



BUILDING CREDIT

Pit Stop Summary: This Pit Stop provides teachers with general guidelines about building a positive credit history and explains the penalties in the simulation that are used to demonstrate how poor financial habits can affect your credit score.

Navigation Tips: Important tips to build and maintain good credit include:

1. Understanding your score.
2. Always pay all bills on time.
3. Maintain conservative utilization rates.
4. Check credit report for accuracy and identity theft at least once a year.

Budget Challenge® Road Test for Personal Finance® — Rubber Meets the Road:

During the simulation, students can experiment with different ways of managing money to learn what works best for maintaining a good credit standing.

Navigation Tip #1: Understanding your credit score:

- A credit report is a loan and bill payment history maintained by a credit reporting agency.
- Equifax, Transunion, and Experian are the three major Credit Reporting Agencies (CRA) and each may have a different credit report/score for an individual.
- A credit score or FICO is a 3-digit number determined by information on one's credit report to determine risk associated with lending to the individual.
- The best way to improve a credit score is by consistently making payments on time and keeping credit utilization below 50%.
- A credit score not only affects one's ability to obtain a loan but also the interest rate. A low credit score will have a higher interest rate, thus paying more interest over time than that of a higher credit score.
- In the simulation, participants' leaderboard score is increased when they demonstrate strong credit building behaviors and decrease when they demonstrate credit damaging behaviors.

Terminology Tune-Up:



Credit Score: A number assigned to a person that indicates to lenders their capacity to repay a loan. FICO is a commonly used credit score.

Credit Report: A detailed report of an individual's credit history prepared by a credit bureau (CRA)

Creditworthiness: A valuation performed by a lender that determines the probability a borrower may default on debt.

Credit Reporting Agency (CRA): Maintain historical information pertaining to an individual's credit experience. Also known as credit bureaus.

Extended Learning Topics

- **Credit Reporting Agencies:** Equifax, Experian, Transunion
- Identity Theft

Test Drive Overview: Risk and Credit

(Estimated Time: 25 minutes):



Test Drives are in-class activities to help illustrate the topic. In this Test Drive, students will use the credit score pie chart and the sample student leaderboard detail to identify which leaderboard line items will positively or negatively affect a credit score and which category of the credit score will be affected.

Did You Know?

1 in 4 Americans have a mistake on their credit report.





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Navigation Tip #2:

Always pay bills on time:

- Payment history accounts for 35% of the FICO (credit) score. In Budget Challenge, students are penalized 150 points for paying a bill late to help illustrate the impact this has on one's credit score.
- Ways to encourage paying bills on time include setting reminders on a calendar/phone and allocating a consistent day to review financial matters on a weekly basis.
- During the simulation, students track expected income and expenses on the Budget and Cash Flow Spreadsheet to ensure paying bills on time.

Navigation Tip #3:

Maintain conservative utilization rates:

- The simulation uses a credit card for day to day expenses. Discussion is encouraged about responsible use of credit cards and potential pitfalls.
- In the real world, the recommendation is to keep the credit utilization on each of your accounts and your combined accounts to less than 30 percent.
- In the simulation, the goal is to keep the credit card utilization rate below 50 percent or less than \$500. Have students view the "Understanding Credit Utilization" video located at Vendors→Credit Card.
- Many things can affect the credit card utilization rate including finance fees, return check fees and late fees associated with paying the credit card bill.

Add Navigation Tip #4:

Check credit report consistently to ensure accuracy:

- Review your credit report annually with each of the three credit reporting agencies (Experian, TransUnion, and Equifax) for accuracy and report any incorrect information to the agency.



Test Drive Necessities: Risk & Credit Diagram | Risk & Credit Scenario Handouts | Risk & Credit Test Drive Handouts

