PFL Academy

Teacher Guide: Chapter 5.3 — Understanding Credit Scores

OVERVIEW

TIME	MATERIALS	PREREQUISITES
45-50 Minutes	Student Activity Packet, Calculator	Choosing the Right Credit Source (L-22)

LESSON FLOW

5 min **THE CHALLENGE**

- Read Jason's scenario aloud—emphasize the unintended consequences.
- Discussion: "What do you know about credit scores? Has anyone checked theirs?"

10 min **CORE CONCEPTS**

- Review the 5 key terms with the FICO breakdown percentages.
- Draw the FICO pie chart on the board (35/30/15/10/10).
- Explain hard vs. soft inquiries—checking your own score is free and safe.

25-30 min **APPLY IT**

- **Part A (10 min):** Scenario analysis. Ensure students identify the correct FICO factor.
- **Part B (10 min):** Interest impact calculation. Emphasize the $8,100 difference over 5 years.
- **Part C (5-10 min):** Personal credit plan. Encourage realistic, actionable steps.

10 min **CHECK YOUR UNDERSTANDING**

- Review Q3 calculation together (30% of $2,000 = $600).
- Discuss Q5—credit affects rentals, insurance, even some jobs.

DIFFERENTIATION

Support

- Provide a FICO factor reference card with percentages.
- Walk through Part B calculations on the board.
- Pair students for scenario analysis.

Extension

- Research the difference between FICO and VantageScore.
- Calculate mortgage interest differences across score ranges.
- Investigate credit score requirements for various apartments in your area.

ANSWER KEY

Part A: Credit Score Factor Analysis

1. INCREASE. Payment history (35%) is the largest factor. 24 months of on-time payments significantly boosts scores.

2. DECREASE. Credit utilization (30%) at 96% is extremely high. Experts recommend below 30%, ideally below 10%.

3. DECREASE. Length of credit history (15%) is shortened. Average age drops from ~5 years to 2 years. Also increases utilization ratio.

Part B: Credit Score Interest Impact

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Cost Difference (Poor vs. Excellent):
• Monthly payment: $601 - $466 = $135/month more
• Total interest: $11,060 - $2,960 = $8,100 more
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4. $11,060 − $2,960 = **$8,100 more** in interest for poor credit.

5. Moving from Fair (650-699) to Good (700-749): $7,220 − $4,340 = approximately **$2,880 saved**.

Part C: Personal Credit Plan

Good responses include: pay all bills on time, keep credit utilization low, don't close old accounts, limit new credit applications, become an authorized user on parent's account, get a secured credit card.

Check Your Understanding

1. B (Payment history at 35%)

2. High utilization signals to lenders that you may be overextended financially. Below 30% shows responsible credit management and ability to pay.

3. $2,000 × 0.30 = **$600 maximum balance**

4. Jason should have used pre-qualification tools (soft inquiries) to compare offers without affecting his score. Hard inquiries typically affect scores for 12 months and remain on reports for 2 years.

5. *Credit scores affect: rental applications, insurance premiums, utility deposits, cell phone contracts, and some employment decisions. Even without borrowing, credit impacts daily life.*

COMMON MISCONCEPTIONS

Misconception	Clarification
"Checking my own credit hurts my score."	Checking your own credit is a soft inquiry with no impact. Only hard inquiries (applying for credit) affect your score.
"I should close unused credit cards."	Closing accounts can hurt your score by shortening credit history and increasing utilization ratio. Keep old accounts open but inactive.
"I need to carry a balance to build credit."	You build credit by using your card and paying it off completely. Carrying a balance just costs you interest without extra score benefit.