Financial Literacy Lesson:
Good vs Bad Scores

Grade Levels : 9 - 12th

Lesson Purpose:

For students to understand that if they want to borrow an amount of money lenders will look at their credit score. Based on the borrower's credit score, the amount a person pays back will be determined.

Objective:

Students will be able to identify factors that contribute to having a good credit score vs a bad credit score.

Teacher Lesson Outline:

Planned to A.T. "Good vs Bad Scores" Introduction Video (1.5 min)

Would you Pay? Pg. 1 (5 min) Students will determine what amount they would prefer to pay on four items listed. Once students have selected the price they would be willing to pay,
the teacher will lead a discussion asking students why they chose the price.
**Students answers will vary.

Would you Pay? Pg. 2 (7 min) Students will be introduced to the different levels of credit tiers credit scores fall in.

Would you Pay? Pg. 3 (15 min) Students will use the myFICO Loan Savings Calculator to determine the difference two people will pay based on their different credit tiers/ credit scores.

Calculate the Rate (15 min) Students will calculate the rate of two people with different credit scores to see the difference in cost each person will pay based on how high or low their credit tier is.

Wrap-up: (10 min) Have students discuss if is smarter to take a 30-year loan or a 15-year loan? Why?

START : Essential Question(s)

Q: What basic items do you need to complete a loan?

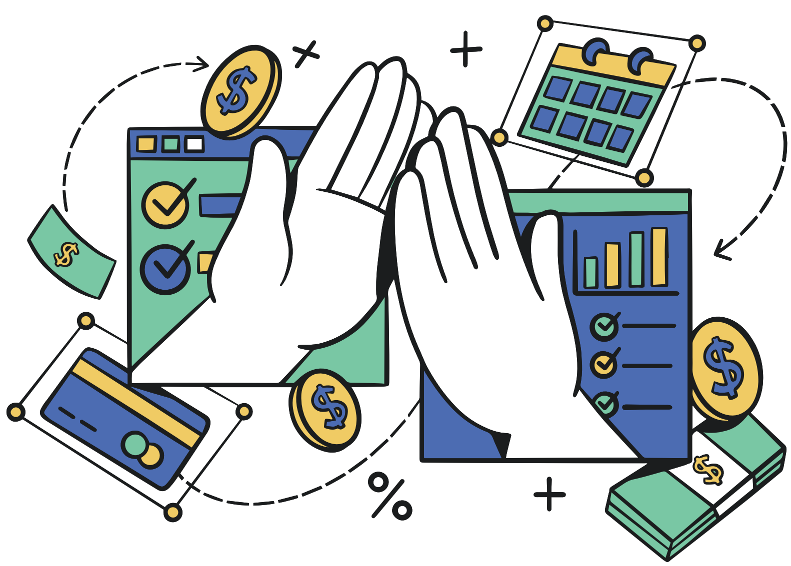
A: Items can include things like a pay stub, tax return, business plan, bank statement, proof of income, collateral, a credit report, income verification, or insurance information.

Education Standards Addressed:

- **3.4 — How credit scores influence interest rates and financial outcomes.**
- **3.5 — Understand how credit score affects loan availability and total cost.**
- **5.1 — Compare cost of credit using APR, fees, and penalties**
- **5.2 — Explain how credit scores impact the cost of credit and ability to obtain credit.**

Additional Lesson Materials:

myFICO's Loan Savings Calulator:
https://www.myfico.com/credit-education/calculators/loan-savings-calculator/



Would You Pay?

pg. 1

Directions :

Circle which price you would rather pay for the item pictured and described:

1.

$8,000 for a trip abroad or
$3,500 for a trip abroad

2.

$90 for a fresh fruit breakfast or
$250 for a fresh fruit breakfast

3.

$500 for two 14k gold necklaces or $1,500 for two 14k gold necklaces

4.

$750 for a brand new cell phone or $2,000 for a brand new cell phone

***Discuss why you would pay that amount with your group or class**

Would You Pay?
pg. 2

Right now you have a choice on how much you would rather spend on a certain item but in the future depending on the financial choices you make, you might not have the luxury of choosing to pay less or more for an item. Have you ever had a conversation with a friend and you noticed you have the same item, a pair of shoes. You tell them how you paid, $192. Your friend turns and tells you they only paid $90, $102 less than what you spent! Unless you have extra money to spend, knowing someone paid less for the same item you purchased doesnt typically feel good. That’s money you could have saved!

If we haven’t said it already, your **credit score** is a pretty big deal when it comes to the future of how much money you can borrow, and how much you will pay back in interest (aka extra money in addition to the amount borrowed).

Having the right Credit Score can save you a boat load of money over time.

Your credit score puts you at a certain level or “credit tier”. The better your FICO (Fair Isaac Corporation which is a scoring model a lot of comopanies use) score the higher your tier. The higher your tier, the lower the amount you have to pay back in interest aka the extra money!

HIGH Credit TIER ≥ 740: Lowest mortgage rates

720-739

700-719

680-699

660-679

640-659

620-639

LOW Credit TIER < 620: Highest mortgage rates

Calculate The Rate

Directions :
Using your knowledge on credit levels, calculate the monthly payment and the total amount of interest two people will pay on the same 30-Year Fixed rate loan amount.

*a fixed rate loan is a loan that has an interest rate that does not go up or down once you borrow money from the lender. The rate you borrow money at stays the same for the life of the loan.

Note: Person 1 needs to have a lower FICO score than Person 2
For example Person 1's credit level is 680-699, Person 2 's credit level is 700-719

Step 1:
Go to myFICO's Loan Savings Calculator

Step 2:
Select 30 - Year Fixed rate

Step 3:
Select your state

Step 4:
Choose the amount you want your two borrows to ask for. Ex: $250,000

The amount that the two people borrow has to be the same.

*when you type in your number do not put a comma or it will give you an error message.

Step 5:
Choose the credit range and hit "calculate" (step 4 on the myFICO website)

	FICO Score	APR%	Monthly Payment	Total Interest Paid	Do they quality for savings	How much savings?
Person 1						
Person 2						

Bonus :

Compare the difference between how much one person would pay if they took out a 30 yr fixed loan vs a 15 year fixed loan.

The person should have the same FICO score

	FICO Score	APR%	Monthly Payment	Total Interest Paid	Do they quality for savings	How much savings?
Person 1 (30 year fixed loan)						
Person 2 (15 year fixed loan)						

What difference(s) do you notice in the monthly payment if you cut the loan time in half to 15 years?

Based on your results do you think it is smarter to take a 30-year loan or a 15-year loan? Why?