



Consumer Federation of America



WaMu

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Streaming audio for this event is available at:

<mms://www.hastingsgroupmedia.com/CFA/071907CFAWaMucreditscore.wma>

CONSUMER UNDERSTANDING OF CREDIT SCORES REMAINS POOR

Consumers Could Save Over \$20 Billion a Year in Lower Credit Card Finance Charges If They Improved Credit Scores by 30 Points

Washington, DC -- Although credit scores have become an increasingly powerful force in the financial lives of Americans, their understanding of these scores is poor and has not improved, according to the latest credit score survey commissioned by the Consumer Federation of America (CFA) and Washington Mutual (WaMu).

"Consumers who have obtained their credit scores know more than those who have not," said CFA Executive Director Stephen Brobeck. "But overall, consumer understanding of credit scores is poor and has not improved over the past two years," he added.

"By taking simple steps to improve their credit scores, consumers can reduce their credit costs, and the costs of other services, by tens of billions of dollars annually," said Anthony Vuoto, president, WaMu Card Services. "In fact, just by raising their scores by an average of 30 points, they would save a total of over \$20 billion on lower credit card charges," he added.

Consumers can raise their credit scores a variety of ways, including:

- Paying their bills consistently and on time.
- Not maxing-out their credit cards or other "revolving credit."
- Paying off debt rather than just moving it around, and not opening many new accounts rapidly.
- Checking their credit reports, which are now free, to make sure they are error-free. Federal law requires the three main credit bureaus -- Experian, Equifax, and TransUnion -- to make available to consumers on request, at no charge, one credit report per year.

In August 2005 and in May 2007, Opinion Research Corporation (ORC) conducted extensive surveys of consumer use and knowledge of credit scores for CFA and WaMu¹. In both years, ORC surveyed more than 1000 representative adult Americans. The margin of error in these surveys is plus or minus three percentage points.

¹ In 2005, the survey was conducted for the CFA and Provident Financial, which WaMu purchased in 2006.

Nearly Three-Fifths of Consumers Have Obtained Their Credit Scores

From 2005 to 2007, the percentage of consumers who have obtained their scores rose from 54 to 59. But of those who have obtained their scores, the percentage who did so in the past two years fell from 75 to 72.

From 2005 to 2007, the percentage who had obtained their credit scores from a credit bureau or reporting agency declined from 36 to 33. But the percentage who had obtained their scores from mortgage or consumer lenders stayed essentially the same -- 38 vs. 37.

In 2007, less than half of consumers (47%) consider their own knowledge of credit scores to be good or excellent, and this percentage has increased by only one point over the past two years. In both years, half of consumers (50%) considered this knowledge to be fair or poor. But far more consumers who had obtained their scores considered themselves to be knowledgeable (61%) than those who had not (26%).

"Consumers who have obtained their scores know more than those who have not, but they are not as knowledgeable as they think," noted Brobeck.

Consumer Knowledge of Credit Scores is Poor

The poor understanding of credit scores by consumers, responding to multiple choice questions which could be correctly guessed, has not improved over the past two years.

- Knowledge of the meaning of a credit score -- that it indicates risk of not repaying a loan -- rose only from 27% to 29%
- Knowledge that Experian, Equifax, and TransUnion are the three national credit bureaus rose only from 45% to 47%.
- Only 24% now know that the lowest score likely to qualify one for a low-cost mortgage was 700, a question not asked in 2005.
- The percentage of those who know that consumers have more than one score fell from 47 to 45.
- The percentage who incorrectly believe that scores are influenced by income rose from 69% to 74%, by age from 38% to 41%, and by education from 25% to 32%. In addition, many incorrectly believe that the state where they reside (34%) and their ethnicity (19% overall, 35% for African American respondents) also influences one's credit score.
- The percentage who correctly believe that their scores increase if they pay off a large credit card balance fell from 65 to 62. And the percentage who correctly believe that their scores decline if they make a credit card payment 30 days late fell from 74 to 71.
- The percentage who correctly believe that non-credit service providers use credit scores increased little if at all -- for cell phone companies 58% to 58%, for home insurers 57% to 57%, for landlords 54% to 55%, and for electric utilities 34% to 37%.

- The percentage who incorrectly believe that credit scores can be obtained for free once a year rose from 76 to 80. Fortunately, the percentages who correctly understand that these scores are free if they are denied credit also rose -- from 68 to 73 for mortgage credit, and from 64 to 69 for revolving credit.

"Unfortunately, many consumers do not understand the most important facts about credit scores," said Brobeck.

Consumers Who Have Obtained Their Scores Know More Than Those Who Have Not

Many consumers who have obtained their credit scores think they know more about these scores than they in fact do, but they do know more than those who have not obtained them, as the following examples suggest.

- More are likely to understand that credit scores indicate the risk of nonpayment (33% to 24%).
- More are likely to understand that Experian, Equifax, and TransUnion are the three major credit bureaus (61% to 26%).
- More are likely to understand that 700 is the lowest score likely to qualify one for a low-cost mortgage (32% to 14%).
- More understand the factors influencing scores and not influencing scores -- e.g., age (37% to 47%).
- More understand how to raise scores -- e.g., paying off a large credit card balance (66% to 57%) - and how to lower them -- e.g., making a credit card payment 30 days late (78% to 62%).
- More understand how many service providers use credit scores -- not just mortgage lenders (95% to 84%) and credit card issuers (91% to 79%) but also cell-phone companies (62% to 54%) and landlords (60% to 49%).

"One of the great benefits of consumers learning their credit scores is that, in the process, they also learn more about how to control these scores," noted Vuoto.

Consumer Lack of Understanding of Credit Scores is Costly

Many consumers do not understand how costly lower credit scores are. For this report, WaMu used industry data to estimate the impacts of higher credit scores on consumer costs. WaMu – using data supplied by Argus Information and Advisory Services -- estimated that consumers with an average score would reduce card finance charges by \$76 annually if they raised their score by 30 points. If all consumers raised their scores by 30 points, total consumer savings would exceed \$20 billion.

Fair Isaac's website (www.myfico.com) reveals how raising credit scores lowers the costs of other types of loans.

- Raising one's credit score from 580-619 to 660-699 on a 30-year fixed mortgage for \$300,000 would reduce one's annual interest expenses by \$5,148.
- Raising one's credit score from 620-639 to 670-699 on a 15-year home equity loan for \$50,000 would reduce one's annual interest expenses by \$1,044.
- Raising one credit score from 590-619 to 660-689 on a 36-month auto loan for \$25,000 would reduce one's annual interest expenses by \$708.

"Raising one's credit scores will not only reduce credit costs significantly but also make it easier to obtain services such as insurance, or cell-phone service," added Brobeck.

What Consumers Should Know About Credit Scores

CFA and WaMu believe that all consumers should know important facts about credit scores:

- Scores reflect only one's own past credit history, not personal characteristics such as age and gender or level of income. Over time, consumers have the ability to control these scores.
- Low scores could not only cost you up to thousands of dollars a year in additional finance charges, but can also deny you access to credit, insurance, telephone service, a rental unit, and even a job.
- Consumers with scores below 600 are typically charged relatively high "subprime" loan rates, while those with scores above 700 are usually charged relatively low "prime" rates, and those with scores above 760 generally are charged the lowest rates.
- Consumers can purchase credit scores (credit reports are free) from all three credit bureaus for \$47.85 by contacting Fair Isaac (myFICO.com), or individual reports and scores from the three bureaus -- TransUnion (www.transunion.com), Experian (www.experian.com), Equifax (www.equifax.com) -- for as little as \$15. Consumers can receive a TransUnion-derived credit score monthly for free if they hold a WaMu credit card. And mortgage applicants can obtain their scores for free from the lender.

CFA is a non-profit association of some 300 consumer groups which seeks to advance the consumer interest through research, education, and advocacy.

WaMu, through its subsidiaries, is one of the nation's leading consumer and small business banks. At June 30, 2007, WaMu and its subsidiaries had assets of \$312.22 billion. The company has a history dating back to 1889 and its subsidiary banks currently operate approximately 2,700 consumer and small business banking stores throughout the nation. WaMu's press releases are available at <http://newsroom.wamu.com>.

CONSUMER CREDIT SCORE SURVEYS

	8-05	5-07
Obtained credit score		
Ever obtained	54%	59%
If obtained, in past 2 years	75	72
And from whom		
Mortgage lender or broker	28	28
Consumer lender	10	9
Credit bureau or reporting agency	36	33
Perceived knowledge of credit scores		
Excellent or good	46	47
Fair or poor	50	50
Knowledge of credit scores		
Know that:		
Score indicates risk of nonpayment	27	29
Married couples don't have combined score	44	57
Consumers have more than one score	47	45
Lowest score qualifying one for low-cost mortgage is 700	NA	24
Know demographic factors influencing score		
Overtime loan payments	93	94
Maxed out credit line	77	80
Mistakenly think factors influence score		
Income	69	74
Age	38	41
Education	25	32
State of residence	NA	34
Race	NA	19
Know credit card use factors influencing score		
Score higher if pay off large balance	65	62
Score lower if make late payment	74	71
Score lower if max out credit line	54	56
Know which service providers use scores		
Mortgage lender	91	90
Credit card lender	86	86
Cell phone company	58	58
Home insurer	57	57
Landlord	54	55
Electric utility	34	37

Know about availability of scores		
Mistakenly think free once a year	76	80
Correctly think free if denied a:		
Mortgage loan	68	73
Credit card	64	69

PRESS NOTE: A streaming audio replay of the news event will be available at <mms://www.hastingsgroupmedia.com/CFA/071907CFAWaMucreditscore.wma> as of 11:30 a.m. EDT on July 19, 2007.