



Consumer Federation of America



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Streaming audio for this event is available at:

<mms://www.hastingsgroupmedia.com/cfa/092104creditscores.wma>

**MOST CONSUMERS DO NOT UNDERSTAND CREDIT SCORES  
ACCORDING TO A NEW COMPREHENSIVE SURVEY**

**Because of High Stakes, CFA and Providian Release Critical Facts  
Consumers Need to Know About Credit Scoring**

Washington, DC -- As companies and organizations increasingly utilize credit scores to evaluate individuals as prospective customers, employees or tenants, it is essential that consumers know their credit score, understand what it means, and learn how to raise it. But according to a new survey developed by the Consumer Federation of America (CFA) and Providian Financial, most Americans do not understand credit scores even when they think their knowledge of credit is good.

Most consumers do not understand what credit scores measure, what good and bad scores are, and how scores can be improved, according to the survey of 1027 representative adult Americans administered by the Opinion Research Corporation International for CFA and Providian in late July. A follow up survey will be conducted in 2005.

"Now that credit scores are increasingly used by utilities, insurers, and employers, as well as creditors, it is essential for consumers to learn their score and what it means," said CFA Executive Director Stephen Brobeck. "The cost of not knowing your score and its significance could be not only denial of credit but also difficulty obtaining needed services and even a job," he added.

Most consumers surveyed correctly understand that lenders use credit scores, but only a minority know that electric utilities (30%), home insurers (47%), and landlords (48%) often use credit scores to decide whether to sell a service and at what price. The survey's good news is that most consumers (59%) recognize that their knowledge of credit scores is poor or fair and, therefore, are more likely to seek this knowledge once they understand how important their credit scores are to their lives.

"Many consumers may not have taken the time to learn more about credit scores because they do not know how scores affect the availability and price of credit," said Providian Senior

Vice President Alan Elias.

For example, according to Fair Isaac's website, on a \$150,000, 30-year, fixed-rate mortgage, consumers with credit scores over 720 will be charged a 5.72% rate with monthly payments of \$872, while consumers with credit scores below 560 will be charged a 9.29% rate with monthly payments of \$1,238 (if in fact they are able to qualify for the loan) -- an annual difference of \$4,392.

### Survey Finds Most Consumers Do Not Understand Credit Scores

Most consumers do not understand the meaning of credit scores, their importance, how to obtain them, and how to improve them, according to the CFA/Providian survey (with a margin of error of plus or minus three percentage points).

- Only about one-third (34%) correctly understand that credit scores indicate the risk of not repaying a loan, not factors like financial resources to pay back loans or knowledge of consumer credit. This low percentage appears to reflect the misconception that credit scores evaluate factors like income (65%), age (38%), and marital status (37%) rather than one's credit history. "Only the record of their past use of credit determines the credit scores of consumers," said CFA's Brobeck.
- More than one-half (52%) incorrectly believe that a married couple has a combined credit score. "You cannot raise your credit score by marrying someone with better credit," noted Providian's Elias. And, more than two-fifths (43%) incorrectly believe that individuals have only one score. In fact, each of the three major credit bureaus -- TransUnion, Experian, and Equifax -- computes separate scores that usually differ.
- Few consumers know what constitutes a good score. Only 12% correctly identified the low 600s as the level below which they would be denied credit or have to pay a higher, subprime rate. (One-third thought this level was the low 500s, and 30% said they didn't know.) And, only 13% correctly understand that scores above the low 700s usually qualify them for the lowest rates. "It is meaningless to know your score if you don't know whether it is good or bad," said CFA's Brobeck.
- Many consumers do not have a clear idea how to improve their credit score. Two-fifths (40%) don't understand that paying off a large balance on a credit card will improve one's credit score. And, more than one-quarter (28%) believe incorrectly that using a credit card's full credit line will improve one's score.
- Moreover, many who try to learn their credit score in the future will be surprised to learn that there is often a charge. Nearly three-quarters (72%) incorrectly believe that they can obtain their credit score for free once a year. (That right was recently established for free access to one's credit report but not for free access to one's score except when applying for a mortgage loan.)

## Survey Finds Those With the Most to Lose Know the Least

In general, those who consider their knowledge of credit scores to be low in fact know the least about these scores. Those who say their knowledge is "poor" are more likely, when asked knowledge questions, to say they "don't know" or to answer these questions incorrectly. But what is surprising is that those who think their knowledge is "excellent" frequently answer knowledge questions incorrectly. For example, of those who said their knowledge was excellent, only 41% understand that a credit score measures risk, only 45% know that Tenneco is not a credit bureau, and 56% incorrectly believe a married couple has a combined credit score. Moreover, those who consider their knowledge "excellent" do not know any more than those who consider their knowledge to be only "fair." "Even those who think they know a lot about credit scores could benefit from learning more about these scores," said CFA's Brobeck.

Those with the lowest incomes and least education know the least about credit scores. For example, of those with incomes below \$25,000, only 16% understand that a score measures credit-risk, only 24% know that Tenneco is not a credit bureau, and 62% incorrectly believe a married couple has a combined credit score.

This lack of knowledge about credit scores exists despite the fact that those who have had credit card payment difficulties know more about these scores than do those who have not had such problems, and, not surprisingly, credit cardholders with the lowest incomes have had the most payment difficulties. Also, those who have obtained their scores (53% though fewer than half of these in the past year) know more about credit scores than those who have not. These two findings suggest that consumers tend to learn about credit scores through their credit experiences.

## Consumers Need to Know 5 Critical Facts About Credit Scores

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

- Scores reflect only one's own past credit history, not personal characteristics such as age and gender. Over time consumers have the ability to control these scores.
- A low score 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 rates, and those with scores above 760 are charged the lowest rates.
- The most effective steps one can take to improve one's score are to: Pay your bills consistently and on time. If you have missed payments, get current and stay current. Don't max-out your credit cards or other "revolving credit". Pay off debt rather than moving it around and don't open many new accounts rapidly. And, check your credit

- report to make sure it is error-free.
- One can purchase one's credit scores (and reports) from all three credit bureaus for \$38.85 by contacting Fair Isaac (myFICO.com), or individual reports and scores from the three bureaus -- TransUnion ([www.transunion.com](http://www.transunion.com)), Experian ([www.experian.com](http://www.experian.com)), Equifax ([www.equifax.com](http://www.equifax.com)) -- for \$9 each. Or, one can receive a TransUnion-derived credit score monthly for free if one holds a Providian credit card. (After December 1, mortgage applicants can obtain their score for free from the lender.)

"When it comes to obtaining credit at the best possible rates, credit scores play a vital role," said Providian's Elias. "The findings of this survey clearly show that while education about credit scores is available, consumers today are still far from 'knowing the score'," he added.

Today, CFA and Providian Financial also made available a new 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.

For more information about credit scores, check the websites of CFA ([www.consumerfed.org](http://www.consumerfed.org)), Providian ([www.providian.com](http://www.providian.com)) or Fair Isaac ([www.fairisaac.com](http://www.fairisaac.com)).

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.

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