FICO Credit Scores

**1) Credit Score Resources**

To start, here's a quick video on how Credit Scores work: Understanding Your Credit Score.

● Did you catch at the end, who else, other than lenders, looks at your credit report?

Credit Karma defines **credit score** as "a three digit number calculated from your data-rich **credit** report and is one factor used by lenders to determine your creditworthiness for a mortgage, loan or **credit** card. Your **score** can affect whether or not you are approved as well as what interest rate you are charged." The highest possible score is 850, while a score above 760 will generally qualify you for the best rates.

A. The pie chart below describes how your credit score is calculated using 5 different components of your credit history (focus on two largest factors):
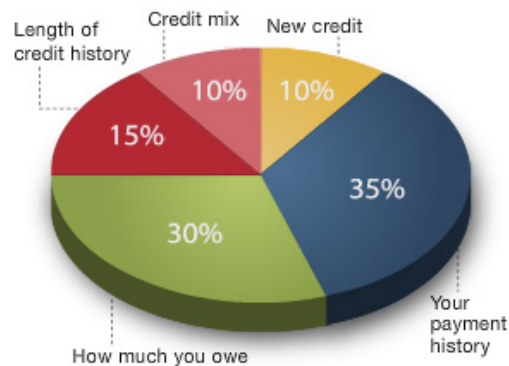
● In looking at the factors that determine a credit score, what are the ways that you can get and maintain a high credit score?

● Besides lenders, who else might be looking at your credit report?

2) Estimate their Credit Scores

You've been assigned to be the credit counselor for Jessica, Samantha and Jenna, whose profiles follow. As you review their cases, complete the chart below by:

1. Rate what you think their overall Credit Score is based on the information provided below.
    a. You can rate each as: Excellent, Good, Fair, or Poor

NAME	Jessica	Samantha	Jenna
Overall Score			

A. **JESSICA CREDITSMART** is a college senior. Her parents gave her a credit card when she turned 17 by making her an authorized user on their credit card. As an authorized user on their account, she benefitted from her parent's diligent credit card habits. She also has a few student loans in college that she will start repaying after she graduates. Here are some details about her for the profile:
   a. She currently has 1 credit card
   b. She got this first credit card more than 15 years ago (this is a great credit score hack; she benefits from the fact that her parents had this credit card for 15 years
   c. She got her first student loan 3 years ago
   d. She has received one student loan in the last year
   e. She got that student loan over six months ago
   f. Only her three student loans carry a balance, since she and her parents always bill the credit card bill off in full every month
   g. She has $15,000 currently outstanding on her student loans
   h. She (and her parents) have never missed a payment
   i. None of her loans or credit cards are past due (and her parents are always on time with their credit card)
   j. Since she and her parents pay off the bill every month, she has $0 balance
   k. She has never gone through a bankruptcy or other negative proceeding

B. **SAMANTHA SPENDTHRIFT** is a college junior. She couldn't wait until she turned 21, so she could apply for a few credit cards on her own since her parents would not give her one. Here are some details about her profile:
   ○ She currently has 3 credit cards
   ○ She got her first credit card less than 6 months ago
   ○ She got her first student loan 3 years ago
   ○ She has applied for 8 credit cards in the last year (and had 3 applications accepted). Without a reliable source of income, it can be difficult to get a credit card
   ○ She opened a new credit card 4 months ago
   ○ All of her 3 credit cards and 4 student loans currently have a balance. She has struggled to pay off her credit cards each month. She figures that she will be all good when she graduates from college and gets a job
   ○ She has $3,000 currently outstanding on all her credit cards and $35,000 on her student loans
   ○ She missed a payment 2 months ago when she forgot to notify the card company that she had recently moved out of her apartment. She is 30 days behind on making a payment
   ○ She has two cards currently past due and owes $3,000 combined on those two cards
   ○ Her credit card balances of $3,000 are about 90% of her overall limits of $3,300
   ○ She once got a few parking tickets on campus that she forgot to pay. Those accounts were sent to a collection agency within the last 6 months which means she needs to answer "YES" to this question

C. **JENNA DEBTFREE** is also a college junior. She has always been very cautious with money and thinks her friends with credit cards are crazy. She pays only with cash and debit cards and while she knows she can handle credit cards given her frugal ways, she doesn't want to ask her parents to sign off on a credit card for her, as she doesn't turn 21 for a few more months. She has also been extremely fortunate to not have any student debt.
   ● She currently has no credit cards
   ● She has no loans outstanding

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3) Calculate their Credit Scores

Now that you have estimated their credit (or FICO) scores, let's see how you did in predicting what their scores might be.

Your Credit Score Estimates:

   ● Jessica: _____

   ● Samantha: _____

   ● Jenna: _____

Credit Score Ranges (These are ranges, not hard and fast rules)
Excellent: 750-850
Good: 650-750
Fair: 550-650
Poor: Below 550

4) Impact of Credit Scores on Loans

Assume that each of the three students graduated from college, maintained their credit score, secured a $50,000/year job and now wanted to go car shopping…

Go to this site to determine how much that loan is going to cost Jessica, Samantha and Jenna.
- Step 1: Select the type of loan: 60 month new auto
- Step 2: Select state: California
- Step 3: Input loan amount of $20,000 (assume they had $2,000 for down payment).
- Step 4: Analyzing the chart on the right, find the MONTHLY PAYMENT for each of them based on their credit score:
  - Jessica: _____
  - Samantha: _____
  - Jenna: _____

- Step 5: Using that chart on the right again, find the TOTAL INTEREST PAID for each of the three individuals:
  - Jessica: _____
  - Samantha: _____
  - Jenna: _____

What's the cost of having a low credit score?