGET  
THAT TREATS YOUR  
AVAILABLE CREDIT  
AS INCOME**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



31

**HAVE A CREDIT  
CARD WITH LOW  
LIMIT AND HIGH  
BALANCE**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



32

**USING 50%  
OF AVAILABLE  
CREDIT**

This card features a pink piggy bank icon in the top-left and bottom-right corners.



33

**OPENED A FEW  
CREDIT ACCOUNTS  
AND BUILT UP A  
HIGH BALANCE  
ON EACH**

This card features a pink piggy bank icon in the top-left and bottom-right corners.




# ACTIVITY B

## Understanding Credit Scores

### SPOT THE BAD CREDIT CHOICES

Directions: Circle the bad credit choices on this example credit card statement.



## CREDIT CARD STATEMENT

June 15 – July 14

### ACCOUNT SUMMARY

|                      |          |
|----------------------|----------|
| PREVIOUS BALANCE     | \$755.36 |
| PAYMENTS AND CREDITS | \$160.20 |
| PURCHASES            | \$329.33 |
| BALANCE TRANSFERS    | \$0.00   |
| CASH ADVANCES        | \$40.00  |
| FEES CHARGED         | \$17.00  |
| INTEREST CHARGED     | \$7.52   |

### PAYMENT INFORMATION

|                        |                 |
|------------------------|-----------------|
| <b>NEW BALANCE</b>     | <b>\$989.01</b> |
| Total Credit Available | \$1,000.00      |
| Minimum Payment Due    | \$15.00         |
| Payment Due Date       | August 5        |

⚠ Last payment overdue, please pay now

### Transactions

| Date    | Transaction details              | Amount     |
|---------|----------------------------------|------------|
| JUNE 16 | BLING KING EXPENSIVE FAKE JEWELS | \$160.20   |
| JUNE 18 | CASH ADVANCE                     | \$40.00    |
| JUNE 21 | *CASH ADVANCE FEE                | \$5.00     |
| JUNE 27 | MOONBUCKS COFFEE, DOWNTOWN       | \$9.90     |
| JULY 01 | CAT MART FELINE WAREHOUSE        | \$55.30    |
| JULY 04 | *OVER LIMIT FEE                  | \$12.00    |
| JULY 06 | FINANCE CHARGE—INTEREST          | \$7.52     |
| JULY 07 | REFUND—BLING KING RETURNS DEPT.  | – \$160.20 |
| JULY 10 | MONDO MART                       | \$22.04    |
| JULY 11 | FARMER’S MARKET—CARL’S RUTABAGAS | \$9.50     |
| JULY 14 | WHATMASHOP ONLINE DOODADS        | \$35.99    |
| JULY 11 | DELICATE TRUFFLE EMPORIUM        | \$21.40    |
| JULY 14 | FIVE DOLLAR PIZZA SLICE          | \$15.00    |

⚠
YOU ARE NEARING YOUR CREDIT LIMIT

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# QUIZ

## Understanding Credit Scores

NAME: \_\_\_\_\_

TOTAL  
/ 5 pts

### MULTIPLE CHOICE

Directions: CIRCLE the best possible answer to each question.

- A credit score of 720 or more is considered:
  - Poor
  - Average
  - Good
  - Prime (Excellent)
- How can you improve your credit score?
  - Open a large amount of credit cards in a short time
  - Monitor your credit
  - Keep your utilization low
  - a & b
  - b & c
- What is the largest contributing factor to your credit score?
  - Mix of credit
  - New credit
  - Length of credit
  - Payment history
  - Capacity
- To ensure that your credit report is accurate, you should:
  - Request your free credit report from each of the main credit bureaus
  - Review your personal information and make sure that it's up to date
  - Report any unauthorized activity to the issuing credit bureau
  - All of the above

/4 pts

### TRUE OR FALSE

Directions: CIRCLE either true or false.

5. TRUE or FALSE      Checking your credit report will negatively affect your credit score.

/1 pt



# ACTIVITY A ANSWER KEY

## Understanding Credit Scores

### CREDIT SCORE MATCH

**Directions:** Go through the 'Positive Impact' and 'Negative Impact' piles of game cards and confirm the cards that are in the correct pile while correcting the cards that are placed in the wrong pile.

| CARD | POSITIVE OR NEGATIVE | REASON   |
|------|----------------------|--|
| 01   | POSITIVE             | <i>Regular on-time bill payment will raise your credit score more than any other action</i>  |
| 02   | NEGATIVE             | <i>While having a good amount of available credit helps with your utilization ratio, zero use is seen to indicate higher future risk</i> |
| 03   | POSITIVE             | <i>Having a low utilization ratio is a plus, especially when it is maintained with constant use</i>                                      |
| 04   | POSITIVE             | <i>A long credit history is a plus, assuming it isn't a history of late or missed payments</i>   |
| 05   | POSITIVE             | <i>Using less than 30% of total available credit helps your score</i>  |
| 06   | POSITIVE             | <i>A mix of credit types helps your score—just don't lose track</i>  |
| 07   | POSITIVE             | <i>Constant use of a card, while paying the balance in full and on time, will build up good credit</i>                                   |
| 08   | POSITIVE             | <i>Incorrect info can hurt your credit score, so get rid of it</i>   |
| 09   | NEGATIVE             | <i>Even when paid eventually, skipped and late payments hurt your credit score</i>   |
| 10   | POSITIVE             | <i>Paying bills on time only helps your credit score if you do it consistently</i>   |
| 11   | NEGATIVE             | <i>Many accounts with high utilization will hurt your credit score and can create compounding trouble with repayment</i>                 |
| 12   | NEGATIVE             | <i>Too much credit utilization will hurt your credit score</i>   |
| 13   | NEGATIVE             | <i>Having no credit history means you have zero average credit length and haven't built up good credit through good behavior</i>         |
| 14   | NEGATIVE             | <i>Using more than 30% of total available credit hurts your score</i>  |
| 15   | NEGATIVE             | <i>A variety of credit helps your score more than using a single source</i>  |
| 16   | NEGATIVE             | <i>Using credit for items you can't normally afford can hurt your score through high utilization and late or missed payments</i>         |
| 17   | NEGATIVE             | <i>Too many 'hard inquiry' credit checks will negatively impact your credit score</i>  |

# ACTIVITY A ANSWER KEY

## Understanding Credit Scores

### CREDIT SCORE MATCH

**Directions:** Go through the 'Positive Impact' and 'Negative Impact' piles of game cards and confirm the cards that are in the correct pile while correcting the cards that are placed in the wrong pile.

| CARD | POSITIVE OR NEGATIVE | REASON  |
|------|----------------------|---|
| 18   | POSITIVE             | <i>Lower utilization rate and more money free for future expenses will help your credit score</i>                                       |
| 19   | NEGATIVE             | <i>Low balance with a low limit can still create a high utilization ratio</i>   |
| 20   | POSITIVE             | <i>30% or less is a good ratio, but any more and you may hurt your credit score</i>   |
| 21   | POSITIVE             | <i>Low credit use and developing credit history will help your credit score</i>   |
| 22   | NEGATIVE             | <i>Late payments are never good, but the overall trend is much more important</i>   |
| 23   | NEGATIVE             | <i>Reduces overall available credit, which influences utilization ratio; however, it can help you get back in control of credit use</i> |
| 24   | NEGATIVE             | <i>Higher interest rates are only worth it if you don't carry a balance, and use the card rewards</i>                                   |
| 25   | NEGATIVE             | <i>Bankruptcy hurts your credit score for 7 to 10 years</i>   |
| 26   | NEGATIVE             | <i>Using more than 30% of total available credit hurts your score</i>   |
| 27   | NEGATIVE             | <i>Shortens average credit length and adds hard inquiries</i>   |
| 28   | POSITIVE             | <i>Paying a balance in full is good for your score, especially if the new credit card has a lower interest rate</i>                     |
| 29   | NEGATIVE             | <i>Using more than 30% of total available credit hurts your score</i>   |
| 30   | NEGATIVE             | <i>This is a recipe for late or missed payments—only use credit that you have the funds to pay back promptly</i>                        |
| 31   | NEGATIVE             | <i>Too much credit utilization will hurt your credit score</i>  |
| 32   | NEGATIVE             | <i>Using more than 30% of total available credit hurts your score</i>   |
| 33   | NEGATIVE             | <i>Too much credit utilization will hurt your credit score—many accounts will be even harder to keep under control</i>                  |

# ACTIVITY B ANSWER KEY

## Understanding Credit Scores

### SPOT THE BAD CREDIT CHOICES

Directions: Go over the example credit card statement and have students provide the bad credit choices they've spotted. Explain the reasoning behind each provided bad credit choice, then point out and explain any examples that students missed.

#### ACCOUNT SUMMARY

|    |                      |          |
|----|----------------------|----------|
| 01 | PREVIOUS BALANCE     | \$755.36 |
|    | PAYMENTS AND CREDITS | \$160.20 |
| 02 | PURCHASES            | \$329.33 |
|    | BALANCE TRANSFERS    | \$0.00   |
| 03 | CASH ADVANCES        | \$40.00  |
| 04 | FEES CHARGED         | \$17.00  |
| 05 | INTEREST CHARGED     | \$7.52   |

#### PAYMENT INFORMATION

|    |   |                 |
|----|---|-----------------|
| 06 | <b>NEW BALANCE</b>                      | <b>\$989.01</b> |
|    | Total Credit Available                  | \$1,000.00      |
|    | Minimum Payment Due                     | \$15.00         |
|    | Payment Due Date                        | August 5        |
| 07 | ⚠️ Last payment overdue, please pay now |                 |

#### Transactions

|    | Date    | Transaction details              | Amount     |
|----|---------|----------------------------------|------------|
| 08 | JUNE 16 | BLING KING EXPENSIVE FAKE JEWELS | \$160.20   |
| 09 | JUNE 18 | CASH ADVANCE                     | \$40.00    |
|    | JUNE 21 | *CASH ADVANCE FEE                | \$5.00     |
|    | JUNE 27 | MOONBUCKS COFFEE, DOWNTOWN       | \$9.90     |
|    | JULY 01 | CAT MART FELINE WAREHOUSE        | \$55.30    |
| 10 | JULY 04 | *OVER LIMIT FEE                  | \$12.00    |
|    | JULY 06 | FINANCE CHARGE—INTEREST          | \$7.52     |
| 11 | JULY 07 | REFUND—BLING KING RETURNS DEPT.  | – \$160.20 |
|    | JULY 10 | MONDO MART                       | \$22.04    |
|    | JULY 11 | FARMER'S MARKET—CARL'S RUTABAGAS | \$9.50     |
|    | JULY 14 | WHATMASHOP ONLINE DOODADS        | \$35.99    |
| 12 | JULY 11 | DELICATE TRUFFLE EMPORIUM        | \$21.40    |
|    | JULY 14 | FIVE DOLLAR PIZZA SLICE          | \$15.00    |

13 ⚠️ YOU ARE NEARING YOUR CREDIT LIMIT

# ACTIVITY B ANSWER KEY

## Understanding Credit Scores

### SPOT THE BAD CREDIT CHOICES

**Directions:** Go over the example credit card statement and have students provide the bad credit choices they've spotted. Explain the reasoning behind each provided bad credit choice, then point out and explain any examples that students missed.

| ITEM | WHY IT'S A BAD CREDIT CHOICE   |
|------|--|
| 01   | <i>Previous balance is near the credit limit, showing a continued high credit utilization rate</i>                 |
| 02   | <i>Large amount of purchases relative to credit limit—points to a habit of overspending</i>                        |
| 03   | <i>Cash advance shows the cardholder isn't keeping up with debt</i>  |
| 04   | <i>Fees charged, and the compounding effect they create, could be avoided with better spending habits</i>          |
| 05   | <i>Interest can be avoided by making sure to pay in full on time</i>   |
| 06   | <i>New balance shows continued high credit utilization rate, and points to card staying near limit constantly</i>  |
| 07   | <i>Last payment overdue hurts credit and creates more debt through late fees and interest</i>                      |
| 08   | <i>Bling King Expensive Fake Jewels is a bad spending decision</i>   |
| 09   | <i>Cash advance creates extra fees and interest, lowering chances of paying in full on time</i>                    |
| 10   | <i>Over limit fee caused by using more credit than available—this can have a direct effect on credit score</i>     |
| 11   | <i>Refund indicates spending beyond ability to pay</i>   |
| 12   | <i>Delicate Truffle Emporium and Five Dollar Pizza Slice; bad spending decisions at the end of a billing cycle</i> |
| 13   | <i>Nearing credit limit shows high utilization rate</i>  |

# QUIZ ANSWER KEY

## Understanding Credit Scores

### MULTIPLE CHOICE

Directions: CIRCLE the best possible answer to each question.

- A credit score of 720 or more is considered:
  - Poor
  - Average
  - Good
  - Prime (Excellent)
- How can you improve your credit score?
  - Open a large amount of credit cards in a short time
  - Monitor your credit
  - Keep your utilization low
  - a & b
  - b & c
- What is the largest contributing factor to your credit score?
  - Mix of credit
  - New credit
  - Length of credit
  - Payment history
  - Capacity
- To ensure that your credit report is accurate, you should:
  - Request your free credit report from each of the main credit bureaus
  - Review your personal information and make sure that it's up to date
  - Report any unauthorized activity to the issuing credit bureau
  - All of the above

/4 pts

### TRUE OR FALSE

Directions: CIRCLE either true or false.

5. TRUE or  FALSE      Checking your credit report will negatively affect your credit score.

/1 pt