



For Grades 9-12  
**CREDIT SCORE**  
Student Guide



**CREDIT SCORE – STUDENT GUIDE**



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# THE FOUR Cs OF CREDIT

## CAPACITY

*Capacity* refers to your present and future ability to meet your payments. A lender wants to see that you have a job and you have held the same job or the same type of job for at least a year.

Lenders may ask:

- ***Do you have a job?***
- ***How much money do you make each month?***
- ***What are your monthly expenses?***

## CHARACTER

*Character* refers to how you have paid your bills or debts in the past.

Lenders may ask:

- ***Have you had credit in the past?***
- ***How many credit accounts do you have?***
- ***Have you ever filed for bankruptcy, had property repossessed, or made late payments?***

## CAPITAL

*Capital* refers to the value of your assets and your net worth. Lenders want to determine the value of your assets (things you own that have financial value). Lenders will also compare the value of your assets and the amount of debt you have. This is called *net worth*. A positive net worth demonstrates your ability to manage your money.

Lenders may ask:

- ***How much money do you have in your checking and savings accounts?***
- ***Do you have investments (for example: stocks, bonds) or other assets (for example: a car)?***

## COLLATERAL

*Collateral* refers to property or assets you can offer to secure the loan. Collateral is security you provide the lender. Giving the lender collateral means that you pledge an asset that you own (for example: a car) to the lender with the agreement that it will be the repayment source in case you cannot repay the loan.

Lenders may ask:

- ***Do you have assets to secure the loan beyond your capacity to pay it off?***

## THE FOUR Cs OF CREDIT (continued)

### CREDIT SCORE

A credit score is used to predict how likely an individual is to repay a new loan based on information in his or her credit report. Your credit score is a number that is developed by a computer model based on the information in your credit report. It is intended to predict, for example, how likely you are to repay your debts. Keep in mind that credit scores may vary depending on which scoring services prepared them and which of the many different credit scoring models is being used. As an example, the factors that determine your credit score in one commonly used model include:

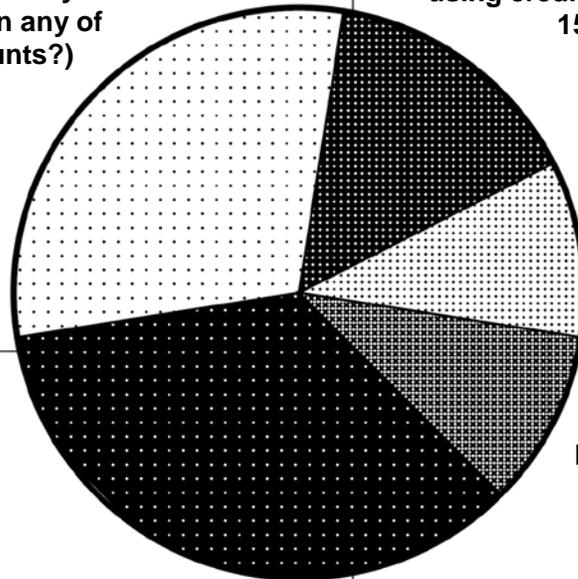
**OUTSTANDING DEBT**  
(Do you currently owe money on any of your accounts?)  
30%

**CREDIT HISTORY**  
(how long have you been using credit accounts?)  
15%

**TYPES OF CREDIT IN USE**  
(What type of credit do you have? For example, mortgage loans, credit cards, installment loans?)  
10%

**PURSUIT OF NEW CREDIT OR CREDIT INQUIRIES**  
(What credit accounts have you opened lately?)  
10%

**PAYMENT HISTORY**  
(Have you paid your bills on time?)  
35%



For more information on credit scores and how they are calculated, visit the Consumer Financial Protection Bureau's website at <http://www.consumerfinance.gov/askcfpb/315/what-is-my-credit-score.html>.

# THE FOUR Cs CHALLENGE

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

Lenders often determine an applicant's Four Cs during the loan application process. The following information is taken from the Uniform Residential Loan Application, which is the standard form used for mortgage loan applications. The questions are similar to applications for other types of loans.

Review each section and match the required information with the appropriate C: Capital, Collateral, Character, or Capacity. There may be more than one correct answer.

1) Employment Information: \_\_\_\_\_

Name & Address of Employer	<input type="checkbox"/> Self Employed	Dates (from – to)
		Monthly Income \$ _____
Position/Title/Type of Business	<input type="checkbox"/> Self Employed	Business Phone (incl. area code)
Name & Address of Employer		Dates (from – to)
Position/Title/Type of Business		Monthly Income \$ _____
		Business Phone (incl. area code)

## THE FOUR Cs CHALLENGE(continued)

### 2) Monthly Income and Combined Housing Expense Information: \_\_\_\_\_

Gross Monthly	Borrower	Co-Borrower	Total
Base Empl.Income*	\$	\$	\$
Overtime			
Bonuses			
Commissions			
Dividends/Interest			
Net Rental Income			
Other) before completing, see the notice in "describe other income," below"			
<b>Total</b>	\$	\$	\$

Combined Monthly Housing Expense	Present	Proposed
Rent	\$	
First Mortgage(P&I)		\$
Other Financing (P&I)		
Hazard Insurance		
Real Estate Taxes		
Mortgage Insurance		
Homeowner Assn.		
Dues Other		
<b>Total</b>	\$	\$

## DECLARATIONS

**If you answer "Yes" to any questions a through i, please use continuation sheet for explanation.**

	<u>Borrower</u>		<u>Co-Borrower</u>	
	Yes	No	Yes	No
a) Are there any outstanding judgments against you?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b) Have you been declared bankrupt within the past 7 years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c) Have you had property foreclosed upon or given title or deed in lieu thereof in the last 7 years?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d) Are you a party to a lawsuit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e) Have you directly or indirectly been obligated on any loan which resulted in foreclosure, transfer of title in lieu of foreclosure, or judgment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>(This would include such loans as home mortgage loans, SBA loans, home improvement loans, educational loans, manufactured (mobile) home loans, any mortgage, financial obligation, bond, or loan guarantee. If "Yes," provide details, including date, name, and address of Lender, FHA or VA case number, if any, and reasons for the action.)</p>				

**4) Assets** (for example: checking and savings account, investment products, and car) and **Liabilities** (for example: automobile or other loans, charge accounts, and other forms of debt): \_\_\_\_\_

ASSETS	Cash or Market Value	Liabilities and Pledged Assets. List the creditor's name, address, and account number for all outstanding debts, including automobile loans, revolving charge accounts, real estate loans, alimony, child support, stock pledges, etc. Use continuation sheet, if necessary. Indicate by (*) those liabilities, which will be satisfied upon sale of real estate owned or upon refinancing of the subject property.		
Description				
Cash deposit toward purchase held by:	\$			
<i>List checking and savings accounts below</i>		<b>LIABILITIES</b>	<b>Monthly Payment &amp; Months Left to Pay</b>	<b>Unpaid Balance</b>
Name and address of Bank, S&L, or Credit Union		Name and address of	\$ Payment/Months	\$
Acct. no.	\$	Acct. no.		
Name and address of Bank, S&L, or Credit Union		Name and address of Company	\$ Payment/Months	\$
Acct. no.	\$	Acct. no.		

# MANAGE OR DAMAGE?

## Sample credit report:

<b>JOHN Q CONSUMER</b> <b>Report #1234567</b>	<b>Report Date</b> 01/01/2006
<b>Personal Information</b> 123 Main Street, #2 Somewheresville, USA 01234 <b>SS#:</b> 123-45-6789 <b>DOB:</b> 02/01/68	<b>Employers</b> 1. ABCDE Engineering Corp., Somewheresville, USA 2. Port City Engineering, Anywhere, USA
<b>Potentially Negative Items</b> <b>Televise Cable Comm.</b> <b>Acct#:</b> 1234 5678 1234 5678 <b>Date filed:</b> 05/01/05 <b>Status:</b> Delinquent in collections 120+ days	
<b>Amount:</b> \$35.00 <b>Credit limit:</b> N/A	
<b>Accounts in Good Standing</b> <b>XYZ BANKCARD USA</b> <b>Acct#:</b> 0110220 <b>Date added:</b> 12/12/98 <b>Status:</b> Open/Never Late <b>Monthly payment:</b> \$15.00 <b>High balance:</b> \$129.00 <b>Credit limit:</b> \$1,000.00	<b>Homeowner Credit Services</b> <b>Acct#:</b> 0110220 <b>Date added:</b> 04/23/00 <b>Status:</b> Closed at consumer's request 08/22/2004 <b>Monthly payment:</b> \$0 <b>High balance:</b> \$3,228.00 <b>Credit limit:</b> \$1,000.00
<b>Requests for Credit History</b> <b>VISA Card</b> <b>Address:</b> PO Box 1414, NY, NY 10001 <b>Date:</b> 04/01/05	

## MANAGE OR DAMAGE? (continued)

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

Read the scenarios below and decide if each person's actions are managing or damaging credit. Select the correct answer and explain your reasons.

"I've had a credit card for about a year now and I use it mostly to buy bigger items. Like last week I bought a new microwave for my apartment and put it on my credit card. I get a bill at the end of every month and then I'll go online and pay it in full. I don't want to have to worry about the credit card adding up to more than I have so I just think it's easier to pay it off every month."

—Eli, 22 years old

**MANAGE**

**DAMAGE**

Why? \_\_\_\_\_

"I bought a cell phone because I work late at the movie theater on the weekends. At first, I made all of my payments on time. But I ended up having to quit my job because I was having trouble in school and needed more time to study and get my homework done. I haven't been able to pay my phone bill on time for the last three months. I signed a two-year contract for my phone because the phone company gave me a discount if I did, but now I don't know if I can make it the full two years."

—Imani, 18 years old

**MANAGE**

**DAMAGE**

Why? \_\_\_\_\_

"When I started college last year, I couldn't believe how many credit card applications were offered to me. I thought, hey, why not? I'm going to need money for books and food and probably a football game or two, so I went ahead and applied for them all...and got approved! I was pumped. Now, all my cards are maxed out and I can't use them anymore because I've hit my credit limit. I let a few of the payments slip last month because I didn't have the money, but I'm thinking if I can get a new card then I can get more money to pay off my other ones."

—Ethan, 19 years old

**MANAGE**

**DAMAGE**

Why? \_\_\_\_\_

# CREDITWORTHINESS COMIC

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

Think of an instance, action, or behavior that represents being creditworthy, such as successfully paying off a car loan or making monthly payments on time, and illustrate a story about your creditworthy idea in the comic strip below.

	<p><b>Box 1:</b> Use this space to illustrate the beginning of your story, such as who is demonstrating the creditworthy act (your main character) and where the story takes place (at home, at a bank, at a store).</p>
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<p><b>Box 2:</b> Use this box to illustrate the middle of your story, or where all the action takes place.</p>	
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	<p><b>Box 3:</b> Draw the end, or resolution, of your story here and how your main character displayed creditworthiness.</p>
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