Beyond the Number

Investigate the evidence behind a lending decision

9-12.EC.19 "Research and report on factors that affect creditworthiness and credit scores."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline three factors that can affect a credit score, circle one factor a lender may check outside the score, and box the names of the two information sources. Use your marks to support your answers.

What a Lender Sees

1. When Maya applies for a car loan, the lender wants to know whether she is likely to repay it. A credit score offers one estimate, but it is not the whole decision. The Consumer Financial Protection Bureau (CFPB) explains that credit reports record account balances and whether payments were made on time. Those records help shape many credit scores. Maya missed a card payment last year, then made every later payment by its due date. The missed payment can still hurt her score, although later on-time payments build a stronger record. A lender may also examine her income to judge whether she can afford a new monthly payment.

2. FICO, the company behind widely used credit scores, identifies amounts owed as another major factor. One useful measure is credit utilization: the share of available revolving credit currently in use. For example, using $400 of a $1,000 card limit means 40 percent utilization. High utilization can signal greater risk, even when every payment arrives on time. FICO also considers how long accounts have been open, recent applications for credit, and the mix of account types. A new application can lead to a hard inquiry, which may lower a score slightly; opening several accounts quickly can raise concerns.

3. Maya compares two kinds of evidence before deciding what to do. Her credit report shows a high balance on one card, but it does not list her wages. The CFPB notes that income is not part of a credit score, while lenders may consider income and existing debts when judging whether a borrower can handle another payment. Paying down a card balance could improve Maya's utilization if her limit stays the same. Increasing her income would not directly change her score, but it could affect a lender's broader decision. Neither step guarantees approval, since lenders use different rules.

2 ANSWER WITH EVIDENCE

Use the passage

1. Using the CFPB information in the passage, explain why Maya's missed payment can affect her score despite her later on-time payments.

2. According to the FICO information in the passage, how could Maya's high card balance affect her score even if she pays on time?

3. Why might applying for several new accounts close together work against a borrower, according to the passage?

4. Using the CFPB information in the passage, explain why a lender might consider Maya's income even though it is not part of her credit score.

3 YOUR TURN

Your own words

Nico has paid bills on time, uses $900 of a $1,000 card limit, and plans to apply for three store cards before seeking a car loan; his steady income may not comfortably cover another payment. In 4 to 5 sentences, write a report explaining two score factors and one factor outside the score, recommend one action, and name evidence from the CFPB or FICO.

ANSWER KEY

Beyond the Number

HIGH SCHOOL · 9-12.EC.19

PART 1 · READ AND MARK

Underline three factors that can affect a credit score, circle one factor a lender may check outside the score, and box the names of the two information sources. Use your marks to support your answers. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	Using the CFPB information in the passage, explain why Maya's missed payment can affect her score despite her later on-time payments.	**Credit reports record whether payments were made on time. Maya's missed payment remains part of that record, even as later on-time payments build a stronger history.**
2	According to the FICO information in the passage, how could Maya's high card balance affect her score even if she pays on time?	**A high balance can mean high credit utilization. FICO considers amounts owed, and high utilization can signal greater risk.**
3	Why might applying for several new accounts close together work against a borrower, according to the passage?	**New applications can lead to hard inquiries that may lower a score slightly, and opening several accounts quickly can raise concerns.**
4	Using the CFPB information in the passage, explain why a lender might consider Maya's income even though it is not part of her credit score.	**A lender may consider income alongside existing debts to judge whether Maya can afford another monthly payment.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Nico's $900 balance on a $1,000 limit means 90 percent utilization, which could hurt his score even though he pays on time. FICO also says recent credit applications matter, so three store card applications could work against him. His income is not in his score, but a lender may consider whether it covers another payment, as the CFPB explains. Nico should pay down his card balance before seeking a car loan and check whether the monthly payment fits his budget.

Accept other accurately explained score factors from the passage. For the report, look for two distinct score factors, a lender consideration outside the score, a supported action, and a named source.