



Module 3

Session 6

Credit Scores



Lesson summary

Managing a credit score is a key part of building your financial health in adult life. In this session we demystify credit reports, looking at how and why they work.



Learning Objectives

- To be able to talk about the importance of a credit score in supporting your financial goals.
- To be able to discuss steps you can take to protect your credit score.
- To be able to understand the types of behaviour that can increase your risk in the eyes of credit score providers.

Lesson preparation

1. HSBC PowerPoint slides to facilitate lesson: Module 3 Session 6 Credit Scores
2. HSBC Worksheet M3W6 used to complete activity
3. HSBC Stretch Challenge M3SC6 to further embed learning as homework or a class project
4. Prepare examples where you have had to check your credit score prior to borrowing money
5. Prepare examples where you had taken steps to improve your credit score to work towards improving your financial health

Slide 2: What is a credit score? – 12 mins



Ask the group: What is a credit score?

After group discussion click to reveal the answer:

A credit score, also known as a credit rating, is a number that reflects the likelihood of you paying credit back. Lenders like banks and credit card companies will look at your credit history when they calculate your credit score, which will show them the level of risk in lending to you. Your credit report is the information that is used to calculate your credit score.



Group work: What information is in a credit score?

Worksheet M3W6: Identify which of the 10 types of personal information appear or don't appear on a credit search. Once they are agreed on their lists, ask the group to give the reasons why they have made those decisions.

CLICK to reveal answers:

Appears

1. **Financial associates** – Who you have joint financial accounts and debts with
2. **Public records** – Criminal records, for example if you've been taken to court for not paying debts, bankruptcy
3. **Financial credit agreements** – The credit agreements you have agreed to pay
4. **Missed or late payments** – A record is kept every time you are late or decline to pay a bill or debt
5. **Address details** – Your current residence which should match the address on your bank account

Doesn't Appear

6. **Employment** – Credit score providers don't look at your employment so they can avoid any biases
7. **Savings** – They are only looking at your track record of paying back your debts and bills. You could have a £1 million in the bank but it isn't going to cancel out the history of your financial behaviours
8. **Medical record / ethnicity / religion** – This is deemed sensitive information. Credit score providers don't hold this information so it can't be used to influence decisions. Your credit score is just based on your financial behaviours

Slide 3: Why should I care about my credit score? – 5 mins



Ask the group: Why should I care about my credit score?

After classroom discussion CLICK to reveal each answer:

- 1. A good score can help you get approved for credit**, while a bad score can stop you getting approved. Gym memberships and phone contracts are also types of credit agreements. Companies like these may also run a credit check before deciding to offer you their products or services
- 2. A good credit score can lower the cost of borrowing money** as you can access the most competitive interest rates. A poor credit score can increase the cost of borrowing money as you end up with a higher interest rate or it could mean you can only borrow some of what you need
- 3. Potential employers** are unable to see your full credit score when you apply for a job (as it contains personal information). But they **can see a modified credit report**, with your consent. If you have a poor credit score, you may be seen as a high-risk, especially if the role involves managing money
- 4. It can affect your ability to rent or own a home.** If renting, the landlord may check your credit history as part of their screening process as they need to trust you are going to pay your rent on time. If looking to buy, a poor credit score means you are too much of a risk to accept your mortgage application. You may need to pay off any large amounts of debt before submitting the mortgage application
- 5. If there are unexplained items on your credit score it could be a sign that a fraudster is using your information to apply for credit** – new mobile phones, credit cards etc. Keeping track of your credit score can help you stay on top of this as well as protecting your score

Slide 4: How to start building a credit history? – 4 mins



Ask the group: How do you start a relationship with a bank?

After classroom discussion CLICK to reveal each answer:

- 1. Open and manage a bank account** – Setting up and using a UK current account will help build your credit history if you run it responsibly because it will demonstrate that you can have a responsible, ongoing relationship with a bank
- 2. Set up Direct Debits** – Always make sure you have enough money in your bank account to cover any bills being paid by Direct Debit. It's useful to set up Direct Debit payments for regular bills such as your gas and electricity or your home insurance or mobile phone. Not only will this help you to avoid missed payments, sometimes you can also get a discount for paying by Direct Debit
- 3. Don't miss payments if possible** – Make sure you pay all your bills on time, as a missed or late payment will count against you. If the company that you owe money to takes you to court, then a county court judgment (or decree in Scotland) will greatly affect your ability to get credit and it will remain on your file for six years

Slide 5: What damages your credit score – 5 mins



Group work: Discuss what damages your credit score?

After classroom discussion CLICK to reveal each answer.

Follow up and question why they think each answer can impact the credit score.

- 1. Missing or late payments** – Show that you are a high-risk customer, and that future borrowing may not be paid back on time or at all
- 2. Withdrawing cash on a credit card:** Suggests that you aren't managing your money well and are having to borrow for day-to-day spending
- 3. Applying for credit too often:** Having too much credit can suggest that you are stretched beyond your means. For example, having a lot of credit cards even if you don't use them all
- 4. Incorrect information:** If the information you provide in your application isn't accurate it may result in the credit check failing and needing to be resubmitted. It could also be a sign you are trying to be dishonest about your financial situation
- 5. Going over your agreed limit:** If you are regularly close to or going over your agreed spending limit this will be further evidence you are not managing your finances well
- 6. Joint account with someone with poor credit:** When you are applying for any financial product in joint names, both credit scores will be considered. You are both held responsible for any mismanagement of the joint account

Slide 6: How to protect your credit score – 3 mins

How to protect your credit score. Summarise the bullet points, drawing reference to classroom discussion from previous slide.

Register to vote

If you're not on the electoral roll, it's much harder to get accepted for credit, so sign up immediately. Don't wait for the annual reminder, you can apply at any time on Gov.uk.

Simply follow the instructions online – it'll ask you a series of questions aimed at identifying you, and the local electoral borough you need to register with. Note that you'll need your national insurance number to hand.

Use up to date personal information

It's important to give accurate personal information when applying for credit so that the lender does not think you have something to hide / can easily perform the checks needed.

Be careful who you are linked to financially

When you borrow with someone else they will become a 'financial associate'.

The most important thing to understand before you borrow with someone else is the impact this can have on your credit report. When you apply for credit, such as a loan or mortgage, with another person you become financially associated. This creates a financial link between you and that person.

The names of any financial associates you've had in the last six years, get marked on your credit report. You can check who you are financially associated to on your credit report. When lenders look at your credit report they will be able to see the names of anyone you are linked with, which can have a knock-on effect on you.

Your credit score is not affected by anyone you're linked to financially. Even if you have a financial association on your report, your score is calculated using only information about how you individually use credit. So if you're linked to someone with a low score, it won't bring yours down.

But if you want to apply for credit in your own name in the future, lenders will still be able to see any financial connections you have. Some lenders might take this information into account when making a decision about whether or not to lend to you. Even if your application has nothing to do with your financial connections. They may be concerned that the other person's borrowing behaviour could impact your personal ability to meet repayments.

Lesson commentary

There are a number of financial products which, if you take them out with someone else, can form a financial association:

- A joint mortgage
- A joint bank account with an overdraft
- Any type of loan you take out with someone else

Applying for credit with someone else can also mean you'll become financially linked with that person. Acting as a guarantor for another person can also create a financial connection.

What won't form a financial association?

- Being married to or living with someone
- A joint credit card. Even if there are multiple users, there is always just one main cardholder, who is the one responsible for paying off the debt (even if they aren't the one doing all the shopping)
- Having multiple names on a utility bill, unless the provider is sure you and whoever you live with are a couple (i.e. the bill states 'Mr and Mrs Smith')

A financial association isn't for life

Information on your credit report can remain there for up to six years. Any financial associations you've had in the past six years will remain on your credit report, even after a joint product has been closed down.

However, if you're no longer sharing any financial accounts with someone, you can ask for them to be removed from your credit report by contacting your credit reference agency.

Reviewing your credit score

It's a good idea to review your credit score before applying for any type of lending to check that it is as good as it can be and that it is accurate. Having credit declined won't directly impact or be recorded on your credit score but if you are approved, having a good credit score may improve the interest rate you are offered by the lender as you are seen as being lower risk.

What to do if you are a victim of fraud?

If you've been a victim of ID fraud, then it's important to see the full picture. This means getting hold of your credit report with Experian, Equifax and TransUnion.

Once you have this you can see if there are new searches or accounts you did not apply for. You can then contact the lenders directly, or pay for their identity protection service, where they will do this on your behalf.

Steps to rectify your credit report are as follows:

1. Disputing all fraudulent information with lenders
2. Discussing additional security options such as a credit report password
3. If you've recently been a victim of ID fraud, or are at a high risk, then adding a **notice of correction** password to your report might be a good idea. This is only recommended if you've been a victim or suffered a house burglary or robbery where important identification documents may have been stolen
4. Report your case to Action Fraud, the UK's national fraud and internet crime reporting centre. They'll advise on the steps you need to take and any other organisations you should contact

Slide 7: Preferential Rates and Deals – 5 mins

The higher your credit score, the better the chance you can borrow the amount you need from the bank at a competitive APR or gain access to special deals (providing you meet other lending criteria).



Ask the group: What do we mean by a headline rate?

CLICK to reveal the answer:

- Lenders don't have to give everyone the same APR
- At least 51% of people applying for the product will get the advertised APR
- You can sometimes ask for a soft credit search to see the indicative APR.
If you are happy with the result, you can then complete a full credit application to secure that borrowing



Ask the group: What is a 0% introductory offer?

CLICK to reveal the answer:

Credit cards can sometimes come with an introductory offer which will charge you 0% interest for a set period.

For Example:

- 0% on new purchases for 24 months
- 0% on balances transferred from another credit card for 18 months
- 0% on both purchases and balances for 12 months

If you can pay off everything you owe during the time, you won't incur any interest. If you have debts on a credit card, switching to a credit card with an 0% offer on balance transfers could help you avoid paying for additional interest, allowing you to pay off the debt.

But there are things that we should always consider when entering into either of these credit agreements.

CLICK to reveal considerations:

- You must always meet your minimum payment even if on a 0% offer
- If the interest rate is not fixed it could change during the life of the borrowing – it's important to pay attention to when your 0% interest rate ends and what interest rate you will pay after this
- If your interest rate is not fixed for the full term of the borrowing, your monthly repayments could increase
- If you are worried about repaying your borrowing, then please seek financial guidance

Slide 8: Buy Now – Pay Later – 8 mins



Ask the group: What do you think we mean by the term “buy now-pay later”?

CLICK to reveal answers:

- A BNPL provider pays for the item you would like to buy on your behalf on the condition that you pay them back over a set period of time
- BNPL is mostly available online but also instore for certain retailers
- BNPL will offer you a 0% interest contract that you pay off in 3-12 months. This means you don't pay anything extra to the BNPL company. This can help people pay off an item they need over a longer period of time when they are having cash flow issues. For example if you need to replace your washing machine
- Like all debts, if you miss your payment dates you will incur late payment fees and this could have an impact on your ability to borrow money in the future
- You will need to be responsible and plan your spend and use of these services as the amounts can quickly build up
- If you choose to use a BNPL option instead of a credit card, then you won't get the same consumer protection if there is an issue with the company or item
- Electronics, fashion, and appliances are the most popular items bought on a BNPL agreement



Ask the group: What do you think of BNPL? Are you for or against it as a product?

Ask the young people to share their views or vote.



Ask the group: If the BNPL companies aren't adding any interest to your purchase, why would they offer this service? What is in it for them if they don't charge interest?

CLICK to reveal answer:

- The BNPL provider gets paid by the retailer for each customer that signs up and uses the service on their website
- Research shows that stores that include a BNPL option see a 79% increase in completed purchases at the checkout
- Customers feel more able to afford items and subsequently are more likely to purchase. This is amazing for the sales figures of that store, but are they putting their customer at risk?



Ask the group: Could using BNPL create a culture where customers feel like they haven't spent anything?

Ask the young people to share their views or vote.



Ask the group: At present, most BNPL purchases don't involve a credit check or additional financial/affordability checks. What risks does this create for you as a customer?

CLICK to reveal answer:

- Enabling customers with poor financial habits to get into further debt
- Decreasing credit scores if payments aren't met
- Late payment fees can build up making the cost of borrowing more expensive than the original item

Slide 9: Gambling – 8 mins

Something that can negatively affect your financial health is gambling. It doesn't directly affect your credit score but if you get into financial difficulty as a result of gambling and are unable to pay your bills then it can have a negative impact.

Concerns have been raised that loot boxes and in app purchases are continuing to blur the line between video games and gambling for young people.



Ask the group: Do you feel that gaming and loot boxes make it more attractive to gamble once you are 18?

Gambling is seen as a high-risk behaviour so seeing evidence of this in your account could force the bank to increase the APR it is offering you.

The impact of gambling could leave your monthly budget short and make it easy for you to be late or miss paying your debts and other household bills.



Ask the group: Why do you think people may neglect their finances if they are addicted to gambling?



Ask the group: How would you feel if you were not able to rent a flat, get a job etc because of bad financial habits?

If you or someone you know is gambling there is support available now:

- Banks now have tools to help you freeze your card when you are feeling the need to gamble
- You can reach out to your bank or support agency if you are worried about your gambling spend
- Support for anyone you are worried about is also available from a number of charity groups:
 - StepChange
 - Debt Charity
 - Gamble Aware
 - TalkBanStop

Slide 10: Stretch Challenge

This can be used as you see fit for a homework, group project or additional lesson during school hours. Stretch Challenge worksheet M3SC6 provided to record answers.

CIFAS is the UK's leading fraud prevention service.

CIFAS can submit markers onto your credit score that can alert the bank that you have previously had your identity stolen and that they should complete extra checks. This is called the protective register.


CIFAS also maintains a list of known fraudsters and being on this list could stop you getting access to financial services for up to six years.

Complete further research on CIFAS:

- What is a CIFAS marker used for?
- Who do they help protect?
- What are the benefits of being on the protective register?
- What are the consequences of being on the fraud list?

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Stretch
Challenge:
CIFAS Marker

Complete further research on CIFAS

What is a CIFAS marker used for?

Who do they help protect?


Essex Year of
DIVERSITY

 HSBC UK

Name: _____

What are the benefits of being on the protective register?

What are the consequences of being on the fraud list?



M3SC6

Name: _____

Worksheet

Part 1

Print the required amount of worksheets. Young people can complete in groups or individually.

Worksheet 3.2 – Identify which of these ten types of personal information feature on your credit report. Once everyone has decided upon their list ask for reasons why they have made those decisions. Answers in lesson commentary.

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Worksheet:
Credit
Report

Your credit report is the information that is used to calculate your credit score.

What personal information do you think appears on your credit report?

- **Financial associates** – who you have joint financial accounts and debts with
- **Ethnicity**
- **Address details**
- **Religion**
- **Savings**
- **Medical record**
- **Missed or late payments**
- **Employment**
- **Public records** – criminal records, if you've been taken to court for not paying debts, bankruptcy
- **Financial credit agreements**

Appears on credit report

Doesn't appear on credit report

Essex Year of
NUMBERS

 HSBC UK

Name: _____