Keeping Score: Why Credit Matters

LESSON 1

VISA | Practical Money Skills for Life™

Keeping Score: Why Credit Matters

LESSON 1: TEACHERS GUIDE

In the middle of a football grandfinal, keeping score is the norm. But when it comes to life, many young adults don't realise how important it is to keep track of another score—their credit rating. This lesson provides strategies for understanding credit reports and scores, enabling students to make smart money decisions. Students will explore different scenarios that challenge their assumptions about credit and "creditworthiness," while debating the impact certain decisions can have on their credit ratings.

Topic: Credit Reports and Scores

Time Required: 55 minutes

STUDENT ACTIVITY SHEET:

Spot the Credit Crisis
This activity sheet provides situations that are potentially damaging to credit ratings and encourages students to recognise how each will impact credit; then evaluate credit recovery methods and explain their reasoning.

LEARNING OBJECTIVES:

Students will...

- Evaluate and explain the purpose of a credit rating
- Understand the elements of credit ratings, and what impacts them
- Discover the best way to maintain a high credit rating

Essential Question | *"What does it mean to be "creditworthy?"*

Investigate: What is Credit?

[Time Required: 15 minutes]

1. Begin by asking students to think about their last purchase and how they paid for it. Did they use cash, debit or credit?
2. Invite volunteers to share their purchases, and engage the class in a discussion about the differences between paying with cash, debit and credit. How does one get **credit** and who provides credit?
3. Ask students if they've ever loaned money, clothes or even their car to a friend, and whether or not they expected to get the item back. Explain that loaning out money, clothes and cars are all examples of **lending credit**.
4. Now ask students to imagine that they are going to loan their brand new car to a stranger. What factors would they consider before letting someone borrow their car? Would they consider age, gender, religion, work history, driving record, race, language, education or income? Write a list of potential factors on the board and ask students to vote on whether each factor would affect their decision. Tally votes on the board.
5. Next, explain that lenders use specific factors to determine whether or not a person is **"creditworthy"** and eligible for a loan. Tell students there are five key factors that are considered when determining "creditworthiness":
   - Payment history (whether or not you pay your bills on time)
   - Amount owed to current creditors (e.g., whether you have a car payment or a balance on a store credit card)
   - Length of credit history (in general, the longer you've had access to credit and paid your bills on time, the better)
   - Types of credit used (e.g., car and mortgage payments are often viewed as "better" debt than consumer credit card debt)
   - Number of open accounts (lenders can be wary of borrowers with too much credit available)

   These factors are compiled on a person's credit report, with an overall **credit rating** that lets lenders know how risky it is to lend to that borrower. Explain that some of the factors students may believe should matter when it comes to getting credit actually don't (e.g., education, race, gender, age, religion, etc.).

TEACHER'S TIPS

What is the Essential Question?
The Essential Question is designed to "hook" the learner, promote inquiry and engagement with the lesson, and allow students to exercise problem-solving abilities. It addresses a larger concept, does not have a right or wrong answer, and requires higher order thinking skills.

Student Preparation: Understanding Credit Ratings

[Time Required: 15 minutes]

6. Ask students what they would rather earn on a maths test: a 95 out of 100 or a 55 out of 100? Explain that just like test scores in school, the higher your credit rating, the better. This is because a higher number means you are a lower risk as a borrower.
7. Engage the class in a discussion on "creditworthiness" and discuss the components of a credit rating. How is a credit rating calculated? What is considered a good rating? What actions impact a credit rating? Why does having a good score matter? Why would a bank or smartphone company care about your credit?

Challenge: Imagine the Impact

[Time Required: 15 minutes]

8. Distribute the student activity sheet, ***Spot the Credit Crisis***, and break students into groups of four. Working as a team, students will discuss the scenarios on the activity sheet and determine how and why each scenario would impact their credit. Students should be prepared to justify their answers to the class.
9. Ask a volunteer from each group to share one scenario with the class and explain the impact that scenario has on credit and "creditworthiness."

Reflection

[Time Required: 10 minutes]

Ask students to reflect in their notebooks about how their credit ratings might impact their short-, medium-, and long-term goals; such as finding a job, buying a house or selecting a smartphone plan.

TEACHER'S TIPS

What is Reflection?
The Reflection part of the class gives students the opportunity to reflect on the bigger-picture meaning of the exercise, and to assimilate and personalise some of the concepts and ideas learned about in the class.

Spot the Credit Crisis

LESSON 1: ANSWER KEY

Scenario 1:

Does your credit rating go up or down?
Your credit rating goes down.

Why does it go up or down?
Falling behind on payments, or making late payments on your car loan over time, will have a negative impact on your credit rating.

If your score goes down, how can you fix it?
To fix your credit rating, make all payments in full on time going forward, and check your credit rating and report periodically to ensure that your positive habits are impacting your score. If you cannot afford to make the payments, consider selling or trading in your SUV for a model you can afford.

Scenario 2:

Does your credit rating go up or down?
Your credit rating goes up.

Why does it go up or down?
Charging your monthly smartphone bill on your credit card and paying off the balance immediately demonstrates to lenders that you use credit and handle your credit accounts responsibly.

If your score goes down, how can you fix it?
N/A

Scenario 3:

Does your credit rating go up or down?
Your credit rating goes up.

Why does it go up or down?
Paying back your student loan ahead of time demonstrates responsible use of credit. It also helps to lower your credit use ratio (the percentage of available credit you're using).

If your score goes down, how can you fix it?
N/A

Spot the Credit Crisis

LESSON 1: ANSWER KEY

Scenario 4:

Does your credit rating go up or down?
Your credit rating goes down.

Why does it go up or down?
Charging up to your credit limit on accounts can impact your credit rating negatively, as it increases your credit usage ratio—that is, it shows you're using a higher percentage of available credit. The lower the credit usage ratio, the better.

If your score goes down, how can you fix it?
You can fix it by paying off your balance as aggressively as possible, making payments on time and spending less than your credit limit.

Scenario 5:

Does your credit rating go up or down?
Your credit rating goes down.

Why does it go up or down?
It has a negative impact on your credit rating because each time you apply for a card, the inquiry goes on your record. Opening too many accounts over a short period of time demonstrates that you may be using credit unwisely.

If your score goes down, how can you fix it?
To fix your score, refrain from opening additional accounts for the next several months, make payments on time and keep balances low on your existing cards. Do not close the accounts you've opened, as this can also negatively impact your score.