



## **Champions for Financial Legacy**

# **UNDERSTANDING CREDIT SCORES**

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### INTRODUCTION

Banks utilize what is known as Credit Scores that help determine how likely you are to pay back money you owe. Certain behaviors like paying your bill on time help and credit card usage can impact your score. This worksheet will help guide you in understanding how credit scores work.

### **SECTION 1: UNDERSTANDING CREDIT SCORES I**

Describe what a credit score is in your words:						
<b>Key Princip</b> rate is. How						



#### **SECTION 2: UNDERSTANDING CREDIT SCORES II**

Credit scores range from 300 to 850. A higher credit score can help borrowers qualify for loans and get the best interest rates. Below is a breakdown of the credit score scale.

Poor: 350 -759

May be difficult to apply for credit cards and you will need to pay higher interest rates on your loan.

Fair: 580-669

You may get approved for some loans, however, you will not receive the best interest rates.

Good: 670-739

Can get approved for most loans and credit cards and receive decent interest rates.

Very Good: 740-799

Most banks will approve your loan and you will receive great interest rates.

Excellent: 800-850

It will be very easy for you to apply for loans and you will receive the best interest rates.





## **SECTION 3: ILLUSTRATIVE EXAMPLES**

Scenario: Comparing Credit Cards

Two friends, Alex and Nicole want to purchase a car and were offered by the bank \$20,000 with a 60 month term. However, Alex has a 800 credit score and Nicole has a 435 credit score.

	Alex	Nicole
Credit Score	800	325
Interest Rate	2%	13%
Monthly Payment	\$350.56	\$455.06
Total Payment	\$21.033.31	\$27,303.69
Total Interest	\$1,033.31	\$7,303.69

**Challenge:** How much more money does Nicole have to pay overall because she had a lower credit score?

Answer:		
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## **SECTION 4: KEY TAKEAWAYS**

- **1. Build Your Credit Score:** Improving your credit takes consistent effort. Pay your bills on time, keep your spending low, and limit the number of new accounts you open to help boost your score.
- 2. Who Checks Your Credit Score? It's not just banks—landlords, insurance companies, and even some employers may check your credit score to assess how reliable you are with managing money and repaying debts.
- **3. Pay Less!** A higher credit score can save you hundreds of dollars in interest over time. That's why it's important to build your score, so you don't end up paying more to the bank than you need to.

## **SECTION 5: ACTION PLAN**



#### **START TODAY**

Explore the many free resources available online to check your credit score. Services like Experian, Equifax, and TransUnion offer free tools to help you stay informed.



#### **CHECK YOUR SCORE**

Make it a habit to check your credit score at least once a year. If you're planning to take out a loan, understanding your score can help you make smarter financial decisions and set realistic expectations.



#### **SPEND WISELY**

The best way to build your credit is to understand how much you can afford to spend each month. Creating a budget based on your credit limit and income can help you improve your credit score over time.

#### **Answer Key:**

Section 3: \$27,303.69 - \$21,033.31 = **\$6,270.38** 

