

Credit scores and borrowing wisely

How lenders decide, and how to compare the real cost of a loan

Answers and teaching notes

For the teacher

- **Aim:** Pupils understand what a credit report shows, what builds or damages a credit record, how to compare loans by APR and total repayable, and how to recognise an illegal lender.
- **Curriculum links:** Financial Education Planning Framework, ages 14 to 16: managing risks and emotions (credit rating, loan sharks) and becoming a critical consumer (APR, comparing products, planned borrowing). Maths: percentages, interest and multi-step calculation. Citizenship: credit and debt. PSHE: economic wellbeing.
- **Watch first:** the Penny Explains video “Credit scores” at pennyexplains.com.
- **Starter:** Ask: if a stranger asked to borrow £100 from you, what would you want to know first? List the ideas. A credit report answers the same questions for a lender.
- **Support:** Allow calculators for activity 4 and work through Loan A together: £93.62 × 36, then subtract the £3,000 borrowed.
- **Stretch:** If Jordan borrowed £2,000 on Loan A's terms instead, the interest would be about two thirds of £370. What would he gain or lose by saving up first?
- **Note:** monthly payments were calculated from the APR with interest added monthly. Score scales differ between agencies. You must be 18 to borrow.
- **Total:** 41 points. Suggested answers are shown in red; accept any answer that is well reasoned.

I can...

- ☐ I can explain what a credit report is and who keeps it.
- ☐ I can say what helps and what harms a credit score.
- ☐ I can compare loans using APR and the total amount repayable.

Key words

Credit report: a record of how you have managed borrowing and bills.

Credit score: a number that sums up your credit report. Each agency and lender works out its own.

Secured loan: tied to something you own, such as a home, which the lender can take if you do not repay. An unsecured loan is not.

Loan shark: an illegal lender, not authorised by the Financial Conduct Authority (FCA).

1 Credit report basics

4 points

Circle one letter for each question.

a) Which three companies are the UK's main credit reference agencies?

- A HMRC, the FCA and the Treasury
- **B Experian, Equifax and TransUnion**
- C Ofcom, Ofgem and Ofsted
- D NS&I, the DVLA and the Royal Mint

b) What is a credit report?

- **A** A record of how you handle credit ✓
- **B** A list of everything you buy
- **C** A statement of your bank balance
- **D** A bill sent to you by a lender

c) From what age can you take out a credit card or a loan in the UK?

- **A** 16
- **B** 17
- **C** 18 ✓
- **D** 21

d) Jordan is 18 and has never borrowed. Why might a lender turn him down?

- **A** He is too young to borrow legally
- **B** People with no debts cannot borrow
- **C** Lenders only lend to homeowners
- **D** He has very little credit history ✓

2 Help, hurt or no change?

9 points

What does each of these usually do to a credit score? Write each one in the right box.



Penny says: Pay and savings are not on your credit report, but a lender may still ask about them to check you can afford the loan.

Paying every bill on time · How much you have in savings · How much you earn · Registering to vote at your address · Checking your own credit report · Missing a repayment · Going over your credit limit · Applying for lots of credit in a few weeks · Using only a small part of your credit limit

Usually helps	Usually hurts	Does not change the score
Paying every bill on time	Missing a repayment	Checking your own credit report
Registering to vote at your address	Applying for lots of credit in a few weeks	How much you earn
Using only a small part of your credit limit	Going over your credit limit	How much you have in savings

3 Odd one out

4 points

Circle the odd one out in each row. Say why.

Experian · **HMRC** · Equifax · TransUnion

Why? HMRC collects tax. The others are credit reference agencies.

Personal loan · Credit card · **Mortgage** · Overdraft

Why? A mortgage is secured on a home. The others are usually unsecured.

4 Jordan compares three loans

12 points

Jordan, 18, needs **£3,000** for a used car to get to his new job. Three lenders make him an offer. Work out the **total repayable** (monthly payment × number of months) and the **total interest** (total repayable − £3,000). You may use a calculator.



Penny says: APR lets you compare the **rate**. Total repayable shows the **real cost**. Check both.

	Loan A	Loan B	Loan C
APR	8%	8%	20%
Length of loan	36 months	60 months	36 months
Monthly payment	£93.62	£60.43	£109.02
Total repayable	£3,370.32	£3,625.80	£3,924.72
Total interest	£370.32	£625.80	£924.72

a) Loans A and B have the same APR. Why does Loan B cost more in total? 2 marks

> It runs for two more years, so interest is charged for longer: £625.80 instead of £370.32 (£255.48 more).

b) Loans A and C last the same time. How much more interest does Loan C charge? 2 marks

> £554.40 (£924.72 − £370.32).

c) Which loan has the lowest monthly payment? Which costs the least overall? 2 marks

> Loan B has the lowest monthly payment (£60.43). Loan A costs the least overall (£3,370.32).

5 Fact or myth?

3 points

Circle True or False.

You have one single credit score that every lender uses. **Each agency and each lender works out its own score.**	True	**False**
Any business that lends money to the public must be authorised by the FCA.	**True**	False
The loan with the lowest monthly payment is always the cheapest overall. **A longer loan can have lower payments but cost more in total, like Loan B.**	True	**False**

6 Spot the loan shark

5 points

Before Jordan has chosen a loan, this message arrives from a number he does not know.



Penny says: Loan sharks break the law. Borrowers do not. Citizens Advice gives free help.

Unknown number · 07700 900143

Hi Jordan, heard u need cash for a car. I can lend u **£3,000 TODAY**. No credit check, no forms, no questions.

Just pay me **£150 every week** till I say we're square. Cash only.

I'll hold on to ur bank card till then. Keep this between us yeah? U wouldn't want trouble at home.

Write 5 warning signs that this is an illegal lender.

1. No credit check, so no check that he can afford it
2. No forms: nothing in writing
3. Cash only, with no end date or total cost
4. Wants to keep his bank card as "security"
5. Secrecy and a hidden threat

7 What would you do?

4 points

Read the story, then answer the questions.



After rent and bills, Jordan has about **£160 a month** spare. Loan A would cost £93.62 a month. His friend says: **"Take Loan B, it's only £60 a month. Or wait six months and save a bigger deposit, so you borrow less."**

a) Which option would you choose in Jordan's place, and why? Use at least one number from activity 4. 4 marks

> No single right answer. Loan A is cheapest overall (£370.32 interest) and leaves about £66 of his £160. Loan B leaves about £100 a month but costs £255.48 more. Waiting means borrowing less, but he needs the car for work now. Reward a clear reason backed by a figure.

8 Before you go

One thing I learned today

One question I still have

How sure do I feel?

Not yet | Getting there | Got it

Take it home



From the age of 18 you can check your own credit report for free. Talk with someone at home about one habit that builds a good record, such as paying a phone bill on time every month.

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