



Consumer Federation of America

Providian®

**For Immediate Release**

Tuesday, September 20, 2005

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Streaming audio for this event is available at:

<mms://www.hastingsgroupmedia.com/CFA/092005creditscore.wma>

**CONSUMER UNDERSTANDING OF AND ACCESS TO CREDIT SCORES  
IMPROVES OVER PAST YEAR BUT STILL INSUFFICIENT,  
ANNUAL SURVEY FINDS**

***Consumers Could Save \$16 Billion a Year in Lower Credit Card Finance Charges  
If They Improved Credit Scores by an Average of 30 Points***

Washington, DC -- Consumer understanding of and access to credit scores improved over the past year but still is insufficient, according to the second annual consumer credit score survey commissioned by the Consumer Federation of America (CFA) and Providian Financial.

"In the past year, consumer understanding of these scores has improved, in part because many consumers have obtained their scores," said CFA Executive Director Stephen Brobeck. "Unfortunately, most consumers still do not know basic facts about credit scores and their financial significance," he added.

Now that a wide range of businesses, not just creditors, use credit scores in product pricing and availability, the costs of low scores, and savings from high scores, can be considerable. "If consumers were to raise their credit scores by only 30 points, on average, they would save \$16 billion on lower credit card finance charges alone," said J. Christopher Lewis, Providian's Chief Public Policy Officer.

Consumers can raise their credit scores by:

- 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 now requires the three main credit bureaus to make available on

request, at no charge, an annual credit report to consumers.

### Consumer Knowledge of Their Own Credit Scores Increases

In late July 2004 and in early August 2005, Opinion Research Corporation (ORC) conducted extensive surveys of consumer access to and knowledge of credit scores for CFA and Providian. In both 2004 and 2005, ORC surveyed more than 1000 representative adult Americans. The margin of error in these surveys was plus or minus three percentage points.

In 2005, 31% of those surveyed said they had obtained their credit scores in the past year. In 2004, only 24% said they had obtained their scores in the past year.

Over the past year there was a significant change in where consumers obtained their scores. From 2004 to 2005, the percentage getting their scores from credit bureaus increased from 28% to 36%. In contrast, those obtaining their scores from mortgage lenders or brokers fell from 35% to 28%.

### Consumer Understanding of Credit Scores Improves

The increasing number of consumers who learn their scores appears to help account for rising consumer understanding of these scores. "Those who have obtained their scores know significantly more about credit scores than those who have not," noted CFA's Brobeck.

In the past year, there was significant improvement in consumer understanding of what influences credit scores and who uses them.

- The proportion of consumers who understand that making payments on time influences credit scores rose from 87% in 2004 to 93% in 2005. Similarly, the proportion who know that maxing out a credit card influences scores increased from 66% to 77%.
- The proportion who understand that various lenders and other service providers use credit scores to price and make products available increased -- from 81% to 91% for mortgage lenders, from 77% to 86% for credit card lenders, from 50% to 58% for cell phone companies, and from 47% to 57% for home insurers.

### But Most Consumers Still Lack Essential Knowledge About Credit Scores

Most importantly, more than three-quarters of consumers (76%) mistakenly believe that they have the right to obtain their credit score for free once a year. "Clearly many consumers think that their right to a free credit report extends to credit scores as well," said Providian's Lewis. "Unless consumers apply for a mortgage loan or obtain our credit card, they must purchase their scores for a small fee," he added.

Consumers also are confused about other characteristics of credit scores.

- Only 27% understand that scores measure credit risk, not credit knowledge, amount, or attitude. And less than half (47%) understand that individuals have more than one score -- one from each of three major credit bureaus and other scores as well.
- Only 54% understand that maxing out a credit card will lower one's credit scores. And only 20% know that just making minimum payments on credit cards will lower one's scores.
- Less than one-quarter (23%) know the identity of the three major credit bureaus.

### Low-Income and Least Educated Least Likely to Understand Credit Scores and Know Their Own Scores

In analyzing differences among various demographic groups -- defined by gender, age, ethnicity, and region among other factors -- income and education stand out as the two factors that are associated with differences in understanding of credit scores and knowledge of one's own scores.

For example, nearly two-thirds of college grads (64%), but only 27% of those without a high school degree, have obtained their credit scores. Similarly, more than two-thirds of those with incomes at least \$75,000 (71%), but only two-fifths of those with incomes below \$25,000 (40%), have obtained their scores.

Furthermore, least educated and lowest-income Americans are far less likely, than most educated and highest-income persons, to understand what a credit score means, what factors influence them, and what institutions use them. For instance, only 56% of the least educated and 64% of the lowest-income know that a late credit card payment would lower one's credit scores. By comparison, 84% of the most educated and 82% of the highest-income understand this reality.

### Consumer Lack of Knowledge of Credit Scores is Extremely Costly

Many consumers do not understand how costly lower credit scores are. In the mortgage area, according to Fair Isaac's website, on a \$150,000, 30-year, fixed-rate mortgage, consumers with credit scores over 760 will be charged a 5.42% rate with monthly payments of \$844, while consumers with credit scores below 620 will be charged a 7.0% rate with monthly payments of \$998 (if in fact they are able to qualify for the loan) – an annual difference of \$1,848.

For this report, Providian used industry data to estimate the impacts of higher credit scores on consumer costs. Providian 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 equal \$16.4 billion.

### Consumers Need to Know Critical Facts About Credit Scores

CFA and Providian 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 also deny you access to credit, insurance, electric and 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 are charged the lowest rates.
- Consumers can purchase credit scores (credit reports are free) from all three credit bureaus for \$44.85 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 \$14.50. One can receive a TransUnion-derived credit score monthly for free if one holds a Providian credit card. Mortgage applicants can obtain their score for free from the lender.

To help consumers better understand credit scores, CFA and Providian are making available a Web-based quiz, "Do You Know the Score on Credit Scores?," at <http://www.consumerfed.org/score> that tests the credit-score knowledge of consumers, providing key facts whenever incorrect answers are entered.

CFA is a non-profit association of some 300 consumer groups which seeks to advance the consumer interest through research, education, and advocacy. Providian Financial is a leading provider of credit cards to mainstream American consumers throughout the United States.