SURVEY: SOME CONSUMERS LACK KNOWLEDGE ABOUT CREDIT SCORES

A Note from ACCESS - ACCESS has always maintained that credit scores are absolutely useless. Unfortunately the credit industry continues to insist on using credit scoring so we do believe that it is important for people to be informed about credit scores and how they are applied.

from The Privacy Times

A recent survey revealed that a significant number of Americans still know little about credit scores, with between one-quarter and two-fifths of a sample of 1,022 Americans incorrectly answering wide-ranging questions about scores.

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The survey was released May 13th by the Consumer Federation of America (CFA) and VantageScore Solutions. Key results of the survey include:

- Two-fifths do not know that credit card issuers (40%) and mortgage lenders (42%) use credit scores in decisions about credit availability and pricing. â€¢ Two-fifths incorrectly believe that personal characteristics such as age (43%) and marital status (40%) are used in calculating credit scores.

- Between one-quarter and one-third do not know when lenders are required to inform borrowers of the credit score used in their lending decision â€“ after consumers apply for a mortgage (27%), when they are turned down for a loan (24%), and when they donâ€™t receive the best price or other terms (35%).

- Between one-third and two-fifths do not know that the credit scores of co-signers of a student loan are affected by that loan â€“ improving if payments are made on time (38%) and declining with one late payment (31%).

- More than one-quarter do not know key ways to raise or maintain their scores â€“ keeping credit card balances low (26%) and not applying for several cards at the same time (28%).

- More than one-third (36%) incorrectly believe that credit repair agencies are always or usually helpful in correcting credit report errors and improving scores.

â€œCredit scores have become so influential in the lives of most consumers that tens of millions are severely disadvantaged

by their lack of knowledge about these scores,â€• said Stephen Brobeck, CFAâ€™s executive director. â€œLow credit scores w
often cost car buyers more than $5,000 in additional finance charges and cost home purchasers tens of thousands of dollars in additional mortgage loan costs. And low scores are likely to limit consumer access to, and increase the cost of, services such as cell phone service, electric service, and rental housing.â€•

One survey question was answered correctly by almost everyone â€“ 94% know that making loan payments on time helps raise your credit score. Another question was answered incorrectly by almost everyone â€“ with only 7% aware that making several inquiries about getting a consumer or mortgage loan in a one- or two-week window will never lower their FICO and VantageScore Solutions credit scores.

The survey revealed that women know more about credit scores than do men. Far fewer women incorrectly believe that age (38% vs. 48%) and marital status (34% vs. 46%) are used in calculating credit scores, and far more women correctly understand that credit bureaus collect the information for scores (74% vs. 68%), know what a good score is (36% vs. 29%), know when scores are free (65% vs. 60%), know when lenders are required to disclose scores (53% vs. 46%), and understand the importance of checking credit reports (77% vs. 72%). Men, however, are more skeptical about the value of credit repair agencies â€“ only 32% think these agencies are always or usually helpful compared to 40% of women who believe this.

Not surprisingly, those who have obtained one or more of their credit scores in the past year know more about scores than do those who have not. Significantly more of those getting their scores recently understand that lenders and service providers use scores, that three large credit bureaus collect the information on which credit scores are most often based, that consumers have more than one credit score, that scores are sometimes free, when scores must be disclosed by lenders, how scores can be raised, that checking credit reports is important, and the credit repair agencies usually are not helpful.

On the whole, young adults between the ages of 18 and 34 know as much about credit scores as the rest of the adult population, though those between the ages of 35 and 44 know more. Quite possibly that is because they are the group most likely to have recently purchased a wide range of services, including loans, that are affected by credit scores. As suggested above, recent experience with services using credit scores is likely to have increased knowledge about these scores.

Overall, those who thought they knew the most about credit scores do in fact know more. However, the differences between those who said they have good or excellent knowledge, and those who said they have only fair or poor knowledge, are often small or non-existent, and those who said they know less are in fact more likely to know when lenders are required to disclose scores.

â€œMisperceptions about credit scores are extremely concerning. People who fail to understand exactly what can impact their score have little incentive to manage the real things that truly do make a difference; such things as paying bills on time, keeping credit card balances low, and not taking out unnecessary loans,â€• said Barrett Burns, president and CEO of VantageScore Solutions. â€•We encourage all consumers to take the credit score quiz and empower themselves to become better credit managers.â€•

The telephone survey was undertaken by ORC International in late April, using a split sample of landlines and cell phones. The margin of error is plus or minus three percentage points.
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