THE CHALLENGE

Jason applied for three credit cards in one month, thinking he could compare offers. Each application triggered a hard inquiry, dropping his score by 25 points. Now a landlord has rejected his rental application because his score fell below their minimum requirement of 650.

How could Jason have compared credit offers without damaging his score, and what steps should he take now to rebuild it?

Learning Objectives

- Identify the five factors that determine your FICO credit score and their relative weights.
- Analyze how specific financial behaviors positively or negatively impact credit scores.
- Develop a personal strategy for building and maintaining good credit.

CORE CONCEPTS

Term	Definition
FICO Score	The most widely used credit score in the U.S., ranging from 300-850.
Payment History	Your record of on-time and late payments; accounts for 35% of your score.
Credit Utilization	The percentage of available credit you're using; accounts for 30% of your score.
Hard Inquiry	A credit check when you apply for new credit; temporarily lowers your score.
Credit Bureau	Companies (Equifax, Experian, TransUnion) that collect credit data and calculate scores.

Background: Your credit score is a three-digit number that represents your creditworthiness—how likely you are to repay borrowed money. Lenders, landlords, insurers, and even employers use this score to make decisions about you. A higher score (700+) opens doors to lower interest rates, better rental options, and more financial opportunities. Building good credit takes time, but the benefits last a lifetime. Understanding what affects your score empowers you to take control of your financial future.

APPLY IT

PART A: CREDIT SCORE FACTOR ANALYSIS

For each action, predict whether the credit score will increase, decrease, or stay the same.

Scenario 1: Perfect Payment Record

Maria has paid every bill on time for 24 consecutive months. She has a credit card, car loan, and student loan.

Score will: _____ (increase / decrease / stay the same)

Primary factor affected: _____

Scenario 2: Maxed Out Credit Card

Kevin has a credit card with a $5,000 limit. He currently has a $4,800 balance (96% utilization).

Score will: _____ (increase / decrease / stay the same)

Primary factor affected: _____

Scenario 3: Closing Old Account

Sophia closes her oldest credit card (10 years old) because she no longer uses it. She has two other cards that are 2 years old.

Score will: _____ (increase / decrease / stay the same)

Primary factor affected: _____

> **Hint:** *Remember the FICO score weights: Payment History (35%), Credit Utilization (30%), Length of History (15%), Credit Mix (10%), New Credit (10%).*

PART B: CREDIT SCORE INTEREST IMPACT

See how credit scores affect loan costs. Complete the missing calculations.

Credit Score Range	Auto Loan APR	Monthly Payment ($25,000 loan, 5 years)	Total Interest Paid
Excellent (750+)	4.5%	$466	$2,960
Good (700-749)	6.5%	$489	$4,340
Fair (650-699)	10.5%	$537	$7,220
Poor (below 650)	15.5%	$601	$11,060
Cost Difference (Poor vs. Excellent)			

4. How much more in total interest does someone with poor credit pay compared to someone with excellent credit?

> Show your work:

Difference: $_____

5. If someone improves their score from 640 to 720 before buying a car, approximately how much would they save in interest?

_____

PART C: PERSONAL CREDIT PLAN

6. List THREE specific actions you can take in the next year to build or maintain good credit.

_____

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7. Which FICO factor would be easiest for you to control? Which would be most challenging? Explain.

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CHECK YOUR UNDERSTANDING

1. Which factor has the greatest impact on your FICO credit score?

☐ A. Length of credit history (15%)

☐ B. Payment history (35%)

☐ C. Credit utilization (30%)

☐ D. New credit inquiries (10%)

2. Explain why keeping credit utilization below 30% is important for your credit score.

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3. Calculation: If your credit limit is $2,000 and experts recommend keeping utilization below 30%, what is the maximum balance you should carry?

> Show your work:

Maximum balance: $_____

4. Jason's score dropped 25 points from multiple credit applications. What should he have done differently, and how long will the hard inquiries affect his score?

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5. Reflection: Your friend says credit scores don't matter because they plan to pay cash for everything. How would you explain why credit scores still matter even if you don't plan to borrow money?

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