



Consumer Federation of America

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NEW NATIONAL SURVEY REVEALS WHAT CONSUMERS KNOW AND DON'T KNOW ABOUT CHANGING CREDIT SCORE MARKETPLACE

CFA and VantageScore Solutions Make Available Interactive Web Quiz (creditscorequiz.org) Containing Essential Credit Score Information

Washington, DC – This morning, the Consumer Federation of America (CFA) and VantageScore Solutions released survey findings revealing that most consumers are not aware of recent changes in the credit score marketplace. On 22 questions administered by Opinion Research Corp. to over 1000 representative Americans late last month, on average consumers answered 60 percent correctly, but most did not know who makes credit scores available, what is a strong score, and what's the financial cost of a poor score.

"The good news is that a large majority of consumers know the key factors used to calculate scores and the creditors who use these scores," said CFA Executive Director Stephen Brobeck. "The bad news is that consumer knowledge has lagged behind recent changes in the credit score marketplace," he added.

There are a growing number of both generic and lender-specific credit scores, few of which are identical. Even generic scores may vary widely depending on both the credit report and scoring system used. For instance, scores based on credit reports from one of the three main credit bureaus -- Experian, Equifax, and TransUnion -- may utilize either of the two main scoring systems -- FICO with its range of scores from 300 to 850, or VantageScore with its range from 501 to 990.

"Today, the most important fact about your credit score is not its level but its relation to other scores from that source," said Brobeck. "For example, a 700 score may be either a good score or only a fair score depending on the scoring system." Generic scores available usually reveal this relationship. Those generic scores using the VantageScore scoring system provide a letter grade along with a numeric score. Most scores currently used by mortgage lenders and made available to borrowers use the FICO scoring system.

Government rules going into effect this July will require greater disclosure of credit scores. "The new score disclosures will be most beneficial to those who understand the new credit score marketplace," said Barrett Burns, President and CEO of VantageScore Solutions. "That's why we are joining with CFA over the next year to inform financial educators and individual consumers about how to best participate in this marketplace."

New Interactive Web Quiz Provides the Latest Information Consumers Need to Know

At the press conference, CFA and VantageScore also announced and made available a new interactive website containing the quiz and correct responses with explanations.

"Creditscorequiz.org is a unique tool that both organizations will spend the next year introducing to financial educators in nonprofit, government, and industry sectors," said Burns. "Widespread use of this quiz will increase consumer knowledge about a dynamic credit score marketplace," he added.

The quiz is also available in a brochure that will be distributed by the two organizations.

How Consumers Scored and Who Scored Highest

The survey was administered, using questions developed by CFA and VantageScore, to a representative sample of more than 1000 adult Americans January 28-31 this year. The margin of error is plus or minus three percentage points.

On the 22-question quiz, on average, consumers answered 60 percent correctly. Those aged 34-45 (67% correct) and those with at least \$100,000 annual incomes (66% correct) scored highest. Those at least 65 years of age (53% correct) and those with incomes below \$25,000 (58% correct) scored lowest.

A key factor explaining score differences is whether one has obtained one's credit scores. Consumers who had obtained their scores scored higher (64% correct) than those who never had (54% correct).

What Most Consumers Don't Know About Credit Scores

In addition to what credit scores represent, most consumers do not know that:

- A credit score mainly represents the risk of not repaying a loan (48% correct).
- Age (33% correct) and marital status (40% correct) are NOT factors used to calculate a credit score.
- On a \$20,000, 60-month auto loan, borrowers would usually pay \$5,000 more in interest with a bad score than with a good one (30% correct).
- A strong score depends on the scale used -- over 700 for FICO and over 800 for VantageScore (41% correct).
- The fact that generic scores are now available from numerous web-based sources, not just from FICO or the three main credit bureaus -- Experian, Equifax, and TransUnion (25% correct).
- The fact that credit repairs are usually not helpful (46% correct). That's because companies often overpromise, charge high prices, and perform services that consumers could do themselves.

What Many Consumers (50-75%) Know About Credit Scores

Half to three-quarters of consumers know the following about credit scores:

- The three main credit bureaus -- Experian, Equifax, and TransUnion -- collect information on which credit scores are most frequently based (68% correct).
- Most Americans have more than one generic credit score (71% correct). In fact consumers have many scores that reflect the use of the scoring system, the source of the credit report, and the information in the report that's used.
- Credit scores are sometimes free (61% correct). But to obtain these free scores, one must often sign up for, then cancel, a monthly credit report service typically around \$15 a month.
- Three key ways to raise a credit score or maintain a high score are making all loan payments on time, for each credit card keeping balances under 25 percent of the card's credit limit, and avoiding opening several credit card accounts at the same time (69% correct).
- Many nonfinancial services -- such as cell phone companies (60% correct) and landlords (64% correct) use credit scores to determine whether to offer a service and/or at what price.

What a Large Majority (over 80%) Know About Credit Scores

A large majority of consumers correctly understand the following about scores:

- Missed payments (93% correct), high credit card balances (88% correct), and many applications for new accounts at one time (81%) are factors used to calculate credit scores.
- Mortgage lenders (86% correct) and credit card issuers (85% correct) use these scores to determine whether to extend credit and/or at what price.

The Most Important Things Consumers Should Know About Credit Scores

The most important things consumers should know about scores are:

- Credit scores are important, influencing whether consumers can purchase a wide range of important services and/or at what price.
- An individual has many different credit scores, which are either generic or lender-based. Generic credit scores are available from many sources -- not just FICO and the three credit bureaus but also many other websites. Most scores, however, are based on information in a credit report at one of the three bureaus, although some websites allow consumers to estimate their score by answering questions about their credit use.
- What's most important about a score is, not its absolute level, but its relation to other scores from the same source. Most sources will place a score in a 0-100% range, and some will add a letter grade (A, B, C, D, or F).
- One's behavior strongly influences one's credit scores, especially whether one makes payments on time, and it's easier to lower than to raise scores. Carelessly

making a couple credit card or mortgage payments late may take a year of on-time payments to restore one's old scores.

- The accuracy of information in one's credit reports at the three bureaus -- Experian, Equifax, and TransUnion -- also can significantly influence one's credit scores. You can access these reports for free through the website -- www.annualcreditreport.com -- or by calling 877-322-8228, and should certainly do so before obtaining a mortgage or car loan.
- Even if you have high credit scores, and especially if you have lower ones, it is essential to comparison shop for credit. Major lenders use somewhat different criteria in their own credit scores, and even when they use the same score, they may assign different risks to it. For example, using the same score for an individual, one lender may place that person in a higher-risk subprime category while another lender may assign that person to a lower-risk (and lower cost) prime category.
- Be very skeptical about the value of using credit repair companies. Consumer protection officials agree they often overpromise, charge high prices, and perform services, such as correcting credit report inaccuracies, that consumers could do themselves by just contacting the lender and the credit bureaus.

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.