



Financial Literacy Course

East High School
Module 5

What will you learn about?

- What is a Credit Score
- Keeping Tabs on Credit

Credit Score

- **Credit Score** – A numerical rating of your credit-worthiness (how likely you are to pay off your debts).
 - Based on the information in credit reports from the three main credit bureaus
 - In the United States, the most commonly used credit score is the FICO score
 - Banks and other lenders, use credit scores to evaluate whether or not someone qualifies for a loan. If qualified, the credit score also determines the interest rate and credit limit.

Credit Score

- **FICO** – acronym for Fair Isaac Corporation, the company that developed the FICO score, which is the most commonly used credit score in the U.S.
 - FICO scores range from 300-850.

Credit Score

- **Credit Bureaus** - Also called credit agencies or credit reporting agencies, are companies that collect credit information about individuals.
 - Calculate a credit score for each individual based on information collected.
 - Private, for-profit businesses – they are not part of the government, though they are overseen by various government agencies
 - In the United States, the three major credit bureaus are Equifax, Experian, and TransUnion

Credit Score

- **Credit Report** – A record that details a person's credit history.
 - Includes identifying information, such as names and addresses, so that an individual can be matched with his or her credit history.

Credit Score

- **Credit History** – A record of a person's borrowing and repayment activity.
 - Whenever you take out a loan or a line of credit, it goes on your credit history, along with all the payments you make towards the loan.
 - This includes information such as late payments.
 - Consumer credit history is traced by the credit bureaus.
 - Credit history is the information that goes into the credit report.
 - Credit history is what you've done, while a credit report is where it's written down.

Credit Score

- **How is the score reported?** – Only FICO and the credit bureaus know (Equifax, Experian, and TransUnion).
 - All three Credit bureaus keep track of credit history separately. So, you will have three different credit scores
 - We do know the %s of the different components that make up the credit score
 - 35% - Payment History
 - Pay bills on time
 - Always Pay the min amount
 - One late payment will have a negative impact

Credit Score

- 30% - Amounts Owed (two parts)
 - Part 1 - Total amount of money you owe lenders
 - Bank loans, credit cards, utility bills, store cards, etc
 - The less you owe, the better your score
 - Part 2 - % of available credit you are using
- 15% - Length of history
 - The amount of time you've been using credit
- 10% - The amount of new credit you've applied for recently.
- 10% - Types of credit used

Keeping Tabs

- No one can check your credit score without your permission, but they usually won't provide you with the service you need without seeing your credit score
- Examples of when your score is checked
 - Employer when getting a new job
 - Credit card company
 - Automobile company when buying a car
 - Landlord when renting an apartment
 - Bank when buying a house

Keeping Tabs

- **General Rule for Credit Score Range**

- 300-619 – Bad
 - 620-659 – Poor
 - 660-699 – Fair
 - 700-759 – Good
 - 760-850 – Excellent
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- Entitled to one free credit report a year
 - The credit report does not include your score