What is Credit and Creditworthiness?

Worksheet

Credit is the ability to borrow money; creditworthiness is your reputation for repaying it on time. Banks assess creditworthiness through credit reports, credit scores, and financial history.

Questions

1. Creditworthiness is determined by…

A) How much money you have in savings
B) Your payment history, credit score, and income stability
C) How old you are
D) Your education level

2. A high credit score means…

A) You have a lot of money
B) You have strong creditworthiness and repay on time
C) You have no debt
D) You earn a high salary

3. One missed payment will…

A) Destroy your creditworthiness forever
B) Drop your score 100+ points and harm your creditworthiness temporarily
C) Have no effect
D) Increase your creditworthiness

4. Why do lenders care about creditworthiness?

A) To be mean to low-score borrowers
B) To assess risk of loan default and set appropriate interest rates
C) Because the law requires it
D) To check your friends

5. You apply for a $5,000 personal loan. The bank checks your creditworthiness. What are they looking at?

6. Your first credit card: starting credit worthiness from zero. How do you build it?

7. You miss a payment on your credit card. What happens to creditworthiness?

8. Define: What is credit?

9. Define: What is creditworthiness?

10. Define: What affects creditworthiness?

Answer Key

1. B) Your payment history, credit score, and income stability — Lenders assess past payment behavior and financial reliability, not savings or demographics.

2. B) You have strong creditworthiness and repay on time — Credit score reflects reliability in repayment, not wealth or income.

3. B) Drop your score 100+ points and harm your creditworthiness temporarily — One miss hurts but doesn't permanently destroy credit if you recover; damage lessens over time.

4. B) To assess risk of loan default and set appropriate interest rates — Creditworthiness helps lenders decide if you'll repay and at what rate/terms.

5. Bank's assessment factors: 1. Credit score (300–850 range) 2. Credit history (do you pay on time?) 3. Debt-to-income ratio (how much you already owe) 4. Employment stability Conclusion: If creditworthiness is high → low interest rate; if low → denied or high rate.

6. Month 1–3: Make small purchases, pay in full each month Month 4–6: Gradually use more (30% of limit), still pay on time Month 6–12: Payment history improves, credit score rises Result: Lenders now trust you more; you qualify for better cards/loans

7. Late payment reported to credit bureaus Credit score drops 100+ points Creditworthiness declines sharply Effect: Higher interest rates, loan denials, or deposit holds required

8. Money borrowed from a lender with a promise to repay it, usually with interest.

9. Your reputation for repaying borrowed money on time; measures how trustworthy you are to lenders.

10. Payment history, credit score, debt levels, income, length of credit history, and recent credit inquiries.