What is Credit Scoring?

Worksheet

A credit score is a three-digit rating (300–850) that measures creditworthiness based on five factors: payment history (35%), debt utilization (30%), credit age (15%), inquiry history (10%), and credit mix (10%). Higher scores qualify you for better interest rates.

Questions

1. Which factor has the most weight in a credit score?
A) Debt level (30%)
B) Payment history (35%)
C) Credit age (15%)
D) Credit mix (10%)

2. What credit score range is considered 'good'?
A) 300–499
B) 500–669
C) 670–739
D) 740–850

3. How long do hard inquiries hurt your credit?
A) Permanently
B) 12 months
C) 3 months
D) They don't; only soft inquiries hurt

4. What is credit utilization?
A) How many credit cards you own
B) How long you've had credit accounts
C) The percentage of your credit limit you use
D) The number of late payments

5. Alex starts with no credit history (no score). Over 2 years, Alex makes all on-time payments and keeps debt low. Alex's score grows from 580 to 720. What changed?

6. Blake has a 750 score. Blake misses two credit card payments. What is the likely impact?

7. Casey has a 680 score and 15,000 in credit card debt across three cards with20,000 total limits. Casey pays off $10,000. What happens to the score?

8. Define: What are the five factors in a credit score?

9. Define: What does 300–850 mean?

10. Define: How long does a late payment hurt your credit?

Answer Key

1. B) Payment history (35%) — Payment history is 35% of the score — the single most important factor.

2. C) 670–739 — 670–739 is generally 'good'; 740+ is 'excellent' and unlocks best rates.

3. B) 12 months — Hard inquiries stay on your report for 12 months and lower your score slightly.

4. C) The percentage of your credit limit you use — Using 30% of your limit is ideal. Higher usage (>70%) signals higher risk.

5. Payment history improved (36 months on-time payments) + credit age increased (24 months active accounts) + debt utilization stayed low (<30% of limits). Result: +140 points.

6. Payment history is weighted 35% and directly reflects missed payments. Each missed payment = −100 to −200 points. Blake's score likely drops to 600–650.

7. Debt utilization drops from 75% to 25%. Utilization is weighted 30%. Casey's score likely rises by 50–100 points to 730–780.

8. Payment history (35%), debt utilization (30%), credit age (15%), inquiries (10%), and credit mix (10%).

9. 300 is poor credit; 850 is perfect credit. Most lenders prefer scores above 670.

10. Seven years from the date of the missed payment; impact weakens after 2–3 years.