Credit Score Questions and Answers

Pre-reading

Questions:
  • What do you know about credit scores?
  • What would you like to know?

Definitions:
  • Credit – a way of buying something at the present time and paying for it at a later date
  • Rhetoric – grandiose, persuasive use of language
  • Mortgage – an agreement by which someone borrows money to buy a house

Reading

James, a 32 year old single parent, has a good job as a manager of a video store. He has been living in a small apartment for the past three years. He desires a bigger living space with a nice yard for his children. James wants a home to call his own.

James knows that home ownership means securing a loan, and a loan means credit. He often hears the words credit score and credit report on the radio and TV. He has also seen credit related articles in newspapers and magazines.

James is confused by all the credit rhetoric. What exactly is a credit score? What does it mean? Does everyone have one? Where can you get one?

A credit score is a calculation based on information from your credit report. It is used to assess your credit worthiness based on your credit history and current credit amounts. The better your credit history, the higher your credit score. Creditors, especially in the mortgage industry, frequently use credit scores to determine whether or not to offer a person credit.

Credit scores, often referred to as FICO scores, range from 375 to 900 points. If your FICO score is high, you are a better credit risk. Mortgage lenders usually look for borrowers with a credit score above 650.

Many factors affect a person’s credit score. The two most important factors are payment history and outstanding debt. In fact, these two factors account for 65% of a person’s credit score.

James’ FICO score will be high if he has consistently paid his bills on time. That means paying at least the “minimum payment due” (although paying more is a good idea) before the due date every month. His FICO score will be high if he does not have much debt.

Credit history and the pursuit of new credit are two other factors that affect credit scores. People who wisely use the same credit card for a long period of time are a better risk than those who open and close credit card accounts often. Opening a charge account at numerous stores in order to save 10% on a purchase is not wise; too many inquiries for new accounts can negatively affect your credit score.

James was anxious to get his credit score. He logged on to the www.annualcreditreport.com website to retrieve his free credit report. For a fee, he was also able to get his credit score.
Understanding

1. What credit score do lenders like to see in order to loan you money?

2. What type of lenders often use credit scores?

3. How could someone improve a low credit score? (List at least two ideas)

4. What is another name for credit scores?

5. What does the word *assess* mean in this reading?

6. Why are credit scores used?

7. Where did Allan find his credit score?

8. What does the word *inquiry* mean in this reading?

Writing

Option A: Write a summary of the reading.
Option B: Write about your use of credit and/or your experience with creditors.