

Financial Literacy

Money Trek Program



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Financially Fit for Life



Module 4: Workbook Borrowing & Credit

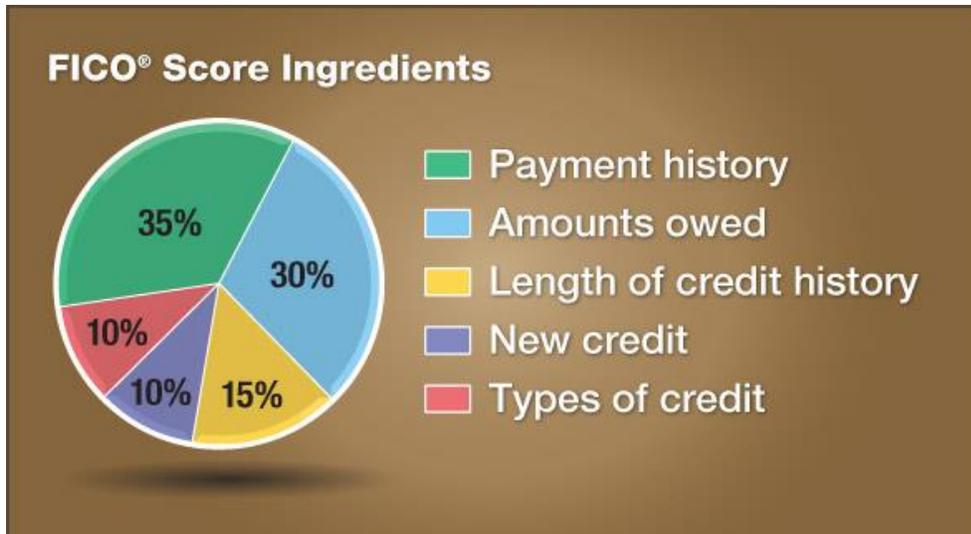
AAUW California Financial Literacy Committee



Module 4: Borrowing & Credit

FICO® Score Review (©Fair Isaac Corporation and ©myfico.com)

What's *IN* your FICO score?



The FICO score is made up from following ingredients:

35% your payment history

30% Amounts you owe

15% Length of Credit history

10% new credit

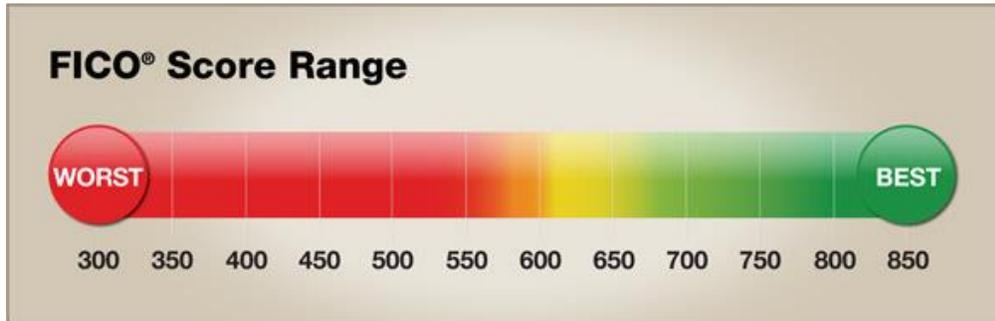
10% types of credit

What's *NOT IN* Your FICO® Score?

FICO scores consider a wide range of information on your credit report. However, they do not consider:

- **Your race, color, religion, national origin, sex and marital status.**
US law prohibits credit scoring from considering these facts, as well as any receipt of public assistance, or the exercise of any consumer right under the Consumer Credit Protection Act.
- **Your age.**
Other types of scores may consider your age, but FICO scores don't.
- **Your salary, occupation, title, employer, date employed or employment history.**
Lenders may consider this information, however, as may other types of scores.
- **Where you live.**
- **Any interest rate being charged on a particular credit card or other account.**
- **Any items reported as child/family support obligations or rental agreements.**
- **Certain types of inquiries (requests for your credit report).**
The score does not count “consumer-initiated” inquiries – requests you have made for your credit report, in order to check it. It also does not count “promotional inquiries” – requests made by lenders in order to make you a “pre-approved” credit offer – or “administrative inquiries” – requests made by lenders to review your account with them. Requests that are marked as coming from employers are not counted either.
- **Any information not found in your credit report.**
- **Any information that is not proven to be predictive of future credit performance.**
- **Whether or not you are participating in a credit counseling of any kind.**

What's a good FICO® Score?



Your FICO® Score	Evaluation	What it means
760 or higher	Great	Your score is well above the average score of U.S. consumers and clearly demonstrates to lenders that you are an exceptional borrower.
725 to 759	Very Good	Your score is above the average score of U.S. consumers and demonstrates to lenders that you are a very dependable borrower.
660 to 724	Good	Your score is near the average score of U.S. consumers, and most lenders consider this a good score.
560 to 659	Not Good	Your score is below the average score of U.S. consumers, though some lenders will approve loans with this score.
Lower than 560	Bad	Your score is well below the average score of U.S. consumers and demonstrates to lenders that you are a very risky borrower.

Activity 1: FICO Score Estimator

Let's have some fun with the [FICO Score Estimator](#) at myfico.com.

First, let's role-play a person who has not handled credit well. Someone who has hardly any credit history, but the history s/he has is bad. Missed payments. Many credit cards with high balances. Etc. Etc. What's the score?

Next, let's role-play a person who has handled credit well. Someone with a 5+ years credit history and a reputation for on-time payments. Etc. Etc. What's the score?

Example 1: Financial impact of FICO scores (@myfico.com)

Higher FICO® Scores = Lower Payments

The higher your FICO® scores, the less you pay to buy on credit – no matter whether you're getting a home loan, cell phone, a car loan, or signing up for credit cards.

For example, on a \$150,000 30-year, fixed-rate mortgage:

Your FICO® Score	Your interest rate	Your monthly payment
760 - 850	3.62%	\$684
700 - 759	3.84%	\$702
680 - 699	4.02%	\$718
660 - 679	4.23%	\$736
640 - 659	4.66%	\$775
620 - 639	5.21%	\$824
Actual Rates – Updated Daily		

As you can see, in the example above using today's national rates, a person with FICO® scores of 760 or better will pay \$684 per month for a \$150,000 30-year, fixed-rate mortgage than a person with FICO® scores between 620-639 whose monthly payment is \$824.00. The difference is (\$824.00-\$684) \$140.00 more per month.

You can see how essential it is to get your scores in the higher ranges if they are low, and also how important it is to keep them high if they are already good.

Activity 2: Compute the total cost of a FICO score of 620 over the life of the 30-year loan above

In Example 1, the lower FICO score cost the borrower \$9,888/year times 30 years = \$296,640 while higher FICO costs borrower \$8,208 times 30 years = \$246,240.

Which cost more, the extra interest or the house????

10 Ways a Bad Credit Score Can Hurt You ([@forbes.com](#))

1. **Personal relationships**

Engagements have been known to end over one fiancé's displeasure with the credit score/report of another. It's one thing to marry for love, but quite another thing to marry for debt. In a divorce, those credit scores can be used as leverage in dividing a couple's assets.

2. **Renting**

Landlords can demand permission from you to look at your credit report before deciding whether you will make a good tenant. Depending on what they see, they can decide against renting to you, too.

3. **Getting a job**

It is legal for would-be employers with your permission to look at your credit report and use that as part of the hiring decision. If you are denied a job because of a negative report, you must be told about that. There's a push to outlaw employer use of credit reports.

4. **Car insurance**

Some car insurers think there is a direct correlation between one's creditworthiness and propensity to be in an auto accident, so they calculate their own version of a credit score. They put more emphasis on on-time payments than the overall amount of debt, using adverse results to deny coverage or jack up rates. This is illegal in some states.

5. **Property insurance**

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6. Utilities

Electric, gas and water companies routinely check your credit report before starting service. A bad credit report doesn't mean you won't be able to run your DVR. But you might be required to put up a deposit to get service.

7. Professional licensing

The Fair Credit Reporting Act specifically allows the use of credit reports by government agencies that regulate professions. This potentially affects the fortunes of doctors, lawyers and a wide range of other callings.

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9. Getting a mortgage

This traditional use of credit scores for buying a home with a loan is still among the most prevalent. The large number of home foreclosures calls into question whether lenders gave borrowers' credit scores the proper weight in the first place, but new rules are forcing a focus on creditworthiness.

10. Starting a small business

Often the only asset a would-be proprietor has is an idea. Ergo the need for borrowed money - from a home equity loan or even a credit card - once again showing the importance of a good credit rating. Many franchisers use credit factors in deciding whether to license a franchisee.

Brainstorm:

1. What are the four Cs of decision making for Credit?
2. Describe each of four Cs of the Credit.
3. Discuss the Advantages and Disadvantages of Credit.
4. Explain the rule of 80/20.
5. What are the do's and don'ts of the Credit?