

Name:

Date:

Understanding Credit Scores

Assessment

Now that we've removed the mystery surrounding Credit Scores, let's see how well you recall the most important facts. You may need the following formula to answer some of the questions:

$$\text{MonthlyPayment} = \frac{(P \times (I \div 12))}{(1 - (1 + (I \div 12))^{-N})}$$

P = Principal Amount of the loan

I = Interest Rate of the loan

N = Number of months to pay off the loan

What is a common name for a person's **credit score**?

- a) Credit Risk Index
- b) Credit Evaluation Index
- c) FICO
- d) Credit Limit

Name a way a good credit score can **benefit** you:

- a) Better Loan Rates
- b) Better Car Insurance Rates
- c) Better Job Opportunities
- d) ALL of the above



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Which of the following components used to determine a credit score counts most when determining that score?

- a) Debt to Available Credit Ratio
- b) Length of Credit History
- c) Payment History
- d) Number of Recent Credit Inquiries

What would the monthly payment be on a \$4,200 debt at 14.99% interest if you wanted to pay the debt completely off in 42 months?

- a) \$ 129.12
- b) \$ 100.00
- c) \$ 162.50
- d) \$ 350.00

What part of the monthly payment on a \$4,200 debt at 14.99% interest would be used to pay the interest for the 1st month?

- a) 162.50
- b) 52.47
- c) 129.12
- d) 76.65

What would be considered the ideal debt- to-available credit ratio?

- a) 50% or more
- b) 33% or more
- c) 50% or less
- d) 33% or less



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How could opening several new credit accounts all at the same time affect your credit score?

- a) **Helps** – says I can handle lots of new credit
- b) **Hurts** – says I had too little credit to begin with
- c) **Helps** – says I had too little credit to begin with but now I have the correct amount
- d) **Hurts** – says I may be in trouble and need lots of help to stay afloat

What would be the best way to carry a \$ 9,000 debt?

- a) On a single account with an \$18,000 credit line
- b) Split evenly across 2 accounts with \$10,000 credit lines each
- c) Split into thirds across 3 accounts with \$9,000 credit lines each
- d) On a single account with a \$9,000 credit line

Would it be easier on your budget to pay off a \$4,200 debt at 14.99% in 42 months, or \$4,200 at 17.5% in 60 months?

- a) 14.99% for a shorter time has got to be better than 17.5% for longer.
- b) A longer loan term means I would pay lots more interest over the term of the loan so the 14.99% for 42 months option would be better.
- c) The longer term loan results in a lower monthly payment so it would be easier on my budget.
- d) Always pay less interest.....14.99 for 42 months.

What is the single best thing you can do to help build a good credit score and to keep it once you have it?

- a) Pay my bills on time.
- b) Keep balances on all accounts low.
- c) Take out only the credit I need when I need it.
- d) Pay cash.



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Answer Key

1. C
2. D
3. C
4. A
5. B
6. D
7. D
8. C
9. C
10. A