



Consumer Federation of America

FOR IMMEDIATE RELEASE

Contact: Jack Gillis, 202-737-0766

May 14, 2012

SECOND ANNUAL SURVEY OF CONSUMER KNOWLEDGE ABOUT CREDIT SCORES REVEALS CONSIDERABLE IMPROVEMENT BUT ALSO COSTLY MISUNDERSTANDINGS

*Updated CreditScoreQuiz.org Provides Important Information Consumers
Need to Know About Credit Scoring*

Washington, DC -- Over the past year, consumer knowledge about credit scores improved significantly, including awareness of who collects information on which most scores are based, the importance of checking this information, what good scores are, how to raise them, and what service providers use these scores.

But most consumers still do not know how costly low scores can be, when multiple inquiries hurt their scores, and the risks of purchasing credit repair services, according to findings of the second annual consumer knowledge about credit scores released today by the Consumer Federation of America (CFA) and VantageScore Solutions. To better inform consumers, CFA and VantageScore will continue to inform consumers and financial educators about the updated credit score quiz -- www.CreditScoreQuiz.org and www.CreditScoreQuiz.org/Espanol

"In the numerous consumer knowledge surveys we have undertaken over the past several decades, I have never seen such improvement from one year to the next," said Stephen Brobeck, CFA's Executive Director. "However, credit reports and scores are so important to consumers that they should try to improve knowledge that remains deficient in several key areas," he added.

"While we are obviously delighted at the improvement of consumer knowledge about credit scoring, we remain committed to ensuring our educational resources will keep pace with the surging demand for credit-related education by consumers, including and especially underserved groups," said Barrett Burns, President and CEO of VantageScore Solutions. "The information in both the English and Spanish versions of CreditScoreQuiz.org is fresh and we will respond quickly to industry changes."

The CFA-VantageScore survey was administered to a representative sample of over 1000 adult Americans by phone in late April 2012 by ORC International. The margin of error is plus or minus three percentage points. A CFA-VantageScore survey

containing many of the same questions was administered by ORC International in January 2011.

More than two-fifths of respondents (42%) said they had obtained or received at least one of their credit scores in the past year. Nearly half of this group said their source was a consumer or mortgage lender (45%) and/or a website using credit reports at the three main credit bureaus (49%). On almost all questions, those who had recently obtained a score or scores were more likely, than those who had not, to know the correct answers.

Consumers Know More about Credit Scores Than They Did a Year Ago

Consumers know more about credit scores today than they did in January 2011. On a wide range of questions, a higher percentage of respondents gave correct answers, for example: which service providers use scores (up 8 percentage points), who collects information on which credit scores are based (up 7 points), the fact consumers have more than one score (up 7 points), what is a good score (up 4 points), ways to raise one's score (up 5 points), and the importance of checking the accuracy of credit reports (up 9 points).

A large majority of consumers now know many of the most important facts about credit scores, for example:

- Mortgage lenders and credit card issuers use credit scores (94% and 90% correct respectively).
- Many other service providers also use these scores -- landlords, home insurers, and cell phone companies (73%, 71%, and 66% correct respectively).
- Missed payments, personal bankruptcy, and high credit card balances influence scores (94%, 90%, and 89% correct respectively).
- The three main credit bureaus -- Experian, Equifax, and TransUnion -- collect the information on which credit scores are frequently based (75% correct).
- Consumers have more than one generic score (78% correct).
- Making all loan payments on time, keeping credit card balances under 25% of credit limits, and not opening several credit card accounts at the same time help raise a low score or maintain a high one (97%, 85%, and 83% correct respectively).
- It is very important for consumers to check the accuracy of their credit reports at the three main credit bureaus (82% correct).

Somewhat surprising was the fact that most consumers understand new, and fairly complicated, consumer protections regarding credit score disclosures. When asked when lenders who use generic credit scores are required to inform borrowers of these scores, large majorities correctly identified three key conditions -- after a consumer applies for a mortgage (80% correct), whenever a consumer is turned down for a loan (79% correct), and on all consumer loans when a consumer does not receive the best terms including the lowest interest rate available (70% correct).

"Increases in consumer knowledge probably reflect in part the increased public attention given to credit scores because of the new protections," noted CFA's Brobeck. "The improvements may also be related to increased efforts of financial educators, including our creditscorequiz.org, to inform consumers about credit reports and scores," he added.

But Serious Consumer Misunderstandings Remain

Despite recent improvements in their knowledge about credit reports and scores, most consumers still lack important knowledge.

- Few know how costly low scores can be. Only 29 percent are aware that, on a \$20,000, 60-month auto loan, a borrower with a low credit score is likely to pay at least \$5000 more than a borrower with a high credit score.
- Fewer than half (44%) understand that a credit score typically measures risk of not repaying loans rather than amount of debt (22%), financial resources (21%), or other factors.
- Over half still think, incorrectly, that a person's age (56%) and marital status (54%) are factors used to calculate credit scores, and 21 percent incorrectly believe that ethnic origin is a factor.
- Very few understand when one's credit score is potentially harmed by multiple inquiries while getting a loan. Only 9 percent correctly know that multiple inquiries during a 1-2 week window will not lower FICO scores or VantageScore credit scores. But 34 percent incorrectly believe that each inquiry lowers one's scores.
- Over half (51%) incorrectly believe that credit repair companies are "always" or "usually" helpful in correcting credit report errors and improving scores. Experts agree that credit repair companies often overpromise, charge high prices, and perform services that consumers could do themselves.

Credit reports and credit scores tend to be most influential in the lives of 18-35 year-olds because they usually have fewer financial resources and are more likely to use credit. So it is encouraging that, in general, these young adults know more than older ones about credit reports and scores. That was the case on questions ranging from the cost of a low score to how to raise one's score to the importance of checking the accuracy of credit reports.

Still, on many questions -- such as the cost of a low score answered correctly by only 36 percent -- young adults still have much to learn. On a question about how student loans influence one's credit scores, only 58 percent correctly identified three factors that affect these scores.

What Consumers Can Do to Raise Their Credit Scores

Consumers can raise their credit scores in many ways, especially by:

- Consistently paying their bills on time every month.

- Not maxing out, or even coming close to maxing out, their credit cards or other revolving credit accounts.
- Paying down debt rather than just moving it around, as well as not opening many new accounts rapidly.
- Regularly checking their credit reports, which can be obtained for free, to make sure they are error-free. You can access your reports for free through the website -- www.annualcreditreport.com -- or by calling 877-322-8228.

The Consumer Federation of America is a nonprofit association of nearly 300 consumer groups that was founded in 1968 to advance the consumer interest through research, advocacy, and education.