

Credit Score Misconceptions Snag Consumers -- and Loan Officers

Monday, March 28, 2005 - By Gerri Detweiler

Consumers' Knowledge of Credit Reporting	
High- and low-scoring survey responses	Percentage answering correctly
Credit report section... Consumers:	
Knew credit history can affect their ability to get a loan	95
Knew lenders are not required to report to any of the CRAs	7
Credit score section... Consumers:	
Knew late credit card payments could negatively affect their score	87
Could name a number within a possible credit score range	28
Dispute section... Consumers:	
Knew they could dispute information on their credit report	90
Knew CRAs investigate incorrect information for free	28

Consumers still have a long way to go when it comes to

Source: GAO.

understanding credit reports and scores, according to two separate studies released this month. A study by the government's General Accounting Office, as well as one released by the Consumer Federation of America (CFA) and Fair Isaac Corp., both found consumers could correctly answer only about half of the questions posed to them about credit reports and credit scores. Fair Isaac Corp. is the developer of the FICO credit score used by most lenders to evaluate consumer credit risk.

While consumers seem to understand many of the basics, especially if they have recently received a mortgage or automobile loan, there are still glaring misconceptions.

Among the findings in the GAO study:

- About half of consumers did not know that maxing out credit cards or home equity loans could hurt their credit scores.
- Just over half were not aware that information can remain on their reports for 7-10 years.
- Only one-third knew that credit reporting agencies must investigate disputes for free.
- About two-thirds of consumers did not know that their credit histories can affect insurance rates and employment.

The CFA/Fair Isaac study found that:

- About half of consumers didn't understand that credit scores measure risk.
- 45% incorrectly think that increasing one's income will increase one's credit score.

Many consumers surveyed for both studies erroneously believe that increasing their incomes would improve their credit scores.

Generally, consumers most knowledgeable about credit scores were those with higher incomes, and college degrees.

"Despite all of the news coverage about credit scores over the past year, many consumers still

do not understand important facts about these increasingly influential numbers," said Stephen Brobeck, CFA's Executive Director.

Will the Real Score Stand Up?

Another source of confusion for consumers – and some loan officers – is the difference in credit scores provided by each of the repositories. In a few months, consumers across the country will be eligible for free annual credit reports from each repository. They will also be able to order a score from each bureau for a fee of about \$5-7. In addition, many consumers are ordering their credit reports and scores through various online services.

The scores they receive, however, may be “educational” scores rather than true FICO scores. That can cause problems for you, the originator, when the score a client receives is higher than the one you get when pulling their credit report directly from a residential mortgage credit reporting agency. It’s a situation where you need to help consumers understand the different scores that may be available.

“The FICO score is the actionable score that consumers can use and take to their lender,” says Andy Jolls, vice president for myfico.com, “and the only place (for a consumer to order) all three FICO scores is at myfico.com.”

You’ll also need to explain to your client that even FICO scores will vary among the three repositories, and help them avoid “quick fixes,” like closing unused accounts, that may actually cause their scores to drop.

Because credit plays such a key role in the mortgage process, it’s essential that *you* fully understand how credit reports and scores work, and that you can convey your knowledge as the expert to your clients. The opportunity for this kind of education is clearly there!

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Editor's note: The GAO study can be found at <http://www.gao.gov/new.items/d05223.pdf>

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