



**Consumer Federation of America**



**WaMu**

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<http://216.250.243.12/071008CFAWaMucreditscores.wma>

## **CONSUMER UNDERSTANDING OF CREDIT SCORES IMPROVES BUT REMAINS POOR**

### ***Consumers Could Save \$28 Billion a Year in Lower Credit Card Finance Charges If They Improved Credit Scores by 30 Points***

Washington, DC-- Although consumer understanding of credit scores has improved over the past year, it remains poor, according to the latest credit score survey commissioned by the Consumer Federation of America (CFA) and Washington Mutual Bank (WaMu). Less than one-third of Americans (31%), for example, understand that credit scores indicate risk of not repaying a loan, rather than factors like knowledge of, or attitude toward, consumer credit.

"Lack of consumer knowledge about credit scores not only increases the costs of their credit and insurance, but also reduces the availability of these and other services," said CFA Executive Director Stephen Brobeck.

However, learning about these scores and applying the knowledge can significantly raise them. "By taking a few simple steps, American consumers have the power to reduce their collective credit costs by billions of dollars annually," said Anthony Vuoto, president, Washington Mutual Card Services.

For this report, WaMu -- using data supplied by Argus Information and Advisory Services -- estimated that U. S. consumers could reduce card finance charges by \$105 annually if they raised their score by 30 points. If all consumers raised their scores by 30 points, total annual consumer savings would be an estimated \$28 billion.

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 off 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. Federal law requires the three main credit bureaus --

Experian, Equifax, and TransUnion -- to make available to consumers, upon request and at no charge, one credit report per year at [www.annualcreditreport.com](http://www.annualcreditreport.com).

In August 2005, May 2007, and June 2008, Opinion Research Corporation (ORC) conducted extensive surveys of consumer knowledge of credit scores for CFA and WaMu. In all three years, ORC surveyed more than 1,000 representative adult Americans. The margin of error in these surveys is plus or minus three percentage points.

### **Consumer Understanding of Credit Scores Improves**

Comparing responses in the 2005 and 2007 surveys found little improvement in consumer understanding of credit scores. But, comparing responses in the 2007 and 2008 surveys revealed that an increasing percentage of Americans understand several important facts about credit scores.

- Twenty-eight percent, up from 24% in 2007, knew that 700 was the approximate lowest credit score that would qualify one for a low-rate mortgage; and only 19%, compared to 26% in 2007, selected 400 or 500 as the score (incorrect) qualifying for a low-rate mortgage.
- Credit scores would rise if one paid off a large credit card balance -- up from 62% to 67% -- and would fall if one made a monthly credit card payment more than 30 days late -- up from 71% to 78%.
- The fact that insurers often use credit scores -- up from 58% to 64%, -- and that landlords often use these scores -- up from 55% to 59% -- in deciding whether one can buy a service or rent housing and at what price.
- From a list including Experian, Equifax, and TransUnion, the percentage of respondents recognizing that Tenneco is not a credit bureau -- up from 47% to 54%.

### **But This Understanding Remains Poor**

Few consumers understand what a credit score actually represents. Only 31% correctly identified the answer "risk of not repaying the loan" in a multiple choice question that also included "financial resources to pay back loans" (21%), "amount of consumer debt" (16%), "knowledge of consumer credit" (15%), and "attitude toward consumer credit" (9%) as other options. And, as noted above, less than one-third (28%) knew the lowest score (700) that might qualify for a low-rate mortgage.

Many Americans fail to understand that one's credit score reflects only how they use credit, not factors such as income and age. Significant percentages erroneously believe that credit scores are influenced by income (74%), age (40%), marital status (38%), the state in which they live (29%), level of education (29%), and ethnicity (15%).

While more than three-quarters (78%) correctly understand that making a monthly payment more than 30 days late lowers one's score, less than three-fifths (59%) know that maxing out a credit card by using the entire credit line also lowers scores.

Large majorities correctly understand that they can learn their credit scores if they are denied a mortgage loan (72%) or declined for a credit card (65%). But, an even larger majority, (79%), incorrectly believes that credit scores can be obtained for free once a year. (Only credit reports can be obtained annually for free.)

### **Those Who Have Obtained Their Scores Are Most Knowledgeable**

The improvement in consumer knowledge of some credit score issues may largely reflect the fact that more Americans have obtained their credit score in the past two years -- up in 2008 to 49% from 42% the year before. Those who obtain their scores know more about credit scores than those who have not. They are more likely to know, for example, that:

- Credit scores indicate the risk of nonpayment (34% vs. 27%);
- Tenneco is not a credit bureau (65% vs. 35%);
- 700 is the lowest score (approximately) that may qualify for a low-rate mortgage (35% vs. 16%);
- Maxing out a credit card lowers one's score (65% vs. 51%), but paying off a large credit card balance raises one's score (71% vs. 62%), and;
- The fact that many service providers use credit scores -- not just mortgage lenders (94% vs. 80%) and credit card issuers (89% vs. 76%), but also cell-phone companies (63% vs. 55%) and landlords (62% vs. 54%).

However, the gap between obtainers and non-obtainers, in terms of those who consider their knowledge of credit scores to be excellent or good, is far larger -- 67% vs. 26% -- than specific knowledge gaps. This is worrisome because knowledge levels for both are low, and those who think they know something, but don't, may make poorer decisions than those who know they don't know something.

### **The Most Important Information 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 past credit history, not personal characteristics, such as age, gender, or level of income. Over time, consumers have the ability to raise their scores.
- Low scores could not only cost individual consumers thousands of dollars a year in additional finance charges, but can also deny access to credit, insurance, telephone service, a rental unit, and even a job.

- Consumers with credit scores below 600 are almost always charged relatively high "subprime" loan rates, while those with scores above 700 are often charged relatively low "prime" rates, while those with scores above 760 are generally charged the lowest rates.

While consumers are entitled to one free credit report each year from each of the credit bureaus, those who want to more carefully or regularly monitor their credit score must pay a fee (starting at \$15). Contact Fair Isaac ([www.myFICO.com](http://www.myFICO.com)), or the three bureaus -- TransUnion ([www.transunion.com](http://www.transunion.com)), Experian ([www.experian.com](http://www.experian.com)) or Equifax ([www.equifax.com](http://www.equifax.com)). WaMu credit card and home equity line of credit customers can receive a TransUnion-derived credit score monthly for free online.

### **About Consumer Federation of America**

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

### **About Washington Mutual**

WaMu, through its subsidiaries, is one of the nation's leading consumer and small business banks. At March 31, 2008, WaMu and its subsidiaries had assets of \$319.67 billion. The company has a history dating back to 1889 and its subsidiary banks currently operate approximately 2,500 consumer and small business banking stores throughout the nation.