

Financial Literacy Lesson: What is Credit?

Grade Levels : 9 - 12th



Lesson Purpose:

Facilitators should make a point to highlight the credit score ranges and how depending on the score it affects their buying power.

Objective:

To help students understand credit score ranges and how it affects your buying power.

Teacher Lesson Outline:

Planned to A.T. Introduction Video:

What is Credit? (4 min)

Intro (10min)

Display the credit score ranges to allow students to fill in their charts at their desk. Discuss the range of credit scores they see.

Understanding the credit score ranges

	FICO	VantageScore
Very Poor	300 to 579	300 to 499
Fair	580 to 669	500 to 600
Good	670 to 739	601 to 660
Very Good	740 to 799	661 to 780
Excellent	800 to 850	781 to 850

Activity: Credit Scores and Borrowing Money (25 min)

Wrap Up Discussion: Go over instructions for at home extension (5min)

Ask the students to share out their observations they made during the reflection questions.

START : Essential Question(s)

Q: What is a credit score?

Q: How are credit scores calculated?

Q: What is on a Credit Report?

EQ Answers:

A: A credit score is a numerical number based on how well a person pays back money they borrowed.

A: It's based on things like payment history, credit use, how long you have had credit, and what you borrowed money for.

A: A credit report has things like the users credit history, your personal information, accounts you have opened or tried to open, collections, and more.

Education Standards Addressed

3.1 – Explain the purpose of credit and reasons to borrow.

b3.2 – Explain components of creditworthiness, including credit history, payment behavior, and income.

3.3 – Compare types of credit and borrower responsibilities.

3.4 – Interpret credit reports and scores, including factors that raise or lower them.

3.5 – Analyze how credit impacts cost of borrowing (interest rates, APR, total cost).

What is Credit?

Notetaking Guide



Today you learned that your credit score is like your grade for how responsible you are with your money. This score influences the amount of borrowing or buying power you have and how much you pay in interest, as well as down payments.

Directions : Fill in the ranges as your teacher displays and talks about each.

Credit Score Ranges

Grade Letter	Rating	Range
A	Excellent	
B	Very Good	
C	Good	
D	Poor	
F	Very Poor	



Credit Scores and Borrowing Money

Student Activity



Now you'll research how different credit scores affect your ability to borrow money to make a major purchase like a car.

1. First use a search engine to look up the cost of your dream car. You can type in language like: "How much does a 2023 Volkswagen Jetta cost?"

What is your Dream Car?:

Record the cost of your dream car:

* Most people cannot afford to buy a car with cash. They often need to borrow money from a bank to cover the part or all of the cost of the car. Now, you'll see how your credit score can affect how much money you are able to borrow to cover the cost of your car.

2. Go to the Carvana website.
3. Under the Car Payment Calculator change the "Vehicle Price" to reflect the cost of your dream car that you recorded above. *If it is over the max \$80,000, then use \$80,000 just to get an idea but be aware your actual payments would be even higher.
4. In the next box, "Down Payment" put the amount of money that you currently have saved and would be willing to put towards your car. It may be "\$0" and that's okay.
5. Skip over the "Trade-In Value" box.
6. Keep the Credit Score at Good (660 - 719) *Note that depending on where you borrow money from the range that they use to categorize a Good Credit Score may differ slightly from the chart you recorded.
7. Leave the "Loan Term" at 72 Months. This means you'd pay your loan off monthly for 72 months or over the course of 6 years.
8. Record the monthly payment and APR (interest rate) in the chart below. Change the Credit Score range to fill in the rest of the chart.

Credit Score Range	Good (600-719)	Excellent (720-850)	Average (600-659)	Below Average (300-599)
Monthly Payment				
APR (Aka Interest Rate)				

- Now, let's see how much total you'd pay for the same exact car with differing credit scores. Re-record the monthly payment for each credit score range below.
- THEN take that number and multiply it by 72 months that you'd pay for the car and record that in the chart.

Credit Score Range	Good (600-719)	Excellent (720-850)	Average (600-659)	Below Average (300-599)
Monthly Payment				
Total Amount Paid for Loan = (Monthly Payment x 72 Months)				

Reflection:

- Summarize how your credit score affects your APR and ultimately your monthly payment.
- Summarize how your credit score affects the total amount you will pay over the lifetime of your loan for THE SAME CAR.
- Look at the last chart you filled in, calculate how much more will a person with a "Below Average" credit score will pay for your dream car vs. a person with an "Excellent" credit score.

What Is Your Credit Score?



*At Home Extension Follow Up

Directions : Ask your parent or guardian for permission to complete the following task.

1. If you are 18 or older use the website [CreditKarma.com](https://www.creditkarma.com) to look up your **credit score**. You will need your name, social security number, address, Date of birth, and email address to create an account.
2. If you are at least 13 years old or older you can use the website ***AnnualCreditReport.com*** to see if you have a credit report.

Answer the following questions:

1. Do you have a credit report or score?
2. What is your credit score if you have one?
What range does your score fall in?
3. Discuss with your parent / guardian what you learned in class today.
4. What can you do to begin building a good credit score now?