

What's the Score?

Lesson Plan



What's the Score?

Pack overview

When you apply for credit, lenders use credit scoring to help them decide whether to give you credit. Credit scores may be calculated using information on your application form, any information the lender knows about you (if you've had an account with them) and also your credit report.

When lenders check your credit score, they use the past to predict the future. How you've repaid credit in the past will give them a good idea of how you will repay in the future. If you've missed payments in the last year then it's likely you'll miss payments again, so this is likely to mean you'll be given a low credit score.

A high credit score, on the other hand, means you're unlikely to miss future payments, so this can help you qualify for cheaper credit and, as a result, save you money!

This credit scoring activity will help you learn a little more about how credit scores are usually calculated, and how this can affect what you can borrow, and at what rate.

Intended age range

11-19 years - Linked to Young Money (formerly pfeg) Financial Education Planning framework and the national curriculum.

Learning objectives & outcomes

- Understand credit scoring
- Understand credit applications and getting credit
- Understand the cost of borrowing (APR)
- Understand the importance in repaying debt successfully
- Understand what influences your credit score

Task objectives

- Calculate individual credit scores for each character
- Work out the score banding for each character
- Match each applicant to the cheapest loan they qualify for
- Work out how much (in interest) each applicant will pay over the term of their loan

What's the Score?

Vocab

APR	Annual percentage rate - is the annual cost of borrowing in addition to the money you borrow. APR is expressed as a percentage
Applicant	The person(s) applying for the loan
Default	Account closed by the lender after failing to maintain repayments
Credit	The finance agreement with the lender (e.g. credit card, loan, bank account)
Electoral roll	The national lists of people registered to vote in elections
Missed payment	A regular payment to a credit account is not made on time
Borrower	The person who opens a credit account
Repayment terms	How much you must repay and for how long
Credit rating	The score given to you by lenders when you apply for credit
Lender	The company who provides you with credit

What's the Score?

Lesson delivery

The lesson can last 30-60 minutes, including the optional background lesson. The practical scoring exercise can be completed on its own, which is approximately 30 minutes.

Learning outcomes are delivered through the practical exercise.

Timing	Task	Description
15-30 minutes	Introduction	Run through discussion points to provide some background to credit reports, credit scores and lending decisions
25 minutes	Scoring exercise	Run through the task brief then complete task one and two. Usually completed as a team activity (2-4 people)
5 minutes	Review	Summarise results and check character scores & bandings. Check the qualifying loans and interest payable.

Background lesson

Use the background lesson and guide questions to talk the students through:

- What is a credit report?
- What's in a credit report?
- What is a credit score?
- How do lenders make decisions?
- What is the cost of borrowing?

Task brief

Read the task brief to the students, or allow them time to read and understand. This should take about five minutes in total.

The task brief sets out what each student or group should be provided with to work out the score, banding, loan and interest payable.

Fill in each character's scores on the answer sheet provided.

Scoring exercise

Individuals or groups can work through all four characters, calculating their credit score and, therefore, score banding. They can then work out which is the best deal (loan) they can apply for, and what the total amount of interest payable will be.

*Answer sheet located at end of activity pack.

Background lesson – Credit reports, scores and lending decisions

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Discussion point 1: What is a credit report?

Discussion questions:

- What kind of accounts are on a credit report (example – credit card)?
- How old do you need to be to open credit accounts?
- Who can see your credit report?

A credit report contains information about your financial behaviour from the last six years. It is seen when you give someone permission to view it, usually by applying for credit.

This can include accounts like (for example):

- Mortgage
- Credit card
- Bank account
- Loan
- Mobile phone contract
- Home phone & broadband
- Utilities such as gas, electricity and water

If you're over 18 and you've taken out credit or borrowed money before, credit reference agencies like Experian are likely to hold a credit report on you.

They also hold information such as electoral roll, previous names (if it's changed) and people you're financially linked to.

As a general rule you won't be granted credit until you're at least 18 years old.

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Discussion point 2: What's in your credit report?

Discussion questions:

- Will a monthly contract mobile phone show on your credit report?
- Can your credit report be linked to someone else's?
- For how long do missed payments stay on your credit report?

Your credit report contains information that helps lenders confirm your identity and see if you're a reliable borrower, such as:

• Financial information

- This is a view of credit accounts you've had and whether you've made repayments on time, and in full. Account information will show lenders how much you currently owe, your repayment terms and amount.
- Public financial records are also shown on your credit report. These are court judgments or insolvencies and include things like bankruptcies, county court judgments (CCJ), decrees, trust deeds or individual voluntary arrangements (IVA).
- Your credit history, including missed or late payments typically stay on your credit report for six years. This is the same for court judgments and insolvencies such as bankruptcies, IVAs and court judgments.

• Financial connections

- This is a list of people who have a financial connection with you, created whenever you apply for joint credit together. These people are known as your 'financial associates'. Their credit history doesn't appear in your report, but lenders can see it when you apply for credit. This is because your financial associates' circumstances may affect your ability to repay money.

• Address details and electoral roll

- Electoral roll information for your current and previous addresses, which you provide when you register to vote. Your report also includes addresses you've been linked to in the past, such as those you've given to lenders on application forms.

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Discussion point 3: What is a credit score?

Discussion questions:

- What is a credit score?
- Do you have one credit score?
- Who gives you a credit score?



A credit score (or credit rating) is a number that reflects the likelihood of you paying credit back, based on:

- How you've repaid debt in the past
- How you're currently managing your credit.

Lenders like banks and credit card companies will look at your credit history when they calculate your credit score. They also look at information on your application form and any records they may have (if you've been a customer).

Your credit score influences your chances of getting (for example):

- Credit cards, loans and mortgages
- Car finance
- Gas & electricity monthly contracts
- Mobile phone monthly contracts
- Insurance (where paid monthly)

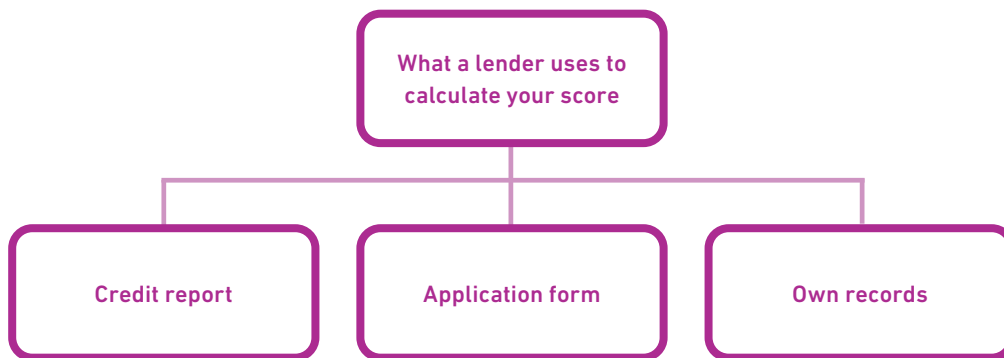
There's no single approach to calculating a credit score so the scores you can get from each credit reference agency are likely to look a little different. This means that there's no universal credit score that is 'good'. There are currently three main credit reference agencies in the UK.

As a general rule, the higher your score, the better. This means you generally have a good track record of paying back debt, and this will improve your chances of being accepted for new credit and at the best rates.

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Discussion point 4: Applying for new credit - How do lenders decide?**Discussion Questions:**

- When you apply for credit what three sources of information will the lender use?
- What kind of information will be on your application form?
- Why might a lender look at any accounts you already have with them when they decide?



Lenders may use three sources of information to generate a credit score for you. Each lender will calculate its own individual score for you, and this will be different for each lender.

They will look at:

- Your credit report (from one or more credit reference agency)
- The application form (including income, dependants, job type etc)
- Their own records if you've been a customer before

Every lender will have a different selection of criteria, and each will have a score pass-mark you have to achieve in order to be accepted. The total score you get may also determine the interest rates you get.

Each lender will also have its own policies such as minimum age or salary, that may determine whether or not someone is offered credit.

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Discussion point 5: What is the cost of borrowing?

Discussion Questions:

- What does the interest rate mean when you borrow money?
- Is it better to have a higher or lower interest rate?
- If you borrow £1000 over 12 months and the interest (APR) is 10% - what will you repay?

Annual percentage rate (APR) is the official rate used to help you understand the cost of borrowing. It takes into account the interest rate and additional charges of a credit offer. All lenders have to tell you what their APR is before you sign a credit agreement.

How does APR work?

APR is used for comparing credit cards and unsecured loans, and it's expressed as a percentage of the amount you've borrowed. For example, a personal loan with a 15% APR should be cheaper than one with a 17.5% APR, although you should always check the terms and conditions.

The APR doesn't cover any fines for being late with payments or going over your credit limit.

Exercise marking page (Do not distribute)

Score factor	Criteria	Points	Name			
Starting Score		60	Hugh Payments	Frank Account	Dee Fault	Linda Decision
Age	18-23	0			X	
	24-38	4				X
	39+	9	X	X		
Employment status	Full time / self employed	10	X	X		X
	Part time	8				
	Retired / homemaker	5			X	
	Student	0				
	Unemployed	-6				
Residential status	Homeowner	10	X	X		
	Tenant	0			X	X
	Living with parents	3				
Electoral roll	Registered	7	X			
	Not registered	-2		X	X	X
Court judgments	0	0		X		X
	1+	-8	X		X	
Previous applications (last 12 months)	0	8				
	1	2	X	X		
	2	-1				X
	3+	-3			X	
Missed payments (last 12 months)	0	8		X		X
	1+	4	X		X	
Open mortgage account (not closed)	Yes	5		X		
	No	0	X		X	X
Successfully closed accounts	0	-3		X		
	1+	0	X		X	X
Default accounts	0	0		X		X
	1+	-8	X		X	
Oldest open account	0-12 months	-3				
	13-60 months	0			X	
	61+ months	2	X	X		X
Monthly credit card repayments	Always in full	6		X		X
	At least 50%	0			X	
	None / minimum payment	-7	X			
Total borrowing on credit cards and loans (excluding mortgages)	£0-100	5				X
	£101-2000	0			X	
	£2001+	-4	X	X		

Name	Hugh Payments	Frank Account	Dee Fault	Linda Decision
Score	77	103	48	92
Score Banding	Fair	Excellent	Very Poor	Good
Lender	Amber Cash	Green Loans	Red Quid	Amber Cash
Interest	£1,770.95	£398.18	£4,918.21	£1,770.95

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What's the Score?

Exercise



What's the Score?

Exercise instructions

Task 1 – 15 minutes

Hugh Payments, Frank Account, Dee Fault and Linda Decision each want to borrow £5000.

First, calculate each character's credit score and band using the application forms and score calculator answer sheets.

Task 2 – 10 minutes

Using the characters' credit scores and bands, match each character to the cheapest loan they qualify for.

Work out how much interest (the charge for borrowing money) each person will have to pay back in addition to what they borrowed. Make sure you check any additional lending criteria for each loan, such as minimum income.

Use the answer sheet to record your final answers.

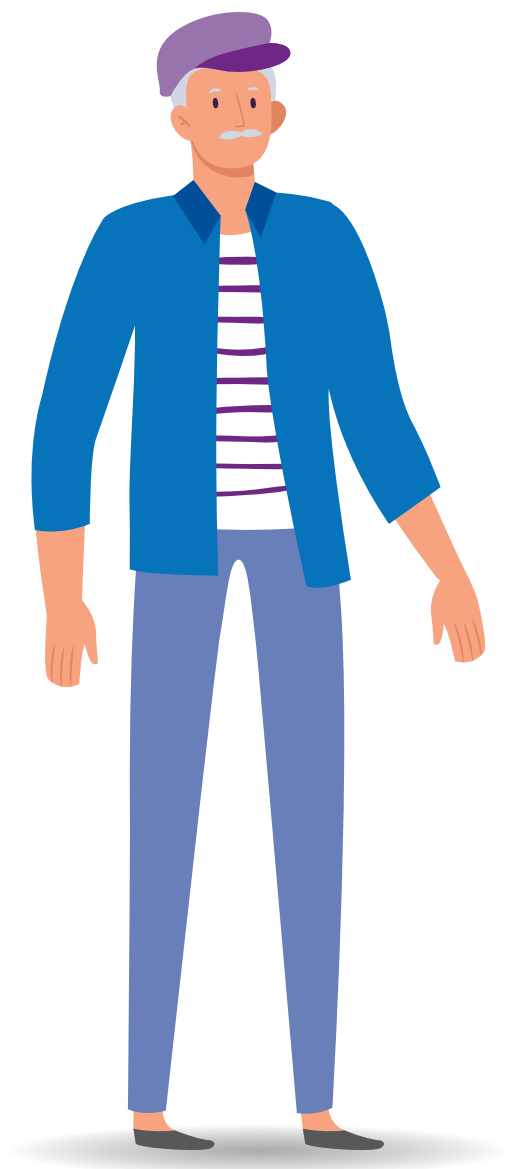
Included:

- Credit application forms
- Score calculator answer sheet (print one for each character)
- Personal loan offers and criteria
- Answer sheets

Please note:

Each character has a starting score of 60. When calculating their total score, you will start at 60 and then add and subtract points from this number.

What's the Score?



Credit Application Form

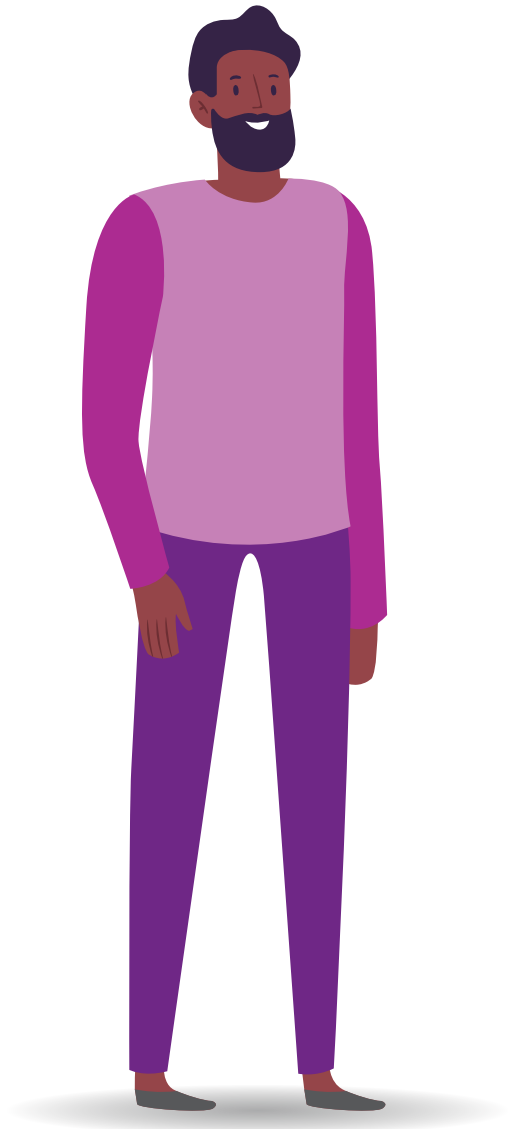
Title	Mr
Forename	Hugh
Surname	Payments
Age (years)	59

Number of dependants	3
Marital status	<input checked="" type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Cohabiting <input type="checkbox"/> Widow(er) <input type="checkbox"/> Separated/Divorced
Residential status	<input checked="" type="checkbox"/> Homeowner <input type="checkbox"/> Living with parents <input type="checkbox"/> Tenant
Time at current address	17 years 5 months
Employment status	<input checked="" type="checkbox"/> Full time <input type="checkbox"/> Part time <input type="checkbox"/> Homemaker <input type="checkbox"/> Retired <input type="checkbox"/> Self-employed <input type="checkbox"/> Student <input type="checkbox"/> Unemployed
Annual Income	£26,000
Time in employment	21 years

Credit report

Electoral Roll	Registered
Court Judgments	1 County Court Judgment
Open Credit Agreements	<div> Credit Card (£1,700) Retail Credit (£600) Mail Order (£140) - </div> <div> 1 missed payment (last 12 months) 0 missed payments 0 missed payments </div> <div> Credit Card (£368) Loan (£2476) </div> <div> Defaulted (outstanding balance) Defaulted (outstanding balance) </div>
Previous Credit Applications (last 12 months)	Retail credit application
Additional Information	Mortgage paid off and closed Paying minimum off credit card Current account held for over 6 years

What's the Score?



Credit Application Form

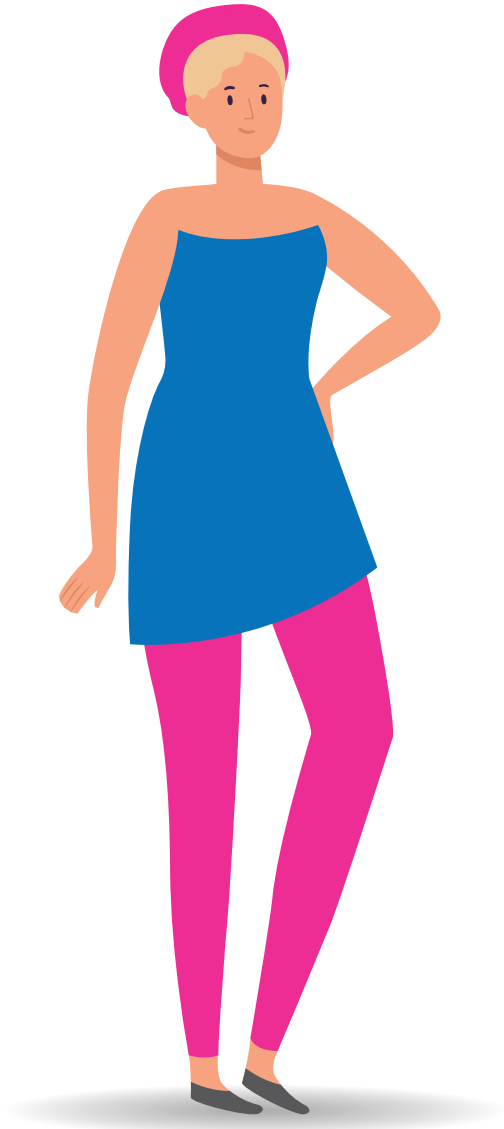
Title	Mr
Forename	Frank
Surname	Account
Age (years)	43

Number of dependants	3
Marital status	<input checked="" type="checkbox"/> Married <input type="checkbox"/> Single <input type="checkbox"/> Cohabiting <input type="checkbox"/> Widow(er) <input type="checkbox"/> Separated/Divorced
Residential status	<input checked="" type="checkbox"/> Homeowner <input type="checkbox"/> Living with parents <input type="checkbox"/> Tenant
Time at current address	4 years 0 months
Employment status	<input checked="" type="checkbox"/> Full time <input type="checkbox"/> Part time <input type="checkbox"/> Homemaker <input type="checkbox"/> Retired <input type="checkbox"/> Self-employed <input type="checkbox"/> Student <input type="checkbox"/> Unemployed
Annual Income	£45,000
Time in employment	16 years

Credit report

Electoral Roll	Not Registered
Court Judgments	No judgments
Open Credit Agreements	Mortgage (£126,000) 0 missed payments Car Loan (£4,000) 0 missed payments Credit Card (£0) 0 missed payments
Previous Credit Applications (last 12 months)	Car loan application
Additional Information	No closed credit accounts No default accounts Pays credit card in full monthly Oldest account held for over 7 years

What's the Score?



Credit Application Form

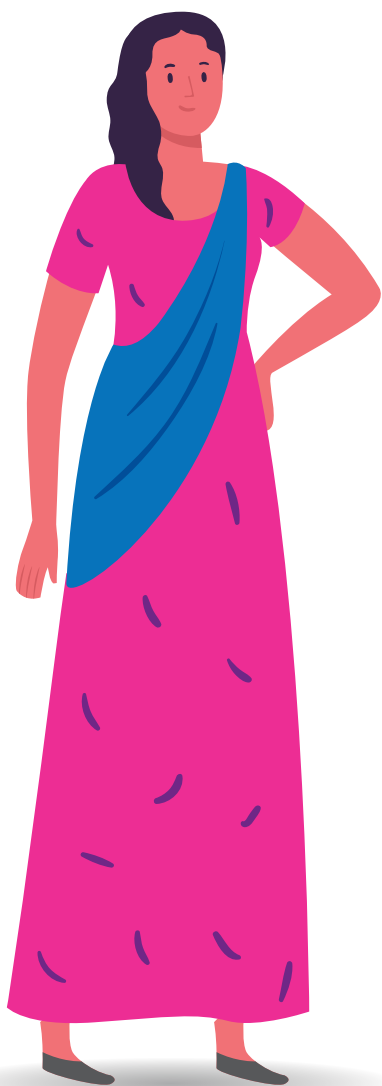
Title	Miss
Forename	Dee
Surname	Fault
Age (years)	23

Number of dependants	0
Marital status	<input type="checkbox"/> Married <input checked="" type="checkbox"/> Single <input type="checkbox"/> Cohabiting <input type="checkbox"/> Widow(er) <input type="checkbox"/> Separated/Divorced
Residential status	<input type="checkbox"/> Homeowner <input type="checkbox"/> Living with parents <input checked="" type="checkbox"/> Tenant
Time at current address	0 years 2 months
Employment status	<input type="checkbox"/> Full time <input type="checkbox"/> Part time <input checked="" type="checkbox"/> Homemaker <input type="checkbox"/> Retired <input type="checkbox"/> Self-employed <input type="checkbox"/> Student <input type="checkbox"/> Unemployed
Annual Income	£12,000
Time in employment	N/A

Credit report

Electoral Roll	Not Registered
Court Judgments	1 County Court Judgment
Open Credit Agreements	Personal loan (£800) 2 missed payments (last 12 months) Mobile phone contract 1 missed payments (last 12 months) Credit Card (£267) Defaulted (outstanding balance) Credit Card (£35) Pays at least 50% monthly
Previous Credit Applications (last 12 months)	Credit Card Store card Personal loan Credit Card
Additional Information	2 closed credit cards within the past 6 years Personal loan open for 4 years

What's the Score?



Credit Application Form

Title	Miss
Forename	Linda
Surname	Decision
Age (years)	24

Number of dependants	0
Marital status	<input type="checkbox"/> Married <input type="checkbox"/> Single <input checked="" type="checkbox"/> Cohabiting <input type="checkbox"/> Widow(er) <input type="checkbox"/> Separated/Divorced
Residential status	<input type="checkbox"/> Homeowner <input type="checkbox"/> Living with parents <input checked="" type="checkbox"/> Tenant
Time at current address	4 years 0 months
Employment status	<input type="checkbox"/> Full time <input type="checkbox"/> Part time <input type="checkbox"/> Homemaker <input type="checkbox"/> Retired <input checked="" type="checkbox"/> Self-employed <input type="checkbox"/> Student <input type="checkbox"/> Unemployed
Annual Income	£15,000
Time in employment	4 years

Credit report

Electoral Roll	Not Registered
Court Judgments	No judgments
Open Credit Agreements	Credit Card (£12) 0 missed payments Car Loan (£87) 0 missed payments
Previous Credit Applications (last 12 months)	Personal loan application Personal loan application
Additional Information	7 closed personal loans Open credit card account for 7 years Always pays her credit card balance in full

Score Calculator Answer Sheet

Score factor	Criteria	Points	Name			
Starting Score		60	Hugh Payments	Frank Account	Dee Fault	Linda Decision
Age	18-23	0				
	24-38	4				
	39+	9				
Employment status	Full time / self employed	10				
	Part time	8				
	Retired / homemaker	5				
	Student	0				
	Unemployed	-6				
Residential status	Homeowner	10				
	Tenant	0				
	Living with parents	3				
Electoral roll	Registered	7				
	Not registered	-2				
Court judgments	0	0				
	1+	-8				
Previous applications (last 12 months)	0	8				
	1	2				
	2	-1				
	3+	-3				
Missed payments (last 12 months)	0	8				
	1+	4				
Open mortgage account (not closed)	Yes	5				
	No	0				
Successfully closed accounts	0	-3				
	1+	0				
Default accounts	0	0				
	1+	-8				
Oldest open account	0-12 months	-3				
	13-60 months	0				
	61+ months	2				
Monthly credit card repayments	Always in full	6				
	At least 50%	0				
	None / minimum payment	-7				
Total borrowing on credit cards and loans (excluding mortgages)	£0-100	5				
	£101-2000	0				
	£2001+	-4				

Total Score				
Band				

What's the Score?

Personal loan offers and criteria

Red Quid Loans

Loan Amount (5 years)	£5,000
APR	36.0%
Total repayable	£9,918.21
Criteria	
Minimum score: Very Poor	
No more than 1 defaulted account	
No more than 1 court judgment	
Minimum income £12,000	

Amber Cash

Loan Amount (5 years)	£5,000
APR	13.4%
Total repayable	£6,770.95
Criteria	
Minimum score: Fair	
No more than 2 defaulted accounts	
No more than 1 court judgment	
Minimum income £15,000	

Yellow Financial Services

Loan Amount (5 years)	£5,000
APR	8.6%
Total repayable	£6,112.99
Criteria	
Minimum score: Good	
No court judgments	
No defaulted accounts	
Minimum income £15,500	

Green Personal Loans

Loan Amount (5 years)	£5,000
APR	3.1%
Total repayable	£5,398.18
Criteria	
Minimum score: Excellent	
No court judgments	
No defaulted accounts	
Minimum income £32,000	

Answer Sheet

1. What is the credit score for each of the applicants?

Name	Hugh Payments	Frank Account	Dee Fault	Linda Decision
Score				

2. What is the score banding for each of the applicants?

Name	Hugh Payments	Frank Account	Dee Fault	Linda Decision
Score Banding				

Score Range	Band
96+	Excellent
88-95	Good
72-87	Fair
56-71	Poor
0-55	Very Poor

3. What is the cheapest loan each applicant can qualify for?

How much interest will each applicant pay for their loan, on top of what they borrow?

Total Score	Hugh Payments	Frank Account	Dee Fault	Linda Decision
Lender (Name)				
Interest (£)	£	£	£	£



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