Name: Date: Class:

Chapter 17: Personal Finance

Section 3: Credit

Section 3: Financing, Interest, and Credit

Directions: Analyze the chart and answer the questions that are below.

Scenario: Three customers are financing the same new **2017 Car at $34,000.00.**

Customer	Job / Income	Credit Score	Credit History	Approved?	Interest Rate
Customer A	Same job for 15 years / $125,000 annually	800 Excellent	History of payments on time	Yes	1.5% 72 months $494.00 per
Customer B	On job for 6 months/ $38,000 annually	560 Poor	History of late payments	No	N/A
Customer C	On job for 5 years/ $65,000 annually	650 Average	Two late payments / Accounts good	Yes	5.8% 72 months $555.00 per

1. Why do you believe that Customers A and C were able to finance the car and Customer B was not able to?

2. For which customer did the bank have the easiest decision to approve the loan? Why?

3. How much more per month will Customer C pay for the same car at the same price than Customer A because of the interest rate difference? Why will Customer C pay more?

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Directions: Read the article from the Federal Trade Commission's education website, then answer the questions below the article.

> ***What can you do to improve your score?***
>
> *Credit scoring systems are complex and vary among creditors or insurance companies and for different types of credit or insurance. If one factor changes, your score may change — but improvement generally depends on how that factor relates to others the system considers. Only the business using the system knows what might improve your score under the particular model they use to evaluate your application.*

Nevertheless, scoring models usually consider the following types of information in your credit report to help compute your credit score:

- Have you paid your bills on time? You can count on payment history to be a significant factor. If your credit report indicates that you have paid bills late, had an account referred to collections, or declared bankruptcy, it is likely to affect your score negatively.
- Are you maxed out? Many scoring systems evaluate the amount of debt you have compared to your credit limits. If the amount you owe is close to your credit limit, it's likely to have a negative effect on your score.
- How long have you had credit? Generally, scoring systems consider your credit track record. An insufficient credit history may affect your score negatively, but factors like timely payments and low balances can offset that.
- Have you applied for new credit lately? Many scoring systems consider whether you have applied for credit recently by looking at "inquiries" on your credit report. If you have applied for too many new accounts recently, it could have a negative effect on your score. Every inquiry isn't counted: for example, inquiries by creditors who are monitoring your account or looking at credit reports to make "prescreened" credit offers are not considered liabilities.
- How many credit accounts do you have and what kinds of accounts are they? Although it is generally considered a plus to have established credit accounts, too many credit card accounts may have a negative effect on your score. In addition, many scoring systems consider the type of credit accounts you have. For example, under some scoring models, loans from finance companies may have a negative effect on your credit score.

Scoring models may be based on more than the information in your credit report. When you are applying for a mortgage loan, for example, the system may consider the amount of your down payment, your total debt, and your income, among other things. Improving your score significantly is likely to take some time, but it can be done. To improve your credit score under most systems, focus on paying your bills in a timely way, paying down any outstanding balances, and staying away from new debt.

Source: Federal Trade Commission consumer.ftc.gov

4. According to the article, how can owing close to the max amount you can afford negatively affect credit scores?

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5. According to the article, what is the significant factor in determining your credit score?

6. According to the article, what are the three most important actions you can take to improve your credit score?

7. In your opinion, do you think that having a high credit score is important in your life? Why?

8. Why do you believe companies analyze credit histories and credit scores to make decisions?

9. What are some common purchases that people make with credit?

10. Why will the credit score be low for younger people with little or no credit history?

11. Write four important tips that you can give to adults about improving their credit scores.