

8.6 Why Your Credit Score Matters

Student Activity Packet

UNIT: MANAGING CREDIT & FUNDAMENTALS OF STATISTICS

Name:

IN THIS LESSON, YOU WILL:

- Analyze data presented in a relative frequency histogram
- Understand why interested parties may want to check your credit score
- Assess the impact of a high or low credit score on interest rates and loan outcomes
- List ways to boost a low credit score or begin to gain a credit history if you have no score



INTRO

QUESTION OF THE DAY: What's the average credit score needed to rent an apartment?

Write your answer to the question below. Then, compare your answer to the answer on the second slide. Finally, follow your teacher's directions on how to answer the follow-up questions below. You may assume there are 30 days in a month for this saving example.

1. **Take a guess: What's the average credit score needed to rent an apartment?**
2. **In a competitive rental market, where demand for apartments exceeds supply, how could a high credit score be toward your advantage?**



LEARN IT

INFOGRAPHIC: Why Does Your Credit Score Matter?

What? An apartment lease isn't a loan or line of credit. Why would apartment owners want to check your credit score before renting to you? Turns out, it's not just lenders who can ask to see your credit history. Review this infographic and answer the questions.



[Source](#)

1. If they're not lending you money, what motivation would these other people or businesses have to request your credit score?
2. Does this seem fair? Why or why not?



PRACTICE IT

ACTIVITY: CALCULATE: Impact of Credit Score on Loans

In the previous lesson, you did an activity to estimate the credit scores of 3 characters with different credit histories. In this follow-up activity, you'll learn how their credit scores impact the cost of borrowing. Follow your teacher's directions to complete the activity.



LEARN IT

EDPUZZLE: Boost Your Credit Score

Let's say you, like the image above, have a credit score of 575. Based on the Question of the Day, you're more likely to secure an apartment lease if your score is 65 points higher. What can you do? Complete this EdPuzzle or answer the same questions below to find out some options you've got.

- 1. What is the advantage of paying your credit card bill in full each month?**
 - a. You earn interest on your line of credit and maintain a good credit score
 - b. There is no advantage to paying your credit card bill in full each month
 - c. You decrease your credit limit and the temptation to spend while also maintaining a good credit score
 - d. You do not have to pay interest or additional fees and maintain a good credit score
- 2. One way to maintain a good credit score is to keep your credit utilization low. What is credit utilization?**
 - a. A percentage calculation showing how often you use your line of credit during a given month
 - b. The amount of times you have paid your bill on time during that current year
 - c. The ratio of your outstanding credit balance to your credit limit
 - d. Your liability amounts compared to the amount of your assets
- 3. Select all of the ways to build and maintain a good credit score.**
 - a. Pay your bills in full each month
 - b. Pay all of your bills on time
 - c. Keep your credit utilization low
 - d. Open new lines of credit each month

VIDEO: How to Start Building Credit from Scratch

What if, instead of a low credit score, you've got NO credit score? That's quite common if you're a teenager without any credit already in your name. Watching this video will help you answer the questions that follow.

- 1. In most cases, banks do not report your banking actions to the credit bureaus, yet the video says that having a checking account could help you gain access to credit.**
 - a. How does the video say a checking account might be helpful?

b. Why else might a checking account be convenient as you try to build credit?

2. **If you have no credit history, why might a bank be more likely to issue you a secured credit card rather than a typical unsecured credit card?**
3. **Franklin mentions to his friend Yasmin that he's planning to open a secured credit card. Yasmin says, "Isn't that basically the same thing as using a prepaid or gift card?" Is Yasmin right? Explain.**
4. **While the video discusses finding a cosigner for a loan, you can do the same with a credit card. In that case, it's called opening a "joint account." Bryce's aunt offers to open a joint credit card account with him, saying it will help Bryce build his credit history. What are some details Bryce and his aunt should work out before opening a credit card together?**
5. **Applying for and receiving federal student loans does not require a credit check. If a federal student loan was the first type of credit you had access to, how could that help or hurt your credit score?**



MATH CONNECTION - RELATIVE FREQUENCY HISTOGRAMS

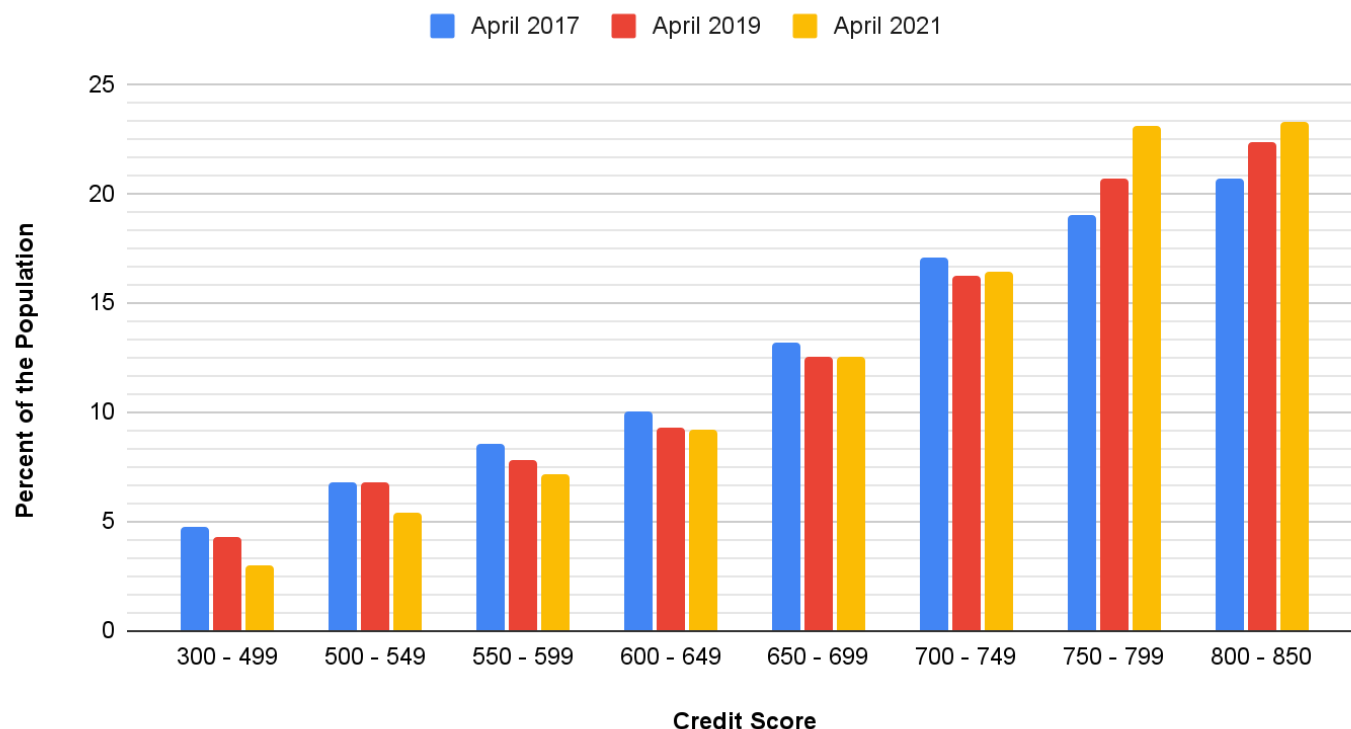
GRAPH: Comparing FICO Credit Scores

The last two videos might have you thinking it's pretty difficult to achieve a high credit score, and depending on your personal circumstances, it might be. But, when you look at the overall US population that has a credit score, you find that scores are higher than you might imagine.

The chart shown below is a **relative frequency histogram**. While the y-axis of many histograms shows the

count, or pure number of data points that fit into a given bar's category, a relative frequency histogram tells you the *percent* of data that falls into each bar. Review this relative frequency histogram to answer the questions that follow.

FICO Score Distribution Over Time



[Source](#)

1. Does this relative frequency histogram have a normal distribution? How can you tell?
2. In 2021, approximately what percent of people had a credit score between 800 and 850?
3. Generally speaking, a “poor” FICO credit score is below 580 points. If you round that up to 599 so that it better fits the information in this graph, what percent of the population is considered to have poor credit in 2021?
4. What range of credit scores saw the largest increase between 2019 and 2021? How large was the increase?

5. Describe how the distribution of FICO credit scores has changed between 2017 and 2021.

6. What impacts might this change in credit scores have on the typical American household's finances?



EXIT TICKET

Follow your teacher's instructions to complete the Exit Ticket.

Teachers, you can find exit ticket questions on the Lesson Guide.