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Report to Congressional Committees

March 2005

CREDIT REPORTING LITERACY

Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts

GAO

Accountability * Integrity * Reliability

GAO-05-223

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Highlights

Highlights of GAO-05-223, a report to congressional committees

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CREDIT REPORTING LITERACY

Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts

Why GAO Did This Study

This report responds to a mandate in the Fair and Accurate Credit Transactions Act (FACT Act) of 2003 requiring GAO to assess consumers' understanding of credit reporting. The FACT Act, among other things, extended provisions governing the credit reporting system and addressed ongoing concerns about inaccuracies in credit reports. For example, the act expanded access to credit information by entitling consumers to one free credit report each year. It also established the Financial Literacy and Education Commission (FLEC) to improve consumers' understanding of credit issues. This report examines consumers' understanding and use of credit reports and scores and the dispute process and looks at factors that may influence their understanding of credit reporting.

What GAO Recommends

GAO recommends that (1) the Secretary of Treasury, as Chairman of FLEC, working with its members, take steps to improve consumers' understanding of their rights and remedies under the FACT Act, targeting the population groups that would most benefit; and (2) the Chairman of the Federal Trade Commission, take steps to improve consumers' understanding of how credit reports and scores are used, their right to dispute inaccurate information, and how consumers' credit behavior could affect their credit history. Both agencies generally agreed with the findings.

www.gao.gov/cgi-bin/getrpt?GAO-05-223.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Yvonne D. Jones, (202) 512-8678, jonesy@gao.gov.

What GAO Found

Based on survey responses for a national sample of 1,578 consumers, GAO found that consumers understood the basics of credit reporting and the dispute process. For example, many consumers understood what a credit report contained and the sources of this information, and about 60 percent had seen their credit reports. However, many consumers did not know more detailed information, such as how long items remained on their credit reports or the impact their credit history could have on insurance rates and potential employment. Further, most consumers knew what a credit score was, and approximately one-third had obtained their credit scores, but many did not know that some behaviors—such as using all their available credit—could negatively affect their scores. Similarly, GAO found that most consumers knew they had the right to dispute information on their credit reports, and a small percentage (18 percent) had disputed inaccuracies. But most consumers did not fully understand their rights in the dispute process—for example, that there is no cost to dispute inaccurate information or that they could contact the Federal Trade Commission, the federal agency primarily responsible for enforcing consumers' rights with respect to credit reporting agencies (CRAs), if they could not resolve a dispute with the CRAs.

GAO also found that several factors were associated with consumers' knowledge. For instance, having less education, lower incomes, and less experience obtaining credit were associated with lower survey scores, while having certain types of credit experiences—such as an automobile loan or a mortgage—were associated with higher scores. Other factors, such as gender and living in a state where credit reports were free prior to the FACT Act, did not have a significant effect on consumers' knowledge. Educational efforts could potentially increase consumers' understanding of the credit reporting process. These efforts should target those areas in which consumers' knowledge was weakest and those subpopulations that did not score as well on GAO's survey.

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

Source: GAO.

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Abbreviations

AARP	American Association of Retired Persons
ASEC	American Savings Education Council
CDIA	Consumer Data Industry Association
CFA	Consumer Federation of America
CFTC	Commodity Futures Trading Commission
CRA	Credit Reporting Agency
CRC	Credit Research Center of Georgetown University
CRS	Congressional Research Service
EBRI	Employee Benefit Research Institute
FACT Act	Fair and Accurate Credit Transactions Act of 2003
Fannie Mae	Federal National Mortgage Association
FCRA	Fair Credit Reporting Act
FDIC	Federal Deposit Insurance Corporation
FLEC	Financial Literacy and Education Commission
FRB	Federal Reserve Board
Freddie Mac	Federal Home Loan Mortgage Corporation
FTC	Federal Trade Commission
La Raza	National Council of La Raza
NCUA	National Credit Union Administration
OCC	Office of the Comptroller of the Currency
OTS	Office of Thrift Supervision
SEC	Securities and Exchange Commission
SSA	Social Security Administration
U.S. PIRG	U.S. Public Interest Research Group (also known as the National Association of State PIRGs)

United States Government Accountability Office
Washington, D.C. 20548

March 16, 2005

The Honorable Richard C. Shelby
Chairman
The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman
The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Credit reports detailing personal credit histories and the credit scores derived from these reports affect many aspects of consumers' lives. Both credit reports and credit scores can influence lenders' decisions to grant credit and may affect individuals' ability to obtain jobs, insurance, and rental housing. They can also affect interest rates offered on automobile, mortgage, and other consumer loans. For example, having a low credit score could add almost $370 dollars to a monthly mortgage payment on a 30-year home mortgage of $150,000 compared with a payment calculated using a higher credit score.[1] Because of the importance of credit reports and credit scores, consumers need to know and understand what their reports contain, and many credit experts suggest that it is prudent practice for consumers to check the accuracy and completeness of their credit report information periodically.

As GAO has previously reported, inaccurate credit report data could have important implications for both consumers and creditors in today's sophisticated credit markets.[2] Equifax, Experian, and TransUnion—the

[1]Estimate developed by the Fair Isaac Corporation and printed on its Web site on January 19, 2005, at www.myFico.com. These estimates are based on an interest rate of 5.69 percent for someone with a credit score of 720–850 and 9.29 percent for a consumer with a score of 500–559. Credit scores are derived using a mathematical model that takes into account the information contained in credit reports and attempt to predict the likelihood that a person will repay a loan.

[2]GAO, *Limited Information Exists on the Extent of Credit Report Errors and Their Implications for Consumers*, GAO-03-1036T (Washington, D.C.: July 31, 2003).

three national credit reporting agencies (CRAs)[3]—each maintain an estimated 200 million credit files and enter more than 4 billion pieces of data into these files monthly.[4] While CRAs take measures to minimize errors in data files, the volume of data they handle increases the possibility of inaccuracies on credit reports. Further, personal credit histories can be damaged by identity theft—the use of another person's identity to obtain credit cards, access bank accounts, and commit other fraudulent acts. Identity theft is considered a fast-growing, white-collar crime and poses a direct threat to the accuracy and integrity of credit report data.

CRAs have been subject to specific federal regulation since the passage of the Fair Credit Reporting Act (FCRA) in 1970.[5] FCRA gave the Federal Trade Commission (FTC) responsibility for enforcing CRAs' compliance with the act.[6] In December 2003, the Fair and Accurate Credit Transactions Act (FACT Act) was enacted, which amended FCRA. Among other things, the act included provisions to improve the accuracy of personal information assembled by CRAs and better provide for the fair use of and consumer access to such information.[7] In addition, the act created the Financial Literacy and Education Commission (FLEC) to improve financial literacy and education through the development of a national strategy, a Web site, and a toll-free hotline and designated the Secretary of the

[3]Companies that assemble consumer credit information and sell this information are referred to as "consumer reporting agencies" by the legislation governing credit reports. See Fair Credit Reporting Act, 12 U.S.C. §§ 1681-1681x, as amended (2004). These companies can also be referred to as "credit bureaus," "credit reporting companies," or—as they are in this report—"credit reporting agencies." Equifax, Experian, and TransUnion Corporation are the nation's largest credit reporting agencies.

[4]These figures were reported by the Consumer Data Industry Association (CDIA), the trade association that represents the three national CRAs. Available at www.cdiaonline.org/about.cfm.

[5]Pub. L. No. 91-508, codified as amended at 15 U.S.C. §§ 1681-1681x.

[6]Federal agencies and the states have authority to bring injunctive actions under FCRA, as well as actions for damages for violations of certain provisions. Under FCRA, as amended by the FACT Act, there are also private rights of action. See 15 U.S.C. §§ 1681n, 1681o, 1681s-2(c). In addition, federally supervised banks that use consumer reports or furnish consumer report information are subject to enforcement by their respective federal banking regulators. See 15 U.S.C. §1681s.

[7]Pub. L. No. 108-159 (Dec. 4, 2003).

Treasury as the chairperson of FLEC.[8] The act directs FLEC to emphasize basic personal income and household money management and planning skills, including increased awareness of the importance of (1) credit reports and credit scores in obtaining credit and on the terms of credit, (2) accuracy in credit reports and scores, (3) correcting inaccuracies, and (4) the effects common financial decisions can have on credit scores. In addition, Congress mandated that the Secretary of the Treasury, after reviewing FLEC's recommendations, implement and conduct a national public service multimedia campaign to improve financial literacy and to publicize FLEC's Web site and toll-free hotline. The FACT Act also mandated that GAO evaluate consumers' knowledge and experience with credit reporting.[9] As agreed with your offices, this report responds to the FACT Act mandate by examining the extent to which consumers (1) understand and review their credit reports, (2) understand and review their credit scores, and (3) know how to dispute information on their credit reports and actually do so. This report also discusses some of the factors that are associated with consumers' understanding of these issues.

To meet these objectives, we contracted with a survey research firm to conduct a telephone survey of randomly selected adults in the United States. We designed the survey questions to assess respondents' knowledge of and experience with credit reports, credit scores, and the dispute resolution process. This effort resulted in 1,578 completed interviews, with a response rate of 48 percent and a cooperation rate of 59 percent (see

[8]Members of FLEC include the Secretary of the Treasury, the head of each federal banking agency and the National Credit Union Association (NCUA); the Securities and Exchange Commission; the departments of Education, Agriculture, Defense, Health and Human Services, Housing and Urban Development, Labor, and Veterans Affairs; Federal Trade Commission; the General Services Administration; the Small Business Administration; the Social Security Administration; the Commodity Futures Trading Commission; and the Office of Personnel Management. In addition, the President may appoint five additional members.

[9]Pub. L. No. 108-159 § 517. This provision also mandated that GAO provide recommendations for improving general financial literacy among consumers, a provision addressed in *"Highlights of a GAO Forum, The Federal Government's Role in Improving Financial Literacy,"* GAO-05-93SP (Washington, D.C.: Nov. 15, 2004) available at http://www.gao.gov/docsearch/abstract.php?rptno=GAO-05-93SP. In addition, the FACT Act directed GAO to conduct two other studies that are currently ongoing: (1) an assessment of the effectiveness of the provisions relating to information available to identity theft victims that is due in June 2005 (Section 151), and (2) an assessment of the effectiveness of FLEC in promoting financial literacy and education that is due in December 2006 (Section 517 (a)).

appendix I for a discussion of response rates).[10] The survey was conducted in both English and Spanish. The results can be generalized to the population of U.S. adults aged 18 and older, and we refer to respondents as "consumers" throughout the report. The survey fieldwork was conducted from late July to early October 2004. Using the survey results, we applied two methodologies—cross-tabulations and regression—to analyze the effects that selected factors, such as specific experiences and demographic factors, had on credit reporting knowledge. The results of the two methods were generally consistent with one another. Appendix IV discusses the results of the cross-tabulations analysis and appendix V discusses the regression analysis results.

In developing the survey questions and to provide context, we conducted a literature search to identify other surveys and documents related to credit reporting issues. Appendix III contains our review of selected findings from other studies. In addition to our review, we interviewed members of FLEC, including officials from the federal financial regulatory agencies, FTC, the Department of the Treasury, and other relevant federal agencies. We also met with industry organizations, including furnishers of consumer credit data, the three nationwide CRAs, and consumer advocacy groups that educate and inform consumers on credit issues and the law. We discussed and collected data from these officials on consumers' knowledge of credit reports, credit scores, and the dispute resolution process and other credit-related issues. We used this information for comparative and background purposes only and did not verify its accuracy. Appendix I contains additional details on our scope and methodology, and appendix II reproduces a copy of our survey with the frequency of responses by question. In addition, an electronic appendix (app. VI) including additional subgroup results can be found on GAO's Web site at http://www.gao.gov/cgi-bin/getrpt?GAO-05-411SP. We conducted our review from March 2004 through February 2005 in accordance with generally accepted government auditing standards.

[10]Except where noted, all percentage estimates have sampling errors of +/- 6 percentage points or less at the 95 percent confidence level. In addition, except where noted, all numerical estimates other than percentages have margins of error of +/- 5 percent or less of the value of those numerical estimates. In reporting responses to individual questions, percentages may not equal 100 because of rounding. See appendix II for more information on individual survey questions.

Background

CRAs are private sector companies that receive information from businesses that offer credit and from other sources and compile this information into credit reports that are sold for a fee to consumers and other businesses.[11] The U.S. credit reporting system is voluntary, as federal law does not require lenders and other creditors to report to CRAs. Creditors may report consumer information to one, all, or none of the CRAs, and information on individual consumers may differ among the three agencies. Lenders rely on credit reports when deciding whether to offer credit to an individual, at what rate and on what terms.[12] In addition, a growing number of decisionmakers, including potential employers, insurance underwriters, and landlords are using credit reports to assess applicants' creditworthiness.

The credit reports the CRAs provide generally contain certain standard information, including:

- Credit histories that list consumers' experiences with credit and credit behavior—for example, any loans and credit cards on record and payment histories for each;
- Identifying information such as names, addresses, Social Security numbers, and employment data (other than salary);
- Information related to monetary transactions that is a matter of public record, such as tax liens (claims against property for unpaid taxes), debt-related judgments or court orders, and bankruptcies; and
- Inquiries made by others—for instance, mortgage lenders or banks—about consumers' credit histories.

In addition to compiling credit reports, CRAs also calculate credit scores, which attempt to predict the likelihood that a person will repay a loan. Credit scores, which help creditors analyze information in credit reports

[11]Equifax is publicly traded and listed (NYSE: EFX). Experian is not listed on a U.S. stock exchange, but its parent company is traded on the London Stock Exchange and listed (LSE: GUS). TransUnion is privately owned.

[12]For example, lenders use credit reports and scores to determine what interest rates to charge consumers based on a perceived level of risk in what is commonly called "risk-based pricing." See Pub. L. No. 108-159 § 311. Scores can also be used to determine requirements for collateral, down payments, or cosigners.

and make decisions on granting credit, are derived using a mathematical model that takes into account the information contained in the reports. In the 1950s, Fair Isaac Corporation developed one of the first mathematical models for scoring credit applications.[13] Before credit scores became widely available, lenders or credit examiners would evaluate information in credit reports to decide whether or not to grant credit. Over time, credit scores were viewed as a more efficient and consistent method for evaluating information in credit reports, and by the early 1990s all three nationwide CRAs had begun selling them to businesses along with credit reports.

In 1970, Congress enacted FCRA—the primary federal legislation governing the content and use of credit reports and the credit reporting industry in general. The act contained several important measures. For instance, FCRA:

- Provided a uniform basis for consumers' access to information in their credit reports at a reasonable charge;[14]
- Subject to certain exceptions, prohibited CRAs from reporting specific types of negative information that was older than 7 years;[15]
- Required CRAs to identify for consumers, on request, sources of credit report information and the names of those receiving a credit report within the time periods specified in the act;[16]

[13]The Fair Isaac Corporation produces software used by many consumer reporting agencies, including the three national CRAs, to produce FICO® scores, which industry sources told us are commonly used in the United States.

[14]The act specifically excluded medical information from this provision. See Pub L. No. 91-508 § 609 (a)(i).

[15]Exceptions included credit transactions, life insurance policies, job salaries that exceeded a specified dollar amount, and bankruptcy data. Originally bankruptcy data older than 14 years was to be deleted. In 1978, this period was shortened to 10 years. See Pub. L. No. 95-598.

[16]If used for employment purposes, CRAs were to identify the sources and names of those receiving reports within the last 2 years of the consumer's request; for other purposes, the time period was within the last 6 months. See Pub. L. No. 91-508 § 609(a)(3).

- Required CRAs to provide free reports to any consumer who requested a copy of a report following an adverse action, such as failure to obtain credit, insurance, or employment, within a month of the action; and
- Required CRAs to implement a dispute resolution process to investigate and correct errors and to remove information found to be erroneous.

The dispute resolution process established in FCRA required CRAs to investigate within a reasonable period of time items that consumers reported as inaccurate or incomplete. CRAs were required to delete promptly any disputed data that they could not verify within that period. For unresolved disputes, FCRA allowed consumers to add a brief explanatory statement to their credit files. When information was not deleted, CRAs were required to note the dispute in subsequent reports containing the information in question and include the consumer's statement or a clear summary of it. In addition, the act required CRAs, upon the consumer's request, to notify those who received the reports that information had been deleted or that the consumer had filed a dispute statement.[17] Finally, FCRA gave FTC responsibility for enforcing CRA's compliance with the act to the extent that this authority did not overlap the authority of other federal agencies specified in the act.

Despite the consumer protections FCRA offered, starting in the late 1980s consumers began raising new concerns about credit reports and CRAs. For example, consumers maintained that CRAs were not responding to consumers' requests for assistance. In addition, lawsuits were brought against the three CRAs on issues related to accuracy.[18] In 1996, Congress amended FCRA.[19] Among other things, the 1996 amendments required CRAs to provide consumers, upon request, with access to all information in their credit files (except credit scores) at a cost not to exceed $8.00, improved the process for investigating disputed information, and permitted

[17]For employment purposes, this requirement for notification applied to those receiving reports within the 2 years before the deletion or notation of the dispute; for other purposes, the time period was 6 months before the deletion or notation. See Pub. L. No. 91-508 § 611 (d).

[18]GAO-03-1036T. Prior to 1996, FTC brought formal enforcement actions involving procedures to ensure the accuracy of credit reports against TransUnion in 1983, TRW (which would later become Experian) in 1991, and Equifax in 1995.

[19]Consumer Credit Reporting Reform Act of 1996, Pub. L. No. 104-208, Div. A, Title II, Subtitle D.

use of credit reports only for certain purposes, such as solicitations for credit and insurance. The time period for investigations of a dispute was narrowed from a "reasonable period of time" to, in general, 30 days, and CRAs were required to conduct investigations at no cost to the consumer. The 1996 amendments also added the definition of an "adverse action" and gave consumers access to a free credit report each year if they were unemployed but intended to seek employment, were on public assistance, or suspected that a credit report contained inaccurate information due to fraud.

To extend the expiring FCRA preemption provisions and address continuing concerns about inaccuracies in reports, identity theft, and other matters, Congress passed the Fair and Accurate Credit Transactions Act of 2003 (the FACT Act), which amended FCRA.[20] Had the provisions expired, states generally could have enacted laws covering matters that had been governed exclusively by FCRA. Industry participants and others believed that national standards and uniformity of credit information were key to maintaining efficiency in credit markets and that the loss of federal preemption in those areas that had been exclusively subject to FCRA would threaten this efficiency. Among other things, the amendments:

- Expanded consumers' access to credit information and sought to promote accuracy within credit reports by, among other things, entitling consumers in all states to one free credit report each year from each of the three CRAs.[21] However, according to FTC, seven states already allowed consumers at least one free copy annually (Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, and Vermont);"[22]

[20]A number of studies reported persistent inaccuracies in credit reports. For instance, GAO reported on the limited amount of information available on the frequency, type, and cause of credit report errors and their possible impact on consumers. See GAO-03-1036T.

[21]Under FTC regulations implementing section 211 of the FACT Act, the requirement takes effect in a different geographic part of the country each quarter, beginning on the west coast in December 2004 and ending on the east coast in September 2005. See 69 Fed. Reg. 35468 (June 24, 2004).

[22]See 69 Fed. Reg. 35468, 35488 n. 66 (June 24, 2004). Throughout this report, we refer to these states as "free report states."

- Expanded creditors' responsibilities for furnishing accurate data.[23] The FACT Act mandated that the federal banking agencies, National Credit Union Association (NCUA), and FTC issue joint regulations identifying the circumstances under which furnishers of information would be required to investigate the accuracy of information in a credit report when asked to do so by a consumer;[24]

- Established a regulatory scheme under which creditors were required to notify consumers when information from credit reports negatively affected the terms of credit, such as interest rates on credit cards and loans. The notification would also have to inform potential borrowers that they could obtain a copy of their credit report from the CRA, without charge; and

- Strengthened victims' rights with respect to identity theft, made credit history restoration easier, limited the sharing and use of medical information within the financial system, required mortgage lenders to disclose credit scores to applicants, and required CRAs to offer credit scores to consumers for a reasonable fee.

Finally, as we have noted, the FACT Act created FLEC to improve financial literacy and education and, among other things, required FLEC to increase consumers' awareness and understanding of credit reports and scores. Several public and private entities had already undertaken and continue to operate initiatives to increase consumers' knowledge of credit reporting issues. Within the federal government, a number of agencies sponsor financial literacy initiatives that include a credit literacy component, such as the Federal Deposit Insurance Corporation's (FDIC) Money Smart program, the Department of Defense's Financial Readiness Campaign, and the Federal Reserve's nationwide financial education campaign, "There's a Lot to Learn about Money." In order to fulfill its mandate to protect

[23]Before the FACT Act, FCRA gave CRAs most of the responsibility for investigating disputes about inaccurate information and provided consumers with certain protections, such as time limits on investigations. However, under FCRA furnishers were required to follow certain requirements. Among other things, if a furnisher determined that information given to a CRA was inaccurate, the furnisher was required to notify and provide corrections to the CRA. If a consumer disputed information furnished to a CRA, the furnisher could not provide the information to any CRA without sending notice of the dispute.

[24]Pub. L. No. 108-159 § 312 (c). The federal banking agencies include the Comptroller of the Currency, the Director of the Office of Thrift Supervision, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (FDIC).

consumers from deceptive and unfair business practices in the marketplace, FTC engages in several activities, including maintaining a Web site that features educational information on credit reporting and other financial topics and a toll-free number for complaints and questions.[25] Some private sector initiatives include the Federal Home Loan Mortgage Corporation's (Freddie Mac) CreditSmart® Program, which is devoted exclusively to promoting credit literacy and features modules on interpreting credit reports. Fair Isaac Corporation maintains a Web site to disseminate information on credit education.[26] In addition, all three nationwide CRAs engage in educational efforts through their Web sites and partnerships with national organizations or schools.

GAO has also addressed the issue of financial literacy among consumers. The most recent effort was a forum hosted on July 28, 2004, on the role of the federal government in improving financial literacy.[27] Forum participants included experts in financial literacy and education from federal and state agencies, the financial industry, nonprofit organizations, and academic institutions. During the course of the forum, credit experts agreed that consumers would benefit from more education on credit, including the cost of credit, how to use credit, and how to manage credit responsibly. Forum participants also advocated targeting low-and moderate-income individuals and families, immigrant populations, and young people in these education efforts. Similarly, a Federal Reserve study on financial education found that successful financial education programs target specific groups, such as youth or minority populations.[28]

Results in Brief

Our survey showed that most consumers understood the basic concepts of credit reporting and had seen their credit reports but that many lacked knowledge of some credit report contents, uses, and other impacts. Based on our survey responses, we found that many consumers knew how to

[25]Commenting on a draft of this report, FTC said that in FY 2004, it distributed more than 4 million print copies of credit publications in English and Spanish. Consumers also accessed more than 5.7 million copies using the Internet. In addition, the consumer information page dealing with credit is consistently one of the most viewed pages on FTC's Web site.

[26]Fair Isaac Corporation's Web site is at www.myFICO.com.

[27]GAO-05-93SP.

[28]Fox, Lynn, Joy Hoffmann, and Carolyn Welch. "Federal Reserve Personal Financial Education Initiatives." *Federal Reserve Bulletin*, Autumn 2002.

obtain their credit reports, most of the information reports contained, some impacts of their credit history—including its effect on their ability to obtain loans and the interest rate on loans—and some of the rules governing access to their reports. However, many consumers lacked other important information, such as how long information stayed on their reports and how their credit history could affect insurance premiums and employment. For example, about two-thirds of consumers did not know that their credit history could impact their insurance premiums and employment, and about half (53 percent) did not know that information could stay on their report for 7 or 10 years. We found that many consumers (almost 60 percent) had viewed their credit reports, most often because they were making a large purchase or refinancing a loan, and most of these consumers said that they understood their reports.

The results of our survey also showed that most consumers had a basic understanding of credit scores and that around one-third had obtained them. While many consumers (70 percent) correctly identified the definition of a credit score and understood many of the factors that could impact credit scores, only 28 percent could provide a number within a range of possible credit scores. In addition, consumers were more familiar with some of the factors that affected credit scores than with others. For example, while most consumers knew that skipping loan payments or making late credit card payments had a negative effect on credit scores, about half did not know that using all the credit available to them, such as reaching the maximum limit on a credit card or home equity loan, had a negative effect. Also, when asked about information that had no effect on credit scores (such as a low checking account balance), about half of consumers answered the questions incorrectly or said that they did not know.

Most consumers (around 90 percent) knew that they could dispute inaccurate information on their credit reports, and approximately 18 percent said that they had initiated a dispute. However, we found that over half of consumers did not fully understand their rights in the dispute process or the responsibilities of the CRAs in responding to disputes. For example, relatively few consumers—about one-third—knew that CRAs investigate disputed information for free. In addition, the majority of consumers (94 percent) did not name FTC as the federal agency they would contact with a complaint about a CRA—for example, about an unresolved dispute—although FTC is the federal agency primarily responsible for enforcing consumers' rights with respect to credit reporting by CRAs. The types of information consumers disputed varied, but among the items most frequently mentioned were information that did not belong to the individual and incorrect payment histories—for example, late payments. We also found that of those who had disputed information, most (69 percent) reported that they had information removed from their report.

Many factors are associated with consumers' knowledge of credit reporting issues. We found that some demographic factors and types of experiences appeared to affect consumers' scores on our survey. For example, less educated, low-income, and Hispanic consumers scored lower on our survey than other demographic groups. Additionally, we found that having experience with credit—for example, obtaining an automobile loan or a mortgage—and the credit reporting system appeared to raise consumers' scores. In contrast, we found that other factors and experiences, such as having been a victim of identity theft, gender, or living in one of the seven "free report states," had little effect on consumers' credit reporting knowledge. The factors that appeared to affect consumers' knowledge of credit issues had a cumulative impact. For example, a consumer with a college degree, credit experience, and a high income could score much higher than a consumer with less than a high school education, relatively low income, and no credit experience.

This report makes recommendations to the Secretary of Treasury and the Chairman of FTC that are designed to promote efforts to improve the credit reporting literacy of U.S. consumers. We provided a draft of this report to the Department of the Treasury and FTC for comment and they provided written comments that are reprinted in appendixes VII and VIII, respectively. Both agencies generally agreed with our findings and outlined efforts underway to improve credit reporting literacy. A summary of their written comments and our response are presented at the end of this report.

Consumers Generally Understood Credit Reports and Had Viewed Their Reports, but Many Lacked Specific Knowledge

On the basis of responses to our questionnaire, we found that consumers generally understood credit reports and had viewed their reports but that many lacked specific knowledge about what their credit reports contained, how they were used, and other potential impacts of their credit history. Correct responses to individual questions varied widely, ranging from a high of 95 percent who knew that their credit history could affect their ability to get a loan to a low of 7 percent of consumers who knew that the credit reporting system was voluntary. We found that basic questions generated the most correct answers. For example, most consumers could correctly choose a description of a CRA and were aware that credit reports contained information such as credit card balances. But many consumers did not know other important information, such as how long information remained on their report and the impact their credit history could have on insurance and employment. We also found that more than half of consumers—58 percent—said that they had viewed their reports, generally before making a large purchase or refinancing a mortgage.

Consumers' Average Survey Scores Were Slightly More Than 50 Percent

We designed our survey to assess consumers' awareness of three distinct aspects of credit reporting—credit reports, credit scores, and the dispute resolution process—and collected responses from a random probability sample of people throughout the United States. Our survey included 58 questions. Twenty-three survey questions (worth a total of 56 points) were created to test consumers' knowledge of credit reporting issues. In addition, we incorporated 22 questions that were designed to obtain consumers' opinions about these issues and to examine their experiences with the credit reporting process, along with 13 demographic questions.[29] The mean score or average score on the survey was 55 percent, measured as the percentage of correct answers to the 23 questions designed to test knowledge (see app. I).

Many Consumers Knew How to Obtain Their Credit Reports

Many consumers appeared to know how to obtain a copy of their credit report. For example, 25 percent of consumers said that they would go to a CRA, and an additional 6 percent named a specific CRA. Twenty-six percent of consumers said that they would go online, and 3 percent said that they would go online to a specific CRA. Some consumers who did not identify a direct source of credit reports, such as a specific CRA, said that they would ask a bank or financial institution, a credit card company, or the institution where they had applied for a loan—all places that could direct them to a CRA or another means of obtaining their report. Seventy-one percent of consumers also said that they understood that they could order a copy of their credit report at any time for any reason. The Consumer Federation of America (CFA) found in its July 2003 study that the majority of its respondents—97 percent—knew that consumers had the right to see

[29]Appendix II contains the entire survey instrument, including all the survey questions and the scoring associated with each knowledge question.

their credit report.[30] Appendix III contains more results from relevant studies.

Before consumers answered any questions about credit reports, our survey asked them to provide their own definition of what a CRA did. Based on their responses, we determined whether consumers had no knowledge, their knowledge was unclear, or they appeared knowledgeable. We found that 19 percent of consumers were able to correctly articulate what a CRA does but that 53 percent were unclear on this point. Another 28 percent of consumers' explanations were clearly incorrect, or the consumers said that they did not know what a CRA did.[31] However, as figure 1 shows, the majority of consumers—82 percent—were able to select the correct description of a CRA from among multiple choices. Only 19 percent of consumers answered the multiple choice question incorrectly or said that they did not know.

[30]Consumer Federation of America (CFA), "Consumers Lack Essential Knowledge and Strongly Support New Protections on Credit Reporting and Scores" (Washington, D.C.: July 2003). Unpublished. Information available from www.consumerfed.org. We did not assess the quality of the data that we obtained from this and other sources. We used these data for comparative and background purposes only. Appendix III presents additional information about this and other studies.

[31]Some consumers may have guessed at the correct multiple choice option. In addition, when asked to provide their own explanation of a CRA, some consumers may have found it difficult to form an articulate response despite actually knowing what a CRA does. (See app. I for further discussion of this and related issues.)

Figure 1: Selected Survey Responses to Some Key Questions about Credit Reports

Survey responses	Percentage of answers: Correct answers	Incorrect answers	"Don't know" answers
General credit report knowledge			
Knew the correct definition of a CRA	82	9	10
Knew they could order a credit report at any time for any reason	71	15	14
Knew how long information remains on report	47	26	27
Can your credit history impact the following? (Correct answers in parentheses)			
Ability to get a loan (Yes)	95	2	3
Interest rate you are charged for a loan (Yes)	81	10	9
Insurance coverage and/or premiums (Yes)	36	42	22
Whether an employer decides to hire you (Yes)	33	50	17
Whether a landlord decides to rent to you (Yes)	72	15	12
Ability to receive Social Security benefits (No)	71	8	21
Your ability to get a driver's license (No)	86	4	10

Correct answers

Incorrect answers

"Don't know" answers

Source: GAO.

Note: Percentages in each row may not equal 100 due to rounding. All survey questions (in the format in which they were asked) and their responses can be found in appendix II.

However, many consumers did not know specific information related to obtaining their reports, such as the names of the CRAs and the cost of ordering credit reports. Twenty percent of consumers correctly named one CRA, 10 percent were able to name two, and 3 percent were able to name three. Sixty-seven percent of consumers were unable to name any of the CRAs. CFA's 2003 survey found that 75 percent of respondents were unable to name any CRAs and that just 15 percent could name one CRA.[32] Further, fewer than half of our respondents—approximately 45 percent—knew the

[32] CFA, "Consumers Lack Essential Knowledge."

cost of a credit report.[33] Before the implementation of the FACT Act, consumers generally had to pay for copies of their credit report in all but a few circumstances.[34] According to FTC, the laws of seven states (Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, and Vermont) provided for free access to credit reports, upon request, at least annually. We asked consumers throughout the United States whether they lived in one of these "free report states" and found that 49 percent of those consumers who did were aware of it. Forty-six percent of these consumers did not know that they lived in a free report state, and 5 percent responded incorrectly.

In addition, in our survey (conducted after the passing of the FACT Act but prior to its implementation) we also asked consumers whether a new law affecting their rights regarding credit reports and scores would entitle all consumers to request one free credit report a year. Forty-seven percent correctly responded that the new law did give consumers this right, 49 percent said that they did not know, and 4 percent responded incorrectly.

The Majority of Consumers Knew Most of What Was in Their Credit Reports

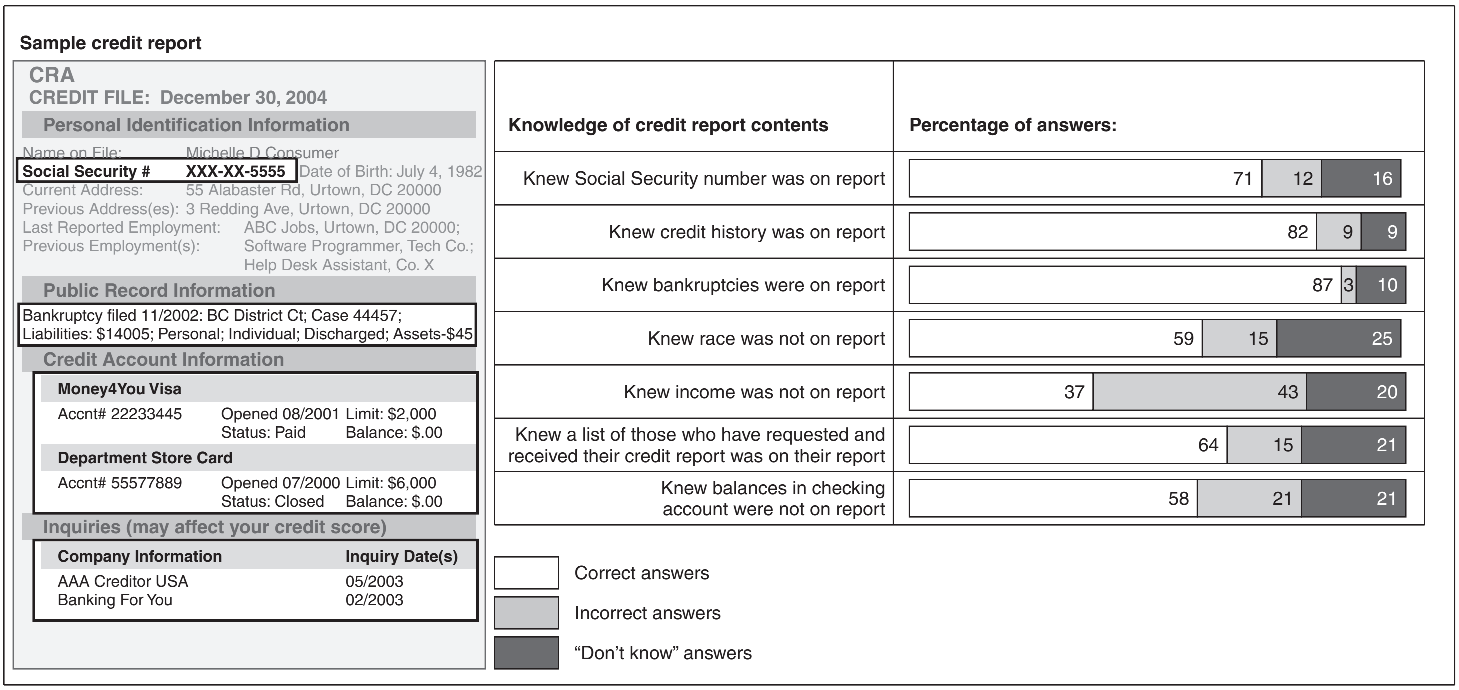
In addition to generally knowing how to obtain their credit reports, we found that a majority of consumers could also identify most of the information contained in their reports. As shown in figure 2, most consumers knew that their credit reports contained their Social Security numbers, credit payment history, and any bankruptcies. In addition, 92 percent of consumers answered correctly that credit card companies could

[33]We counted the responses of consumers who said between $8 and $40 as correct. This range reflects a possible cost of a credit report based on (1) prices the three nationwide CRAs were charging for credit reports and credit report–related products at the time the survey was scored, and (2) information provided to consumers about credit report costs from other relevant organizations. Although the survey was conducted before the FACT Act was implemented, we counted responses of "free" as correct because of the new provision in the FACT Act that allows consumers to receive one free credit report a year, upon request. "Free in certain instances," was also counted as correct because of provisions under FCRA. In addition, if a resident of Minnesota said $3 or a resident of Connecticut said $5, these responses were counted as correct under these states' laws.

[34]Under FCRA, before enactment of the FACT Act, consumers could request and receive a free credit report, upon request, under certain circumstances. These included (1) receiving notification of an adverse action, such as a denial of credit that was based on their credit report (within 60 days of notification), (2) suspecting that information in a CRA's file was inaccurate due to fraud, such as identity theft, (3) being unemployed and intending to apply for employment within the next 60 days, (4) receiving public welfare assistance, (5) receiving an adverse decision related to their employment based at least in part on a credit report, and (6) requesting an investigation that resulted in revisions to a report.

report unpaid bills. In July 2003, the Federal Reserve reported data showing that 81 percent of their survey respondents knew that credit reports included employment data, payment histories, any inquiries made by creditors, and information from public records (see app. III).[35]

Figure 2: Consumers' Understanding of the Information Credit Reports Contain



Source: GAO.

With respect to our survey data, we found that fewer consumers knew what their reports might not contain. Fifty-nine percent of consumers knew that their reports did not contain information on race, but 15 percent of consumers incorrectly thought race was included, and 25 percent did not know. Fifty-eight percent of consumers knew that balances in their checking accounts were not on their report, while 21 percent of consumers thought balances were on their reports, and 21 percent did not know. We

[35]Hilgert, Marianne A., Jeanne M. Hogarth, and Sondra G. Beverly, "Household Financial Management: The Connection between Knowledge and Behavior," Federal Reserve Bulletin, July 2003.

also asked consumers whether they thought income was on their credit reports, and 37 percent correctly responded that it was not, while 20 percent did not know if it was included. While some confusion exists as to whether income is included on credit reports, we spoke with all three of the nationwide CRAs to determine if they included income in credit reports. Representatives from all three nationwide CRAs told us that their credit reports do not show information on consumers' incomes. In addition, according to the three CRAs, the format CRAs use in creating credit reports for individuals—the Metro 2 format—does not include a field for income, and CRAs do not collect this information. However, in commenting on a draft of this report, FTC officials told us that income sometimes, although rarely, does appear on credit reports. Based on our discussions, we considered the responses of consumers who said that income was not included in their credit reports as correct.

In addition, before asking consumers multiple choice questions about credit report contents, we asked them to provide their own definition of a credit report. We found that 19 percent of consumers appeared knowledgeable, but the level of knowledge was unclear for an estimated 63 percent. We found that 14 percent of consumers gave clearly incorrect responses or responses showing that they did not know.

Most consumers also knew some sources of the information on their credit reports, although few knew that the credit reporting system was voluntary. Eighty-nine percent of consumers knew that banks and credit card companies provided information to CRAs, and 79 percent knew that debt collectors did. Fewer consumers—46 percent—knew that information on their credit report could come from courthouse and other public records. Still fewer—7 percent—knew that lenders were not required to report information to any CRA. We found that 57 percent of consumers did not know how many CRAs lenders must report to, and 25 percent incorrectly thought that lenders were required to report to all of the CRAs. Because the credit reporting system is voluntary, consumers need to understand that their credit reports may differ from one another and may not contain all information related to their credit history. For example, if a consumer is making timely loan payments to a lender that does not report to any of the CRAs, this payment history will not be included on the consumer's credit reports.

We also asked consumers if they knew how long information stayed on their report. We wanted to examine whether consumers were aware of the full impact their credit behaviors, such as making late payments or filing for bankruptcy, could have on their credit report. We found that 47 percent of consumers knew that information could generally stay on their report for 7 or 10 years.[36] Twenty-seven percent of consumers said that they did not know how long information remained on their reports, and 26 percent answered this question incorrectly.

Most Consumers Knew Some of the Possible Impacts of Credit Reports and Some Rules Governing Access

We found that most consumers understood some of the ways their credit history—as contained in their credit reports—could affect their lives, but around one-third were not aware of several potential uses of their reports. For instance, most consumers (95 percent and 72 percent, respectively) understood that the information in their credit reports could affect their ability to obtain loans and rent housing (fig. 1). However, fewer consumers (36 percent and 33 percent, respectively) understood that their credit histories could affect insurance coverage and premiums or that potential employers could use credit reports when making hiring decisions.

We also asked consumers about rules governing access to this information. Specifically, we wanted to determine whether consumers understood when their consent was needed to release their credit reports. For example, while only about one-third of consumers understood that potential employers could use credit reports when making hiring decisions, 61 percent knew that employers could not obtain credit reports on potential or current employees without consent. We also found that 85 percent of consumers knew that anyone who wanted to view their report (not in connection with a product or service) could not do so without their consent. Seventy-six percent knew that someone with a court order had the right to see their report. Fewer consumers—55 percent—answered correctly that someone who needed to view their credit history in connection with a product or service that they had requested could access their credit report without consent.

In another study on credit scores and consumer credit, CFA and Providian® found that the majority of respondents—81 percent—knew that mortgage lenders could use their credit history (in the form of a credit score) to determine whether they would receive a mortgage loan and the cost of the loan. Fewer respondents—47 percent—understood the effect of their

[36]Since bankruptcies can remain on reports for 10 years and other negative information can remain for 7 years, we credited respondents with a correct answer for providing either number of years.

credit history on decisions made by a home insurer. Forty-eight percent of CFA and Providian's respondents knew the effect their credit history could have on a landlord's decision to rent to them.[37]

More Than Half of Consumers Had Seen Their Credit Reports and Found Them Understandable

Our survey data showed that 58 percent of consumers had seen their credit reports at some point in time and that 45 percent of this group had viewed them within the last year. Other studies have reported that from 43 to 63 percent of their respondents had seen their credit reports. For example, in a July 2003 study the Federal Reserve reported that 58 percent of consumers had reviewed their reports.[38] We also asked the Consumer Data Industry Association (CDIA)—the trade group representing the CRAs—how many credit reports Equifax, Experian, and TransUnion had provided to consumers in 2003. CDIA told us that 57.4 million credit reports were issued to consumers in 2003.[39]

In our survey, we also asked the 58 percent of consumers who said that they had viewed their credit reports whether they had ordered their reports themselves or if someone else had ordered their report for them. Of the consumers who had seen their credit reports, 53 percent said that they had ordered their report themselves, and 47 percent said it had been ordered by someone else for them, including:

- a mortgage company (29 percent),
- a bank or financial institution (25 percent),
- a lender in general (16 percent),

[37]CFA and Providian®, "Most Consumers Do Not Understand Credit Scores According to a New Comprehensive Survey," Washington, D.C., July 2004. Information at www.consumerfed.org. CFA had similar findings in its July 2003 study.

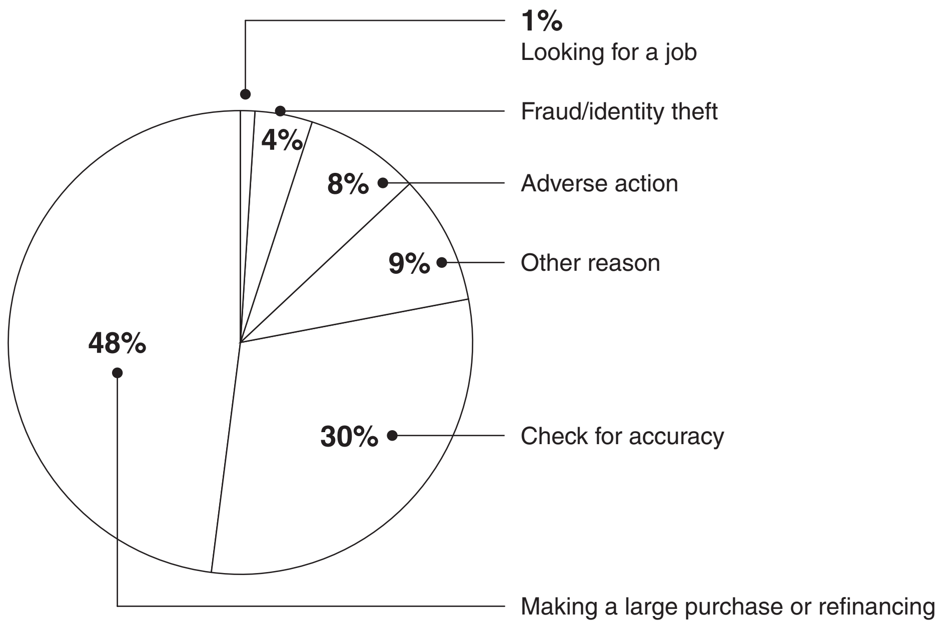
[38]Hilgert, Hogarth, and Beverly, "Household Financial Management."

[39]CDIA collected this data from the three nationwide CRAs and aggregated it before providing it to GAO in January 2005. The data on credit files issued included all direct-to-consumer disclosures (meaning offers to consumers, for a fee, online products that commonly include file disclosures, credit scores, credit score analyses, file monitoring, fraud alert systems, and more) and all consumer relations disclosures (disclosures made to consumers who contacted a CRA to receive a file disclosure due to an adverse action, concern about fraud, being unemployed and seeking employment, or being on public assistance). CDIA told us that the report request figure was an estimate of total requests by all consumers and could include multiple requests from the same consumer.

- a car dealership (12 percent),
- a credit card company (4 percent), and
- other source (14 percent).

Of the 58 percent of consumers who told us that they had viewed their reports, the largest percentage said that they had seen their reports because they were making a large purchase, such as a car or home, or were refinancing (fig. 3).

Figure 3: Reasons Consumers Viewed their Reports



Source: GAO.

The credit reporting industry has also collected information on the reasons consumers order their reports.[40] In addition, in 2003, Louis Harris and Associates conducted a study that was designed to determine consumers' interest in free credit reports and found that:[41]

- 39 percent of respondents looked at their credit reports because they were curious,
- 31 percent were ready to apply for a loan or credit card,
- 10 percent had been denied credit,
- 6 percent were concerned about identity theft,
- 12 percent had some other reason, and
- 1 percent did not know why they had seen their reports (see app. III).

We also asked consumers who had seen their reports whether they understood the information. The majority of them—79 percent—felt that the information on their reports was very or somewhat easy to understand. Eighteen percent felt that their reports were somewhat or very hard to understand, and 3 percent did not know.

[40]CDIA presented data collected from the three nationwide CRAs on the reasons why consumers ordered their credit reports before the Senate Committee on Banking, Housing, and Urban Affairs on July 10, 2003. CDIA stated that of the 16 million reports that were being issued by their members to consumers each year, 84 percent were provided due to adverse action, 12 percent due to fraud, 5 percent out of curiosity, and less than 1 percent because the consumer was unemployed, seeking employment, or on public assistance. According to one CRA, these data included only consumer relations disclosures and not direct-to-consumer disclosures. The 57.4 million reports issued in 2003 included both consumer relations disclosures and direct-to-consumer disclosures.

[41]Louis Harris and Associates, *Consumer Interest in Free Credit Reports*, 2003. Unpublished. Selected findings from this study were provided to GAO by CDIA.

Consumers Had a Basic Understanding of Credit Scores, and About One-Third Had Obtained Their Scores

We found that most consumers generally understood credit scores but lacked specific knowledge about certain factors that affected these scores. For example, 87 percent of consumers correctly responded that late credit card payments affected scores negatively, and 70 percent knew the general purpose of a credit score. However, fewer—28 percent—could identify a number within an acceptable range of possible scores. And while many consumers were aware of some factors that could affect their scores, such as skipping loan payments, many were also unaware of others, such as the possible negative effect of using all available credit. We also found that although consumers had some knowledge of credit scores, only about one-third had actually obtained them.

Consumers Had a Basic Knowledge of Credit Scores

Before consumers answered any other credit score questions, our survey asked them to define a credit score. About 15 percent of consumers were able to give answers clearly indicating that they knew the definition of a credit score, while about 53 percent of responses were not specific enough to indicate the extent of consumers' knowledge. Thirty-two percent of consumers gave answers that indicated they either had an incorrect understanding of credit scores or simply did not know the definition. However, when asked to choose the correct definition of a credit score from a list of choices, about 70 percent correctly responded that a credit score predicted the likelihood that a consumer would repay a loan.[42] These correct responses from our survey appear to be higher than those found in CFA and Providian's 2004 study, which found that 34 percent of consumers answered "true" to the statement that a credit score mainly indicates the risk of repaying a loan.[43] On our survey, we also asked consumers to provide a number that could be a possible credit score. About 28 percent of consumers gave a number within the correct range (between 300 and 900).[44]

[42]Of the remainder, about 10 percent did not identify the correct definition of a credit score, and about 20 percent said they did not know what one was.

[43]CFA and Providian, "Most Consumers Do Not Understand Credit Scores."

[44]This range generally reflects the range used by firms that generate credit scores. FICO credit scores are the standard credit score used by the industry, and all three major CRAs own FICO models and generate FICO credit scores. In addition, some of the CRAs have developed their own credit scoring models and generate their own scores.

We also asked consumers questions about the effects of certain factors on credit scores. The mathematical models used to compute credit scores are considered proprietary information, and companies have no obligation to release this information to the public. However, FCRA, as amended by the FACT Act, requires that CRAs disclose to consumers that request the information the key factors that have adversely affected their credit scores. In addition, though not required to disclose its credit scoring models, the Fair Isaac Corporation has published information on five factors that affect credit scores generated using their models (FICO® scores).[45] These factors are:

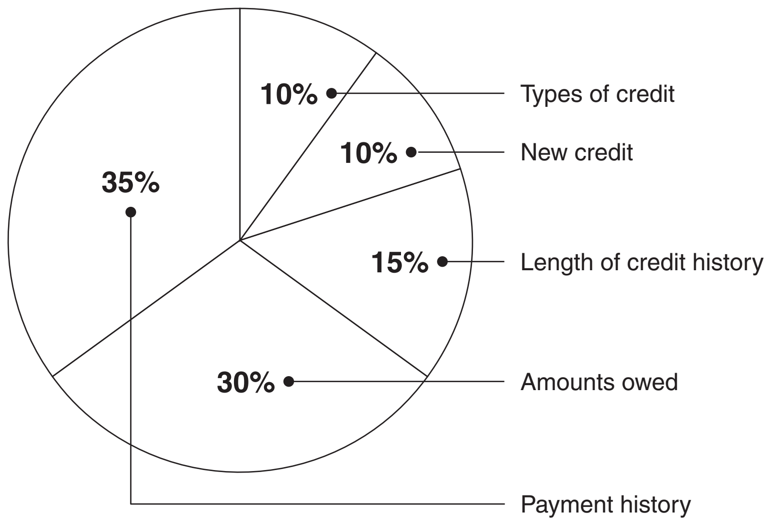
- Payment history: Paying bills on time can generate a higher score.
- Amounts owed: Using all available credit can result in a lower score.
- Length of credit history: Having a credit history for a relatively long period of time can result in a higher score.
- Type of credit: Having a diverse mix of installment (mortgages and loans) and revolving credit (credit cards) can generate a higher credit score.
- New credit: Frequently applying for new credit can contribute to a lower score.[46]

According to Fair Isaac Corporation, payment history and amounts owed have the most influence on credit scores (fig. 4).

[45]As reported on www.myFico.com. The importance of these factors may differ with other non-FICO credit scores.

[46]According to Fair Isaac Corporation, its scoring model does not penalize consumers for "rate shopping." For instance, a consumer who is looking for a mortgage may have multiple lenders request his or her credit score. In order to not penalize consumers who comparison shop, the score counts multiple inquiries within a 14-day period as just one inquiry.

Figure 4: Factors Affecting Credit Scores



We found that consumers were aware of some of the most basic factors affecting credit scores, like the importance of payment histories. Survey data showed that more than 80 percent of consumers knew that skipping a loan payment or making a late credit card payment could lower their credit scores (fig. 5). Moreover, a majority of consumers (79 percent) correctly responded that having had a credit history for a long period of time could result in a higher score. In addition, 60 percent of consumers knew that frequently applying for credit could have a negative effect on their scores. CFA and Providian's 2004 study also found that most consumers understood the positive effect of making timely payments (87 percent) and the negative effect of making payments more than 30 days late (60 percent).[47]

Many Consumers Were Not Familiar with Some Factors That Could Affect Credit Scores

We spoke with industry experts who said that while consumers generally understood that scores help determine creditworthiness, many consumers were confused by or unaware of various factors that affected credit scores. Our survey showed that while consumers were aware of some factors affecting credit scores, many lacked some knowledge in this area. For

[47]CFA and Providian, "Most Consumers Do Not Understand Credit Scores."

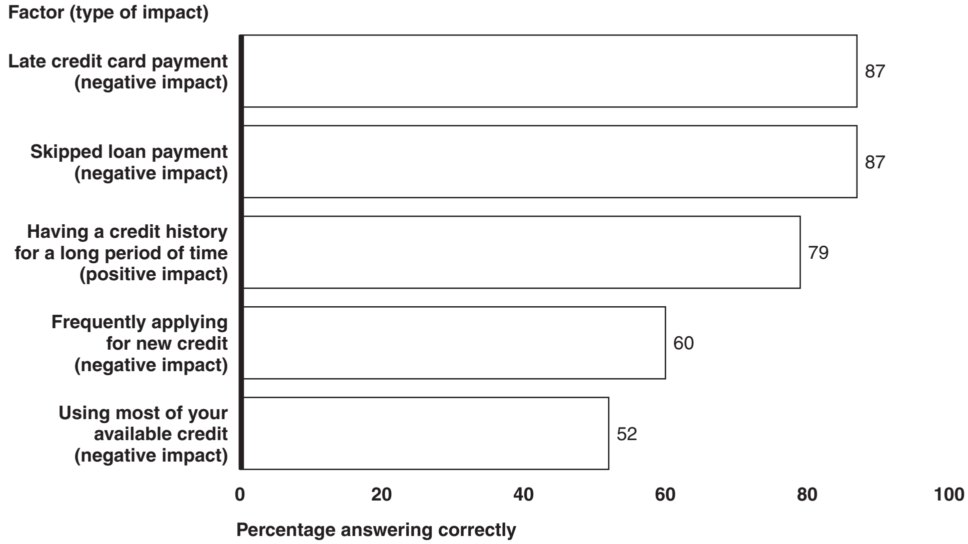
example, of the eight questions on our survey pertaining to the factors affecting credit scores, 52 percent of consumers missed three or more. A complete understanding of these factors can be important for consumers who want to improve their credit scores in order to receive approval for credit or obtain a more favorable interest rate.

For example, 48 percent of consumers were unaware of the negative effect of using all available credit—the second-largest factor influencing credit scores. It is important for consumers who want to improve their credit scores to understand the multiple factors that affect their scores; for example, that not charging the maximum on their credit cards is almost as important as making timely payments. In addition, about the same percentage did not know that having had a credit history for a short time could lower their score. Consumers who have had credit for a short period of time lack a history of positive credit behavior to balance out possible bad credit decisions. Therefore, these consumers may need additional information on the advantages of making positive credit decisions as they begin establishing credit histories. Finally, around half of consumers did not know that some factors had no effect on credit scores, such as having a low checking account balance or requesting a copy of their credit report. The Federal Reserve's 2003 study and CFA and Providian's 2003 study also examined consumers' knowledge of the factors that affect credit scores. For example, 45 percent of respondents to the CFA and Providian study knew that using all available credit could lower consumers' credit scores.[48] The Federal Reserve's July 2003 study reported that around 60 percent of respondents answered "false" to the following statement: "Your credit rating is not affected by how much you charge on your credit cards."[49]

[48]CFA and Providian, "Consumers' Lack Essential Knowledge."

[49]Hilgert, Hogarth, and Beverly, "Household Financial Management."

Figure 5: Consumers' Knowledge of the Factors That Affect Credit Scores



Source: GAO.

Few Consumers Had Obtained Their Credit Scores

Our survey found that about one-third of consumers had obtained their credit scores, or about half the number of consumers who had seen their credit reports. Fair Isaac Corporation's 2003 consumer survey found that 31 percent of consumers had obtained their credit scores, and CFA and Providian's 2004 survey showed that 53 percent of consumers had obtained them.[50] We also asked CDIA for the number of credit score disclosures that the three nationwide CRAs made to consumers in 2003. According to CDIA, approximately 9.8 million credit score disclosures were made in that year.[51]

[50]Fair Isaac Corporation, *myFICO Consumer Survey Results*, March 2003 (unpublished); CFA and Providian, "Most Consumers Do Not Understand Credit Scores."

[51]The 9.8 million disclosures represent only those scores sold by the three CRAs. CDIA described this estimate as low and not indicative of the total number of consumers who had reviewed their credit scores, as it did not reflect the "entire score marketplace," which includes those scores sold by Fair Isaac Corporation and by lenders such as banks.

Consumers' Knowledge of the Dispute Process Was Limited, and Few Consumers Had Disputed Information

Consumers knew that they could dispute inaccurate information on their credit reports, but fewer than half were able to answer specific questions about the dispute process and their rights. For example, about one-third of consumers correctly responded that CRAs would investigate disputed information for free. In addition, the majority of consumers (94 percent) did not name FTC as the federal agency they would contact with a complaint about a CRA—for example, about an unresolved dispute—although FTC is the federal agency primarily responsible for enforcing consumers' rights for CRA's credit reporting. Overall, around 18 percent of consumers said that they had actually disputed information on their credit reports at some point. Some of the most frequent reasons these consumers mentioned for disputing were that the information on the report was not theirs or that the report showed either incorrect payment histories or incorrect late payments. Consumers reported that incorrect information was removed from their reports in about two-thirds of the disputes.

Consumers Knew That They Could Dispute Information but Did Not Understand the Dispute Process or Their Rights

Ninety percent of consumers correctly responded that they could dispute information they believed was inaccurate and request that it be corrected. They also appeared to understand the importance of checking their reports for potential errors, though many did not do so. While the majority of consumers (86 percent) said that they should check their reports periodically, only 61 percent of this group reported actually having seen their credit reports.[52] Further, consumers were unclear about some of their specific rights under the dispute process. For instance, prior to the FACT Act, FCRA provided consumers with certain rights when they disputed information through CRAs but not when consumers disputed information with those that had furnished it, such as credit card companies.[53] Yet almost two-thirds of consumers (64 percent) said that they would contact their lender first rather than a CRA to dispute an incorrect late payment on their credit report. Another 18 percent said that they would contact the CRA first, while 13 percent said they did not know whom to contact. The

[52]Most of the 18 percent of consumers from our survey who had disputed had seen their credit report, but it is not necessary to see a report to dispute inaccurate information. Of the 18 percent that disputed, 94 percent of those said that they had seen their report, and 6 percent said that they had not.

[53]As mentioned previously, FCRA, now amended by the FACT Act, has mandated that the federal banking agencies, NCUA, and FTC issue regulations identifying the circumstances under which furnishers are required to investigate the accuracy of information in credit reports upon the request of the consumer. Pub. L. No. 108-159 § 312 (c).

CFA's 2003 study also found that 64 percent of consumers believed that they had to contact their lender if they found an inaccuracy in their reports or scores.[54] The fact that consumers are more likely to have ongoing business relationships with their lenders and not with the CRAs could help explain these responses.

In addition, many consumers were unaware of other details of the dispute process. For example:

- 72 percent did not know that CRAs investigate incorrect information for free;
- 60 percent did not know that resolving a dispute with one CRA did not mean that the other CRAs would automatically correct the information;[55]
- 59 percent did not know that they had the right to add an explanatory statement to their credit reports if they were unable to resolve a dispute; and
- 62 percent did not know which agency to contact if they were not satisfied with a CRA's work—for instance, if a dispute was not resolved—and few (6 percent) named FTC as the government agency they would contact.

This lack of knowledge is consistent with what we heard from some in the credit reporting industry—that consumers do not know about the specifics of the dispute process unless they have undertaken it themselves and that they learn the process once they contact a CRA. In commenting on a draft of this report, FTC noted that consumers are provided with the information they need to dispute information when they obtain a credit report from a CRA, because the CRAs are required by law to provide a "summary of rights" with each credit report consumers request. This "summary of

[54]CFA, "Consumers Lack Essential Knowledge."

[55]As amended by the FACT Act, FCRA requires FTC and other identified federal agencies to promulgate regulations identifying when furnishers are required to investigate disputed information. If the investigation reveals an inaccuracy, the provision requires the furnisher to notify each CRA to whom the furnisher provided the information. 15 U.S.C. § 1681s-2(a)(8), as amended. However, resolving inaccurate information could still be problematic if a furnisher has gone out of business or there is an error in personal identifying information, such as a name or address.

rights" explains consumers' rights under FCRA, including information on how to conduct a dispute, and provides contact information for the FTC and other enforcement agencies. While this requirement provides consumers with information when they request a report from a CRA directly, many consumers do not request reports themselves. Nearly half of the 58 percent of consumers in our survey who obtained their reports said that someone else had done the ordering for them. As a result, these consumers may not have received a copy of the summary of rights and may not have had the information necessary to conduct a dispute or file a complaint about the work of a CRA.

The Few Consumers That Tried to Dispute or Correct Information Did So for a Variety of Reasons

We found that approximately 18 percent of consumers said that they had tried to dispute information on their credit reports at some point. To supplement our survey data, we asked CDIA to provide data from each of the three nationwide CRAs on the number of disputes. CDIA found that of the approximately 57 million report requests in 2003, about 12.5 million involved disputes.[56]

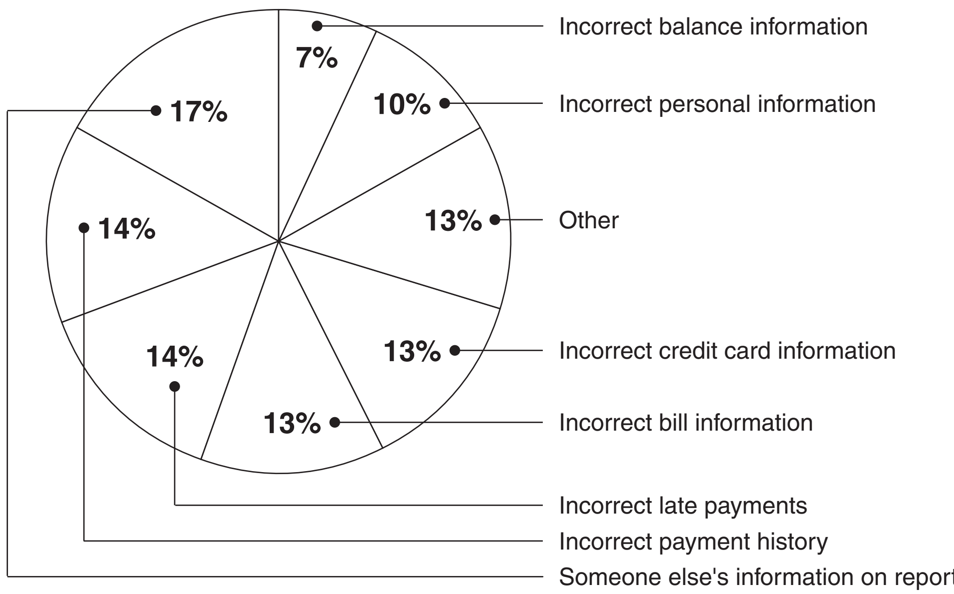
Our survey data showed that the 18 percent of consumers who disputed did so for a variety of reasons. For example, about 17 percent found items on their reports that belonged to someone else (fig. 6). About 14 percent of consumers disputed for other reasons, including an incorrect payment history (14 percent), incorrect late payments (14 percent), incorrect bill information (13 percent), or incorrect credit card information (13 percent). We also found that about 10 percent of consumers had disputed personal identifying information, such as a name or address. During our survey, consumers gave the following examples of their reasons for disputing information:

- "They had put the loan on twice";
- "They said I hadn't paid some bill that showed up before I was born";
- "It said I was deceased"; and

[56]As mentioned previously, CDIA collected these data from the three nationwide CRAs and aggregated them before providing the information to GAO in January 2005. CDIA told GAO that the report request figure was an estimate of total requests by all consumers and could include multiple requests from the same consumer.

- “Wrong address, repossession of a car in California where I have never lived.”

Figure 6: Reasons Consumers Disputed Information on Their Credit Reports



Source: GAO.

Note: Other reasons included incorrect bankruptcy information (4 percent), incorrect information from a former spouse (3 percent), identity theft (2 percent), and another reason (4 percent).

In Congressional testimony, industry officials have noted that it is important to address the issue of inaccuracies in credit reports. But they added that many questions that begin as consumer disputes might not be attributable to errors. For instance, they said that consumers might have not understood what kinds of information credit reports could contain and could withdraw a presumed dispute after learning more about the reporting process.[57] These officials also said that a presumed dispute could be something very easy to correct, such as a misspelled last name or wrong address.

Based on our survey, of the 18 percent of consumers that had disputed, around two-thirds (69 percent) said that the disputed information had been removed from their credit reports. Another 23 percent said that the information had not been removed, and 7 percent said that they did not know if it had been. In 2003, CDIA testified that it had collected information on the results of consumer disputes and found that data had been deleted in 27 percent of the disputed cases, verified and left on the person's report in 46 percent of the cases, and modified following the instructions of the entity furnishing it in 27 percent of the cases. CDIA said, however, that these actions could have been updates of information as well as disputes.[58] Our survey results also showed that of those consumers who had disputed (18 percent), about one-third contacted their lender, one-third contacted the CRA only, and one-third contacted both.

Of the consumers in our survey who had disputed and had information removed from their credit reports (69 percent), we found that about 72 percent said that the information had not reappeared,[59] although 15 percent of this group were unsure if it had been reinserted. The issue of information being reinserted has been raised in testimony before Congress, especially in cases of identity theft. In addition, FTC continues to receive consumer complaints through its Web site and toll-free number regarding the reinsertion of deleted items in credit files without notice to the consumer. We also found that about one-third of the consumers who disputed information in credit reports chose to add an explanatory statement to

[57]For example, a 30- or 60-day delinquency remains on a credit report even after it has been paid.

[58]Prepared testimony from the Consumer Data Industry Association (CDIA) CEO and President Stuart Pratt; in U.S. Congress, Senate, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*, hearings before the Committee on Banking, Housing, and Urban Affairs, 108th Cong., 1st sess., July 10, 2003. Of the 27 percent of cases in which information was deleted, 11 percent was deleted on the furnisher's instruction and 16 percent because the 30-day period for responding to a consumer complaint expired with no response from the furnisher. Under section 611(a)(5) of FCRA, as amended, information that cannot be verified must be deleted from the credit file. 15 U.S.C. § 1681i.

[59]The sampling error for the 72 percent of consumers who said information had not reappeared was +/- 7 percentage points or less at the 95 percent confidence level.

their reports, as allowed under FCRA. The CRAs have noted that lenders may take such a statement into consideration when making credit decisions.

Certain Demographics and Credit Experiences Are Associated with Consumers' Understanding of Credit Reporting Issues

We found that education, income, race/ethnicity, employment status, and age, as well as having had an automobile or mortgage loan and experience with the credit reporting process, all had a statistically significant effect on consumers' knowledge of credit reporting. These factors have a cumulative affect on consumers' knowledge. For example, a consumer with a college degree, credit experience, and a high income could score much higher than a consumer without these factors. We found that less educated consumers, those of Hispanic origin, those with lower incomes, and younger and older consumers scored lower on the survey than others. At the same time, we found that consumers who had had experience with credit or the credit reporting process, including obtaining a credit report, scored higher. Finally, we found that other experiences, such as having been a victim of identity theft, gender, and residence in one of the seven "free report states" did not have a statistically significant effect on consumers' knowledge.

Those with Less Education and Lower Incomes Scored Lower on Our Survey

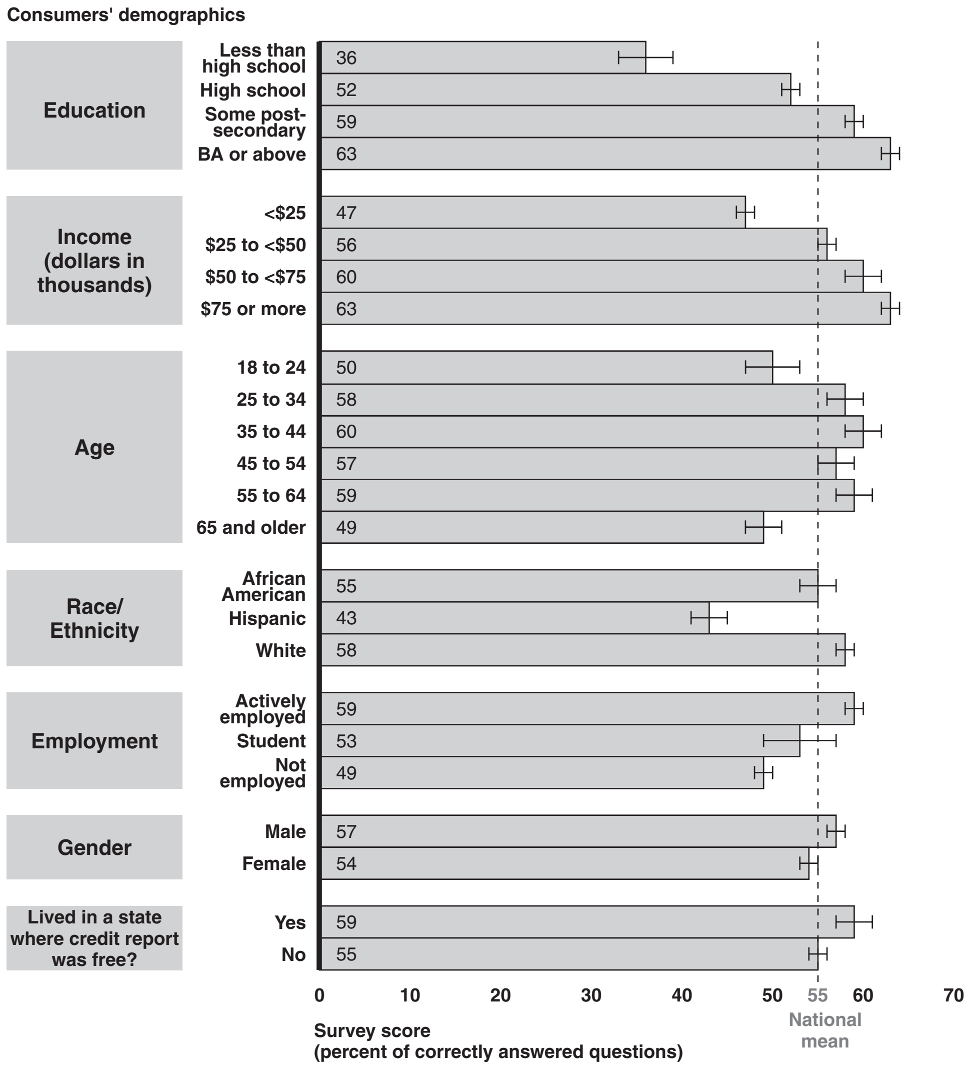
Our survey results showed that awareness of credit reporting issues generally increased as consumers' educational level increased.[60] As figure 7 shows, consumers with less than a high school education had a lower mean or average score—measured as the percentage of correct answers to questions designed to test knowledge—overall compared with those with more education (36 percent compared with 63 percent for those with a bachelor's degree or more). In addition, as educational level increased, consumers obtained reports and scores and disputed more often than those with less education. For example, consumers with less than a high school education had not viewed their credit reports as frequently as their more educated counterparts, especially those with a bachelor's degree or more (25 percent and 69 percent, respectively). In addition, we found that consumers with less than a high school degree were less likely to know some of the "basics" about credit reporting—for example, that skipping loan payments and making late credit card payments had a negative effect

[60]We used two methodologies—a regression analysis and cross-tabulation analysis—that generally provided consistent conclusions. See appendix IV for cross-tabulations results and appendix V for the regression analysis.

on their credit scores. Specifically, 55 percent of those with less than a high school degree knew that skipping loan payments had a negative effect, compared with 95 percent of those with a bachelor's degree or more.[61] In addition, although the Internet is one of many possible sources for consumers to obtain a copy of their credit reports, those with less than a high school education were less likely to name the Internet as a source compared with those with a bachelor's degree or more (10 percent and 34 percent, respectively). Further, government agencies, CRAs, and others use the Internet as a tool to disseminate educational information on credit reporting issues.

[61] The sampling error for the 55 percent figure was +/- 7 percentage points.

Figure 7: Average Total Scores and Demographic Groups



Source: GAO.

Note: Brackets on each bar represent the sampling error (or confidence interval) for that estimate at the 95 percent level of confidence.

Consumers with relatively low household incomes also had less knowledge of credit reporting than consumers in higher-income households. For example, those in the lowest household income group (less than $25,000 annually) correctly answered an average of 47 percent of survey questions, while those in the highest household income group ($75,000 or more annually) correctly answered around 63 percent (fig. 7). In addition, the percentage of consumers who had viewed their reports and scores and disputed inaccurate information generally increased with household income level. For example, consumers with household incomes of $25,000 or less were less likely to have viewed their credit reports than consumers in the highest household income group (38 percent compared with 75 percent). We also found that consumers in households making less than $25,000 were less likely than the highest income group to know that their credit history could affect the interest rates lenders offered them (73 percent compared with 89 percent) and that frequently applying for credit affected credit scores negatively (44 percent versus 78 percent). In addition, those in the lowest income group were less likely to name the Internet as a place to go for a credit report than those with household incomes of $75,000 or more (17 percent and 36 percent, respectively).

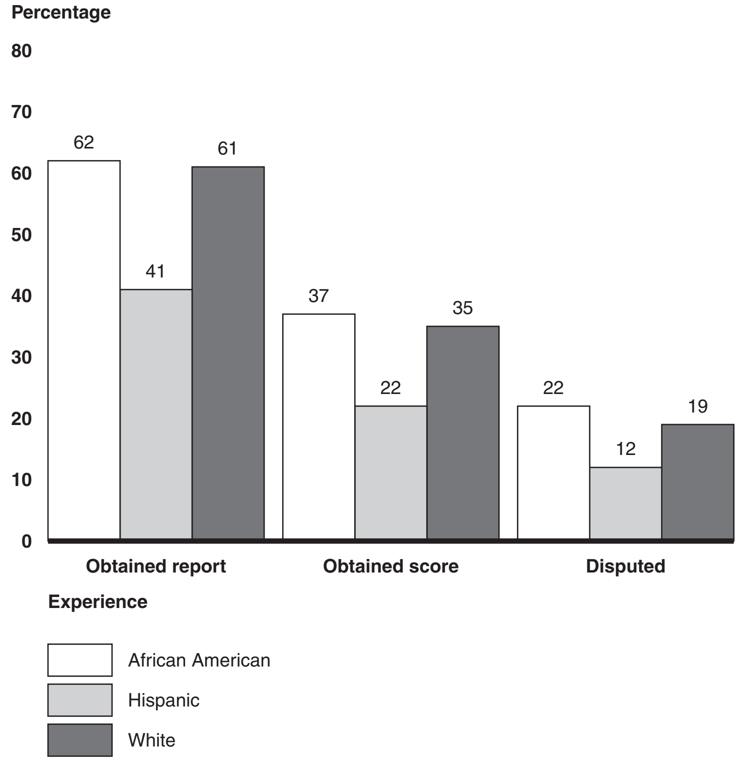
Race/Ethnicity Was Associated with Differences in Survey Scores

We also found that race/ethnicity had a statistically significant effect on consumers' knowledge of credit reporting. For example, African Americans and whites scored similarly, showing approximately equal levels of knowledge, while Hispanics scored consistently lower on our survey. As shown in figure 7, African Americans correctly answered an average of 55 percent of survey questions, whites an average of 58 percent, and Hispanics an average of 43 percent.[62] In addition, we found that African Americans and whites were almost equally as likely to have viewed their credit reports and obtained their credit scores but that Hispanics were less likely to do either (fig. 8). More African Americans than whites said that they had ordered their credit reports themselves—65 percent and 50 percent, respectively.[63]

[62]Such effects are cumulative. For example, a Hispanic consumer with a college degree, credit experience, and a high income could score around 30 percent higher than a Hispanic without a high school education, low income (less than $25,000) and with no credit experience.

[63]The sampling error for the 65 percent of African Americans who had ordered their reports themselves is +/- 7 percentage points.

Figure 8: Credit Reporting Experience by Race/Ethnicity



Source: GAO.

Table 1 highlights some specific survey responses for each racial/ethnic group. We found that 84 percent of African Americans and 92 percent of whites knew that skipping loan payments could lower their credit score. And around the same percentage of both groups (about 90 percent) knew that they could dispute information on their credit report. Hispanics had lower scores on both of these questions—63 percent and 78 percent, respectively. However, when asked if race was or was not on their credit reports, Hispanics scored virtually the same as African Americans, though still lower than whites. Finally, we found that more whites (35 percent) named the Internet as a source for obtaining their credit reports than African Americans and Hispanics (18 and 16 percent, respectively).

Table 1: Selected Survey Responses by Race/Ethnicity

Survey Question	African American	Hispanic	White
	Race/Ethnicity (in percentages)		
Credit Report Section:			
Knew they had the right to obtain their report at any time	66%	48%	77%
Knew race was not on their credit report	51	50	63
Credit Score Section:			
Knew the correct definition of a credit score	59	39	78
Knew skipping loan payments could affect scores negatively	84	63	92
Knew making late credit card payments could affect scores negatively	86	69	91
Dispute Section:			
Knew they had the right to dispute information on their credit report	89	78	92

Source: GAO.

Our survey findings are consistent with information we collected during interviews with federal agencies and other organizations, including the National Council of La Raza (La Raza).[64] Officials at the FDIC, the Office of the Comptroller of the Currency, and FTC told us that their financial literacy efforts are often target certain populations, including Hispanics, that may more often be "unbanked" or less financially literate.[65] Government officials and representatives of other organizations, including La Raza, discussed the need for financial literacy programs among the low-income Latino community.[66] They also told us that some Latinos tend to avoid debt, making them less likely to obtain credit and thus less likely to have experience with credit reports and scores. In our survey, we found

[64]The National Council of La Raza is a private, nonprofit organization established to reduce poverty and discrimination and improve life opportunities for Hispanic Americans.

[65]"Unbanked" means not maintaining deposit accounts with mainstream financial service providers.

[66]La Raza discusses the need for financial literacy programs in the Latino community as well as the results of some of these efforts in their 2004 report, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*, available at www.nclr.org.

that more white consumers had experience with credit-related products than African Americans or Hispanics, with Hispanics having the least amount of experience (table 2).

Table 2: Experience with Credit-Related Products and Race/Ethnicity

	Race/Ethnicity (in percentages)		
Have had the following credit-related products at some point in time	**African American**	**Hispanic**	**White**
Credit card	75%	62%	92%
Automobile loan	62	45	80
Home loan/mortgage	42	28	73

Source: GAO.

Younger and Older Consumers Scored Lower on Our Survey

We also found that consumers' knowledge of credit reporting differed with age and that the youngest consumers (aged 18 to 24) and the oldest consumers (aged 65 and older) scored lower compared with other age groups. The average scores for the youngest and oldest groups were 50 and 49 percent, respectively, compared with an average score of almost 60 percent for all other age groups (fig.7). We also found that experience with the credit reporting process varied by age. For example, 7 percent of the youngest consumers and 17 percent of the oldest consumers had obtained their credit scores, compared with 33 to 48 percent of those in all other age groups.[67] We also found that only 18 percent of those aged 18 to 24 knew that their credit history could affect employment decisions—an issue of particular importance to persons in this age group, who are likely to be engaging in their first job search—while 29 to 46 percent of those in all other age groups knew this.[68] Younger consumers were also less aware that having a credit history for a short time could affect scores negatively, especially when compared with those aged 25 to 34 (41 percent and 61

[67]The sampling error for the 33 and 48 percent of those who obtained their scores is +/- 7 percentage points.

[68]The sampling error for the 18 percent of those aged 18 to 24 who knew that their credit history could affect employment decisions is +/- 8 percentage points. The sampling error for those in all other age groups who answered correctly is +/- 7 percentage points or less.

percent, respectively).[69] Finally, those over age 65 were less likely to say that they should check their credit reports from time to time for possible errors than all other age groups (71 percent versus 88 to 92 percent) and less likely to name the Internet when compared to all other age groups (14 percent versus 29 to 37 percent).[70]

Consumers with Credit Experience Scored Higher on Our Survey

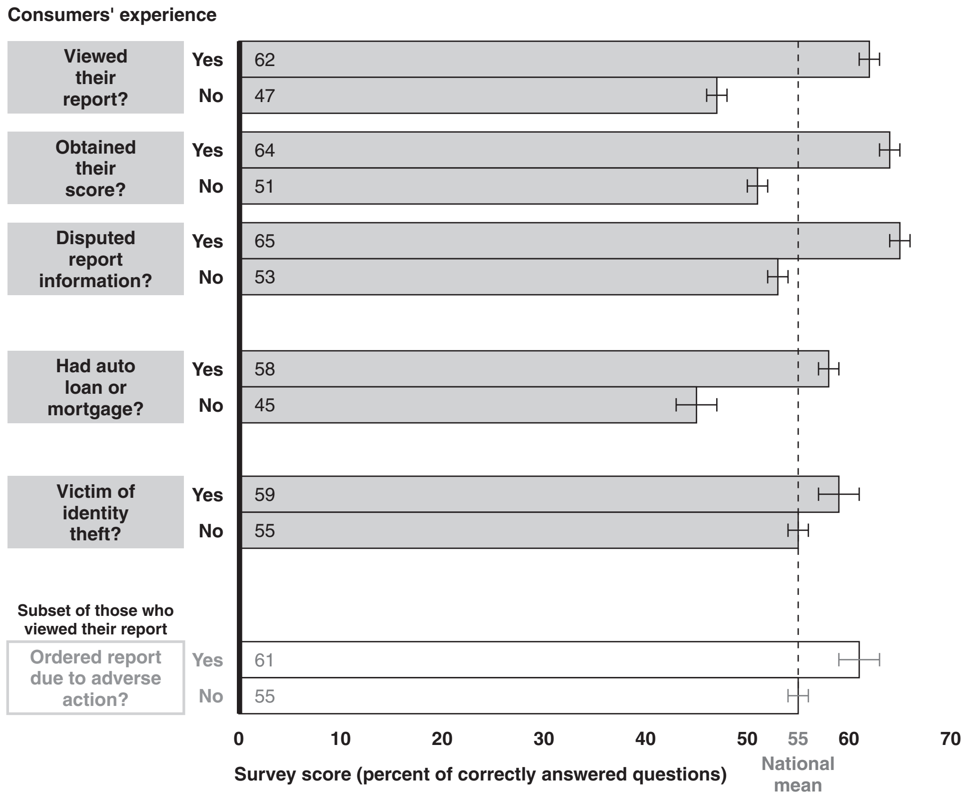
Our analysis showed that having had certain credit experiences increased consumers' knowledge of credit reporting issues. This finding is consistent with opinions from experts in the field of financial literacy, who have noted that consumers who have experience with a financial product or transaction—in other words, those who have been able to "learn by doing"—are better informed about financial products and transactions than those who lack such experience.

First, we found that consumers who had viewed their reports, obtained their scores, or disputed information demonstrated more knowledge of credit reporting. For example, we found that consumers who had viewed their credit reports had a higher average survey score (62 percent) than those who had not (47 percent) (fig. 9). Consumers who had seen their credit scores were also better informed about credit issues than those who had not (64 percent and 51 percent, respectively).

[69]The sampling error for the 41 percent of those aged 18 to 24 who knew that having a credit history for a short time affected scores negatively is +/- 10 percentage points; for the 61 percent of those aged 25 to 34 who answered correctly, it is +/- 7 percentage points.

[70]The sampling errors for the 88 to 92 percent of consumers in other age groups who said that they should check a report from time to time are +/- 7 percentage points or less. The sampling errors for the 29 to 37 percent for all other age groups that named the Internet are +/- 7 percentage points or less, except for those aged 18 to 24 (+/- 10 percentage points).

Figure 9: Average Total Scores and Credit Experiences



Source: GAO.

Note: Brackets on each bar represent the sampling error (or confidence interval) for that estimate (95 percent level of confidence).

We found that having had one of these three experiences could increase responses to certain questions by 15 to almost 30 percent—for instance, of those who had obtained their credit reports, 59 percent knew how long information remained on a credit report, compared with 30 percent of those who had not obtained a report. In addition, 76 percent of those who had obtained their credit scores but 52 percent of those who had not knew that frequently applying for new credit could have a negative effect on a scores.

Second, we found that consumers who had either obtained an automobile loan or a home loan/mortgage at some point in time scored higher on the overall survey than those who had not had these loans. Specifically, consumers who had experience with these loans—about 74 percent of consumers—scored an average of 58 percent on the survey, while those who had not scored an average of 45 percent (fig. 9). In addition, those who had obtained either an auto or mortgage loan were more likely to view their credit reports and scores and to dispute information on their reports—66 percent compared with 29 percent of those that had not had these loans. Consumers who had had an auto loan or mortgage also appeared to be more familiar with some of the factors that might or might not affect credit scores, such as frequently applying for credit and using most of the credit available to them, than consumers who had not had such loans. For example, 65 percent of those who had had these loans were aware that frequently applying for new credit affected scores negatively, compared with 43 percent of those who had not had these loans. In addition, consumers who had taken out these loans were more likely to know how long information remained on credit reports than consumers who had not (52 percent and 30 percent, respectively).

Being a Victim of Identity Theft and Living in a Free Report State Had Little Effect on Consumers' Survey Scores

Government and industry officials we interviewed told us that certain experiences—such as having been a victim of identity theft or having requested a credit report because of an adverse action, such as denial of credit—might increase consumers' knowledge of credit issues. However, in our regression analysis we found that these experiences did not have a statistically significant effect on consumers' knowledge.[71] Figure 9 shows that consumers who said they had been victims of identity theft (approximately 10 percent of survey respondents) and those who had obtained their reports because of adverse action scored only slightly higher than other consumers. Although we did not see large differences in overall knowledge of credit reporting between victims of identity theft and other consumers, we found that victims of identity theft were more likely to obtain their credit reports (72 percent, compared with 56 percent) and disputed information more frequently (36 percent and 16 percent, respectively).[72] In addition, like all other groups, victims of identity theft did not name FTC as the agency to contact if they had a problem with a CRA, although Congress designated FTC as the agency responsible for identity theft claims. Identity theft complaints to FTC have increased in

[71]We did not use adverse action in the regression analysis because it is a subset of those who requested their credit reports. The regression was designed to predict the knowledge score of the general population, not the score of those who have obtained their credit report.

[72]The sampling error for the 72 percent of victims of identity theft who obtained reports and the 36 percent of those who had disputed is +/-8 percentage points.

recent years.[73] We also did not see much difference in overall knowledge between those who had obtained their reports because of an adverse action and those who had not. However, consumers who had experienced an adverse action and requested a report were more likely to order their reports themselves (78 percent) than other consumers (49 percent) and more likely to dispute information (52 percent compared with 15 percent).[74]

Finally, we looked at consumers who lived in free report states—one of the seven states where consumers could order a free copy of their credit report annually before the FACT Act was passed (about 21 percent of respondents). Based on our discussions with government and industry officials, we decided to test whether living in a free report state would increase consumers' knowledge about credit reporting issues compared with those who did not live in these states. But as figure 7 shows, we found that consumers residing in free report states had only slightly higher average survey scores than consumers elsewhere (59 percent compared with 55 percent). As reported by the Congressional Research Service in 2003, TransUnion found in a 2003 study that around 4 percent of consumers in free report states had requested their reports, compared with around 2 percent of consumers in other states.[75] Colorado was the exception, with more than 10 percent requesting their reports, possibly because someconsumers were notified of this right by mail.[76] In our study, 46 percent of consumers in free report states said that they did not know they had this right.

[73]FTC data indicates that complaints of identity theft doubled every year from November 1999 through 2002. In 2003, the agency received about 215,000 identity theft complaints; in 2004, about 247,000. The total number of complaints in FTC's database as of December 31, 2004 was 742,300.

[74]The sampling error for the 78 percent of those who obtained reports because of adverse action, and who ordered reports themselves is +/- 8 percentage points. The sampling error for the 52 percent of those who obtained reports because of adverse action and disputed is +/- 10 percentage points.

[75]Congressional Research Service (CRS). "A Consumer's Access to a Free Credit Report: A Legal and Economic Analysis," Washington, D.C., December 2003.

[76]In Colorado, a CRA is required to notify consumers of their right to a free credit report if a CRA has received eight credit inquiries pertaining to the consumer or if the CRA has received a report that would add negative information to the consumer's file. C.R.S. § 12-14.3-104(2)(a).

We also assessed the effect of gender and employment on consumers' knowledge. In our regression analysis we found that gender did not have a statistically significant effect. Actively employed consumers scored slightly higher on the survey than consumers in other employment groups. More survey results for these and other factors we looked at are reported in appendix IV.

Conclusions

Given that credit reports and the credit scores derived from them impact many important aspects of consumers' lives, it is increasingly important that consumers understand what is in reports, how reports and scores are used and the potential impacts of both. We found that most consumers understood the basics of credit reporting but were less aware of other important information, including:

- The impact of information contained in credit reports, how long information remains on reports, some types of information reported, and the possible impact of credit history on insurance coverage and premiums and employment;

- How various behaviors impact credit scores—for example, that using all available credit and frequently applying for new credit can lower a score;

- The dispute process and federal protections under FCRA, as amended by the FACT Act—for example, that CRAs investigate erroneous information for free, that the FACT Act allows consumers a free credit report each year, and FTC is the federal agency charged with enforcing consumer protections for credit reporting by CRAs.

Although both industry and government agencies have numerous efforts under way to increase financial literacy, our analysis highlights specific areas for targeting educational efforts to increase consumer knowledge of credit reporting. We believe our analysis could help FLEC develop its national financial literacy strategy and Treasury develop its multimedia campaign based on this strategy, as mandated in the FACT Act. At our forum on financial literacy, credit experts agreed that consumers would benefit from more education on credit, including the cost of credit, how to use credit, and how to manage credit responsibly. Without this understanding, it is difficult for consumers to know whether they are receiving the most favorable decisions when applying for credit or how to improve their credit history to achieve higher credit scores.

Specifically, it would be beneficial for consumers to know what information is included in a credit report and what information has the greatest impact on credit decisions and therefore would be important to review for accuracy and completeness. Our survey showed that 41 percent of consumers did not review their reports, although periodic reviews are an important step in ensuring the accuracy of credit histories and possibly help mitigate against the effects of identity theft. Further, we do not believe that consumers fully understand their rights under the dispute process, since many did not know that CRAs investigate incorrect information for free or that FTC is the federal agency primarily responsible for enforcing consumers' credit reporting rights by CRAs, such as in the case of an unresolved dispute. Given the changes under the FACT Act, consumers would also benefit from knowing that they are entitled to one free credit report each year.

Our analysis also provides some insight into possible subgroups of consumers that would likely benefit from more targeted education. We found that certain credit experiences—having had an auto or mortgage loan—and some demographic factors—income, education, age, and race/ethnicity—were associated with consumers' knowledge of credit reporting issues. These results suggest that less educated, lower-income, and Hispanic consumers may not have sufficient knowledge to understand the negative repercussions of a poor credit history, erroneous information on credit reports, or identity theft. FLEC and Treasury will need to use creativity in their national strategy and media campaign in order to reach these groups, going beyond establishing an Internet link to federal resources, because these consumers may not have Internet access. Further, since we found that those with less than a high school education and younger consumers scored lower on our survey, FLEC and others need to consider whether an earlier introduction of credit reporting and other financial concepts, such as in high school curriculums, may begin to address this apparent knowledge gap.

Recommendations for Executive Action

Consistent with FLEC's and Treasury's mandate under FCRA, as amended by the FACT Act to improve consumers' understanding of credit reports, credit scores, and the need to dispute inaccurate information, we recommend that:

- The Secretary of the Treasury, in his capacity as Chairman of FLEC, work with its members to improve consumers' understanding of their federal rights through FLEC's national strategy and Treasury's multimedia campaign, targeting those populations that scored the lowest on our survey—for example, consumers with less than a high school education and relatively low income levels, certain age groups (under 25 and 65 and older), and Hispanics.

- In targeting certain subpopulations, FLEC should expand efforts to provide financial education on credit reporting issues, for example in high school curriculums and in venues likely to reach Hispanics.

In addition, we recommend that the Chairman of FTC, through ongoing educational initiatives, materials, and public announcements, and in light of FTC's responsibility to protect consumers and enforce consumer rights:

- Improve consumers understanding of how credit reports and scores are used;

- Encourage consumers to obtain their credit reports and credit scores and if necessary, dispute inaccurate information on their reports; and

- Educate consumers about FTC's role in enforcing consumers' rights in credit reporting.

Agency Comments and Our Evaluation

We requested comments on a draft of this report from the heads of Treasury and FTC. We received written comments from Treasury and FTC that are summarized below and reprinted in appendixes VII and VIII, respectively. Treasury and FTC also provided technical comments that we have incorporated as appropriate.

While not specificially commenting on our recommendations, the Deputy Assistant Secretary of the Office of Financial Education at Treasury stated that the information the report presented would allow them to better understand which parts of the credit reporting system are least understood and channel their efforts to increasing knowledge of those areas. Treasury outlined several ongoing efforts to improve financial literacy and noted that FLEC is in the process of developing a national strategy to promote basic financial literacy and education among all Americans.

In commenting on the draft report, the Chairman of FTC stated that the report's findings were useful to their ongoing outreach efforts and described efforts they have underway to inform consumers of their rights regarding credit reporting. FTC stated that it appreciated the report's recommendation and, in response, stated that FTC has been engaging in outreach efforts to reach certain groups, such as Hispanic consumers and high school and college students. FTC also emphasized that credit bureaus are to include FTC's "Summary of Rights" with every credit report provided to consumers, as required in FCRA section 609(c). FTC stated in its comments that the summary of rights tells consumers what they need to know, when they need to know it. Since the summary of rights includes FTC's contact information, they believe this is reaching the targeted audience—those consumers that requested and reviewed their credit reports from CRAs. While we agree that this information should assist those consumers who request their credit reports, this information may not reach other consumers who have not ordered or reviewed their credit report from CRAs. In this regard, when we asked consumers where they would go to get a copy of their report, only 34 percent said they would go to CRAs. Further, of the 58 percent of consumers that stated they had seen their credit report, only about half said that they had ordered their report themselves and therefore should have received this summary of rights. As we recommended, FTC should encourage consumers to obtain their credit report and credit scores, and if necessary, dispute inaccurate information on their reports. On a related point, FTC stated in their letter that they did not believe our survey results shows that consumers who might wish to complain about a credit bureau would be unaware of FTC's role and described a variety of efforts for publicizing their enforcement authority. Even with these efforts, our survey showed that only 6 percent of respondents indicated that the FTC was the agency they would contact if they were to file a complaint against a CRA, such as in the case of an unresolved dispute with the CRAs. This finding indicates to us that few consumers are aware of the vital role FTC plays in protecting consumers' rights in regards to credit reporting and the CRAs. As we recommended, FTC should do more to educate consumers of its role in enforcing these rights.

We are sending copies of this report to the Chairman of FTC and the Secretary of the Treasury. We will make copies available to others upon request. In addition, the report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you have any questions concerning this report, please contact me at (202) 512-8678 or jonesy@gao.gov or Debra R. Johnson at (202) 512-9603 or johnsond@gao.gov. Other contacts and acknowledgements are listed in appendix IX.

Yvonne D. Jones

Yvonne D. Jones
Director, Financial Markets
and Community Investment

Objectives, Scope, and Methodology

The objectives of this report were to examine the extent to which consumers (1) understand and review their credit reports; (2) understand and review their credit scores; and (3) know how to dispute information on their credit reports and actually do so. In addition, this report discusses some of the factors that are associated with consumers' understanding of these issues.

Scope and Methodology

To determine the extent of consumers' knowledge of credit reporting issues, we conducted a telephone survey of 1,578 randomly-sampled noninstitutionalized U.S. adults 18 and over. This survey was designed to gauge respondents' knowledge of credit reports, credit scores, and the dispute resolution process, and to estimate the extent to which U.S. consumers have obtained their credit reports and scores or have experienced other credit-related events. The survey data collection was conducted by a private research firm under contract to GAO from late July to early October 2004, shortly before the provision of the Fair and Accurate Credit Transactions Act (FACT Act) that gives all U.S. consumers the right to receive one free credit report a year was implemented.

Before and during the design of our survey instrument, we also collected data and testimonial evidence on credit reporting literacy and some general financial literacy issues from relevant federal agencies, industry representatives, non-profit organizations and consumer agencies. To develop survey questions and to provide background and context for our survey findings, we collected and analyzed data from relevant surveys and other studies conducted by several of these agencies and organizations, including the Consumer Data Industry Association (CDIA), the Federal Reserve Board (FRB), the American Association of Retired Persons (AARP), the Consumer Federation of America (CFA), Federal Home Loan Mortgage Corporation (Freddie Mac), Fair Isaac Corporation, members of the Financial Services Roundtable, Jump$tart Coalition, the Congressional Research Service (CRS), and the three nationwide CRAs (Equifax, Experian, TransUnion). Please see appendix III for listing of findings from some of the surveys and studies that were reviewed.

Design of the Telephone Sample

Our survey used random digit dialing methods to generate a probability sample of non-insitutionalized U.S. adults aged 18 and older. Analytica Research, in affiliation with Dove Consulting Group, Inc, obtained and dialed 9,784 randomly generated phone numbers from Survey Sampling

International. These phone numbers, which include both listed and nonlisted numbers, were generated from “banks” of numbers (the telephone area code, exchange, and next two digits of the phone number) assigned to different regions of the country.

To enable GAO to make relatively precise estimates of knowledge and behavior within selected subgroups, we oversampled phone numbers likely to include a relatively high proportion of these subgroup members. The sample was designed to include a relatively higher proportion of responses from (1) the seven states where consumers could receive at least one free credit report per year prior to implementation of the FACT Act, (2) African Americans, (3) Hispanics, and (4) nonminorities with annual family incomes under $25,000.[1] A minimum number of interviews was specified for each of these subgroups. The quotas were achieved in ways that distributed the oversampled interviews naturally across the population. For example, the seven-state oversample was drawn in proportion to the population sizes of each state, and the oversamples for the minority subgroups were spread across geographic areas that had predicted incidences of minorities of as low as 48 percent, so as not to sample in only the most concentrated minority areas. A minimum sample was also set for nonminorities with annual family incomes under $25,000, but no additional oversample was necessary to achieve that target.

The 1578 respondents included 300 Black/African American (non-Hispanic) respondents, 300 respondents of Spanish, Hispanic, or Latino origin (Hispanics), 302 non-Hispanic, non-Black/African American respondents with current total annual family incomes of less than $25,000, and 676 nonminority respondents with incomes of $25,000 or greater. In addition, 324 of the above respondents resided in the seven free credit report states—Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, and Vermont.

Initially, the selection of respondents within each household reached was also randomized. After determining the number of adults in the household who were 18 years of age or older, the interviewer selected the person with the most recent birthday to respond to the survey. This random selection of household members was suspended, however, in some calls to oversampled subgroups when the initially selected respondent was not available for the interview and the person answering the phone met the

[1]By the term “nonminorities,” we mean non-African Americans and non-Hispanics.

criteria for the quota. GAO decided that the need to obtain sufficient interviews with subgroup members outweighed the advantages of complete randomness in selecting consumers to interview.

Developing the Questionnaire

To develop areas of inquiry for the survey, we reviewed previous GAO work related to credit reports, agency materials, and previous surveys that asked questions about financial knowledge and credit reporting issues. We considered questionnaires from multiple organizations such as, the AARP, the Federal Reserve Board (FRB), the Jump$tart Coalition, and CFA and obtained suggestions on questions from these organizations based on their experiences. We used these sources and our own analysis to develop an initial set of questions that (1) measured knowledge at varying degrees of difficulty, (2) had one correct answer among several plausible ones, and (3) covered different aspects of credit reporting knowledge (e.g. where credit reports and scores come from, what they are used for, and what factors influence them). In addition, we developed questions about consumers' experience with credit reports, credit scores, and the dispute process and their perceptions of these documents and processes. For example, we asked consumers if they had obtained a credit report or score, if they had ever disputed information on a credit report, whom they would contact first in the case of a dispute, and whether they believed that their credit report was understandable.

In addition to internal review by a GAO survey methodologist, we obtained expert reviews of our draft questionnaire from the FTC, the FRB, the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), Treasury, AARP, CFA, the Fair Isaac Corporation, the three national credit reporting agencies (CRAs), CDIA, and a survey research contractor. The survey also included a number of questions on the respondent's familiarity with Social Security benefit statements, collected for use in another GAO engagement.

The questionnaire was translated into Spanish. To develop the Spanish version, we obtained information on credit reporting issues that had already been translated from various entities. For example, we obtained the Spanish versions of FDIC's MoneySmart curriculum and Freddie Mac's CreditSmart curriculum. After our general review, we contracted with the U.S. Department of State to perform the actual translation. After the State Department completed its work, GAO staff reviewed the survey to identify any words that were overly formal or technical, and we made some adjustments to the survey.

We further developed and refined the questions by conducting pretests of successive drafts of the questionnaire with members of various demographic groups. Overall, we conducted 17 pretests, including 5 in Spanish. After the questionnaire was programmed for use as a computer-assisted telephone interview script, AOS Inc., one of the two call centers conducting the interviews, conducted a pilot test of over 20 calls to a random sample of U.S. households in late July 2004, and we made final revisions to the questionnaire as a result. See Appendix II for a reproduction of the final questionnaire administered.

Administering the Survey

Interviewers were trained in the use of the questionnaire and background material to answer respondents' questions about the survey. In addition, bilingual interviewers were available during fieldwork if an interview had to be conducted in Spanish. Data collection on the survey began on July 22, 2004 and ended October 7, 2004.

The survey contractor implemented the sample by first conducting a limited number of interviews in a nationwide sample to obtain some minorities, low-income residents, and residents of the seven states with free credit reports, and then began the oversamples of high-minority and seven-state areas to fully meet the subgroup requirements. The quota of 300 low income, nonminority respondents was met in calling in the nationwide and other oversample groups, without an additional oversample being drawn for this group.

Calls were made throughout the week at various times to maximize the chance of finding someone at home. A minimum of 10 attempts, at different times and days of the week, were made to call back working numbers that were not answered.

In addition to repeated calling, other techniques were used to increase response rates. Messages were left on answering machines for potential respondents offering a toll free number that the respondent could call during business hours. After hours, a recorded announcement requested that the caller leave the date and time for a callback. GAO staff were also available by telephone to answer respondents' questions and address concerns about the survey. Nonrespondents were offered cash incentives of $10 when recontacted to solicit their participation.

To increase participation in the survey, in mid-August a reverse directory was used to identify mailing addresses for 1,417 nonresponding numbers.

Postcards were subsequently sent to these households with an appeal to participate when interviewers next called. An additional 537 postcards were mailed in early September. A second telephone survey call center began making interviews in mid-August to complete the fieldwork at a faster rate.

Survey Response

We received a total of 1,578 usable responses, for an overall response rate of 48 percent. We calculated the response rate as the total number of usable (complete and partially complete responses) surveys divided by the total eligible sample called.[2] In determining the total eligible sample, we excluded numbers discovered to be nonworking, disconnected, businesses, or otherwise not households with members eligible to be interviewed in one of the sample categories with quotas still to be met. Calls to people in groups for which quotas had already been met were also deemed ineligible. We also assumed that a proportion of those working numbers attempted at least 10 times without an answer were also not eligible. The proportion of eligibility among those not contacted was estimated using practices commonly followed in the survey research industry. That is, the same proportion of eligible respondents found among those phone numbers actually contacted and determined to be eligible or ineligible was applied to numbers not contacted and of unknown eligibility.

The cooperation rate for the survey was 59 percent. The cooperation rate measures the success at completing interviews with contacted people who are determined to be eligible. It is defined as the number of complete interviews divided by the total number of complete and partial interviews, refusals, and callbacks that were arranged but not completed.[3] The difference between the response rate of 48 percent and the cooperation rate of 59 percent suggests that the difficulty in contacting anyone at the phone numbers generated was a significant factor in the low response rate, because interviewers were able to convince nearly 60 percent of those they contacted to complete the survey.

[2]We used the definition of the American Association for Public Opinion Research (AAPOR) response rate #3. See http://www.aapor.org/pdfs/standarddefs2004.pdf for the formula used.

[3]We used AAPOR cooperation rate #1. See http://www.aapor.org/pdfs/standarddefs2004.pdf for the formula used.

In addition to nonresponse to the entire survey, respondents could choose not to answer individual questions. This item-level nonresponse was uniformly low in the survey, usually 1 percent or less. Eleven percent of respondents declined to answer the income question, which had the highest item nonresponse rate.

Table 3 indicates that call outcomes varied somewhat by sample subgroup. Response rates were somewhat lower among the samples of high minority areas, particularly those targeted to meet the Hispanic subgroup quotas. The same pattern was observed for cooperation rates.

Table 3: Sample Dispositions and Response Rates

		Sample Subgroups			
	Entire Sample	Nationwide	Seven States with Free Reports	African American areas	Hispanic areas
A. Total calls attempted	**9784**	**5423**	**877**	**1205**	**2279**
B. Completed interviews	1578	936	184	191	267
C. Refused	893	516	6	117	254
D. No interview, known eligible[a]	223	80	0	32	111
E. No interview, known ineligible[b]	5319	2867	590	620	1242
F. No interview, unknown eligibility[c]	1771	1024	97	245	405
Response rate[d]	48%	50%	83%	45%	35%
Cooperation rate[e]	59%	61%	97%	56%	44%

Source: GAO.

[a]Includes cases with partial responses, callbacks not completed, and those in which language barriers prevented interviews.

[b]Includes cases with disconnected and nonworking phone numbers, fax numbers, business numbers, duplicates, and those drawn in states with quotas already met, as well as 50 percent of the interviews not completed because family income was outside of the range of eligibility after a quota had been met.

[c]Includes cases in which phones were not answered, only answering machines were encountered, the line was busy, the caller was immediately told that the number was on the "do not call list," or "privacy manager" call blocking was in effect, as well as 50 percent of the interviews not completed because family income was outside of the range of eligibility after a quota had been met.

[d]The response rate is defined as $B / (B + C + D + (e * F))$, where e is the eligibility rate found among cases for which eligibility could be determined. That rate, 33.6 percent, is assumed to apply to the no-interview cases for which eligibility could not be determined. That is, we assume that the ratio of eligible-to-ineligible cases among those we are unsure about is the same among those for which a determination of eligibility could be made. The effect of this assumption is to exclude approximately one-third of cases of unknown eligibility that could not be contacted from the base of eligible and possibly eligible phone numbers.

[e]The cooperation rate is defined as *B / (B+ C + D)*, without the inclusion of no-interviews as a result of language barriers in *D*, the no-interviews known to be eligible as defined by AAPOR. Language barriers are not displayed separately from row D above.

Survey Error and Data Quality

The practical difficulties of conducting any sample survey may introduce errors into estimates made from them. These errors include sampling, coverage, measurement, nonresponse, and processing errors. We made efforts to minimize each of these.

Because we followed a probability procedure based on random selections, our sample is only one of a large number of samples that we might have drawn, and thus our results are subject to *sampling error*. Since each sample could have provided different estimates, we express our confidence in the precision of our particular sample's results as a 95 percent confidence interval around each estimate—for example, plus or minus 10 percentage points. That is, we are 95 percent confident that each of the confidence intervals for estimates in this report will include the true value that we would have obtained had the entire population been surveyed. All percentage estimates from this survey have confidence intervals of plus or minus 6 percentage points or less, unless otherwise noted.

Coverage errors in survey estimates can occur from the failure of the sample to adequately cover the actual study population. While our sample included households with unlisted as well as listed numbers, we were able to reach only people in households with telephones, estimated at approximately 95 percent of U.S. households. The randomly generated phone numbers we called do not include cellular phone exchanges, resulting in undercoverage of those households reachable only through cellular phones. In addition, we sampled a higher proportion of some subgroups. To adjust the interviewed sample so that it would be representative of the country as a whole, weights were developed to statistically adjust the contribution each interview made towards the total. Interviews in the 7 states were weighted down so that the proportion of interviews conducted in those states would match the ratio of population in those 7 states to the population of the nation, as determined by the U.S. Bureau of the Census. Similar adjustments were made to the responses resulting from the other oversamples: African Americans, Hispanics, and low-income non-minorities. Additional weight adjustments were made for age and gender to conform to national distributions (app. II and V show the proportion of socio-economic and experience variables of respondents to our survey).

We attempted to minimize *measurement errors* arising from respondents who accidentally or purposely misreported, or from interviewer mistakes in administering the questions. In addition to the quality assurance steps described above in developing the questions so they would accurately measure the concepts of interest, the survey contractor silently monitored some interviews on a daily basis, and provided feedback and coaching to interviewers to improve data collection. In questions that are meant specifically to test the knowledge of the respondent, guessing can result in correct answers by chance and might reflect an artificially high level of knowledge. To counteract this tendency, we explicitly allowed respondents to specify that they did not know answers in our interview and asked multiple knowledge questions to lessen the effects of guessing on our overall analysis of knowledge. We also asked some open-ended questions without categories to choose from.

In addition, behaviors such as ordering a credit report or seeing a credit score may be overreported because respondents wish to appear diligent to interviewers or have mistaken one type of information for another. However, others may tend to underreport these behaviors because of a failure to recall distant events, or similarly because they mistake one type of information for another. We have no additional information on the extent or direction of this kind of error. However, we compared our results with those of other surveys and found them to be generally similar.

Nonresponse error can arise in the form of bias from not obtaining interviews from nonrespondents who would have differed in their answers from those who did respond. Our response rate of 48 percent, while comparable to or higher than many other telephone surveys of this type, means that we do not know how 52 percent of the population would have responded. We do not know the impact this level of nonresponse has on our results. While this level of nonresponse may affect survey results, GAO believes the overall response rate is sufficient for the conclusions drawn from the results, and can be generalized to the population of U.S. adults age 18 and older.

A final source of error is data *processing error*, or mistakes made in capturing or analyzing the data. In addition to the safeguards and checks built into the Computer Assisted Telephone Interviewing (CATI) software, after the survey, GAO performed checks on the survey data and verified the analysis programming. The reliability of the coding of open-ended answers into categories was assessed by having multiple coders review the same open-ended responses and comparing their answers for consistency.

Survey Data Analysis

Our survey included a total of 58 questions. The survey questions were created to test consumers' knowledge of credit reporting issues, obtain their opinions about these issues, and examine their experiences with the credit reporting process. Overall, there were 23 knowledge questions (with 56 associated points) on the survey divided into 3 separate sections: credit report knowledge, credit score knowledge, and dispute knowledge. We also incorporated 22 questions designed to obtain consumers' opinions about these issues and to examine their experiences with the credit reporting process, as well as 13 demographic questions. In addition, there was one knowledge question that asked consumers about the FACT Act.

Most of the questions had pre-coded answers, but some were open-ended requiring unassisted responses. For example, there were 3 open-ended knowledge questions (4, 7, and 43) that asked consumers to provide their own explanation of what credit reporting agencies do, what credit reports are, and what credit scores are. Some of the multiple-choice questions had one part, while others had several parts. If a respondent gave a correct answer to a multiple-choice question or sub-part of a question, we awarded them one point for that question or subpart, respectively. No points were given for an incorrect answer, for refusing to answer, or for an answer of "don't know." For the open-ended questions, we first developed and tested the following scoring criteria: a respondent received no points if their response was clearly incorrect or they said they did not know, one point if their response was only partially correct or if their response was correct but vague, and two points if their response was more detailed and fully correct. Then, two team members separately reviewed and scored each open-ended response. After all the responses were scored, a third member of the team separately reviewed the assigned scores and adjudicated any differences in the scores between the other two team members.

Based on the 23 knowledge questions, a respondent could earn a total of 56 points; 37 points based on 14 questions on the credit report section, 12 points based on 4 questions on the credit score section, and 4 points based on 4 questions on the dispute section. In addition, consumers could earn 3 additional points by answering one question about the FACT Act.[4]

[4] Appendix II reproduces the entire survey instrument with the frequency of responses and the scoring associated with each knowledge question.

We generated an average or mean score for the survey as a whole. We then analyzed responses for all of the survey questions and scores based on groups of questions for the national sample and cross-tabulated them across different demographic groups and across consumers with different credit-related experiences, see appendix IV for a discussion of these results. In addition, an electronic appendix (app. VI) including additional subgroup results can be found on GAO's Web site at http://www.gao.gov/cgi-bin/getrpt?GAO-05-411SP. We also reviewed responses to survey questions about consumers' experiences and opinions. Differences across demographic groups and across consumers with different credit-related experiences were tested for statistical significance at the 95-percent confidence level. In addition to cross-tabulations, we used a regression analysis of demographic and other factors that we thought would be associated with consumers' knowledge of credit reporting issues. For a full discussion of the regression analysis, see appendix V.

Interviews and Secondary Analysis

To develop our survey and obtain additional data on consumers' knowledge and awareness of credit reporting issues, we reviewed existing sample surveys and other studies conducted by other organizations and agencies on financial literacy, credit reports and scores, and the dispute resolution process. We also obtained relevant data from the 3 national CRAs. Surveys and other studies examining financial literacy and credit reporting issues have been conducted by several agencies and organizations, including AARP, FRB, CFA, FTC, U.S. Public Interest Research Group (also known as the National Association of State PIRGs), Fannie Mae Foundation, Freddie Mac, members of the Financial Services Roundtable, Credit Research Center of Georgetown University (CRC), Jump$tart Coalition, CDIA, the 3 national CRAs, and Fair Isaac Corporation. The focus of these studies varies—some examine credit-related issues, such as identity theft; others were conducted for marketing purposes; and others deal with financial literacy in general. For a listing of selected findings from some of these studies, please see appendix III.

While we made an attempt to assess the methodology of these studies, we were not able to collect enough information from study sponsors to fully determine the quality of their results. Of the surveys we identified, we included in Appendix III only those which appeared to use a probability-based sample of a defined population. The surveys that met these criteria were typically random-digit dialing (RDD) telephone surveys of U.S. households. Because each survey or other study we chose to report in Appendix III had limitations and risk of error in estimates, we report only selected results for comparative and background purposes. We did not publish detailed results from these surveys because of the possibility of errors that we could not assess. Results from these surveys are best considered in the context of other evidence that might corroborate or disconfirm findings from individual studies.

To obtain information on financial literacy efforts in general and on credit reporting in particular, and to obtain organizational experience with the credit reporting process and the credit reporting industry, we spoke with most of the members of the Financial Literacy and Education Commission (FLEC) and other organizations, including FTC, FRB, Chicago Federal Reserve, OCC, FDIC, Office of Thrift Supervision (OTS), Securities and Exchange Commission (SEC), Commodity Futures Trading Commission (CFTC), Social Security Administration (SSA), National Credit Union Association (NCUA), Federal National Mortgage Association (Fannie Mae), Freddie Mac, and the Departments of the Treasury, Labor, Education, Defense, and Agriculture. We also spoke with many industry representatives, including those from academia, nonprofit organizations and consumer agencies such as: The Partnership to Protect Consumer Credit, National Council of La Raza, Financial Services Roundtable, Fair Isaac Corporation, CDIA, AARP, CRC, CFA, Case Western Reserve University, American Savings Education Council (ASEC), and the Employee Benefits Research Institute (EBRI). We conducted our review in Washington, D.C. from March 2004 through February 2005 in accordance with generally accepted government auditing standards.

Survey Questionnaire

SURVEY QUESTIONNAIRE

with data from national sample

NOTE: Questions used to assess overall knowledge are indicated by a "★." The point value used in the assessment is shown after the star (in parenthesis). Correct responses to these knowledge questions are outlined.

INTRODUCTORY SCRIPT/SELECTION OF RESPONDENT

1. **Am I speaking to someone who lives in this household who is age 18 or older?**

2. **How many adults age 18 years or older live in your household?**

3. **Of these adults, who had the most recent birthday?**

Credit Reports

4. **If I say a company is a "credit reporting agency," also known as a "credit bureau" or "consumer reporting agency," how would you describe what they do? (★2 points)**

   Verbatim responses are not shown, but analysis of these responses showed that **28%** definitely did not have an understanding of what a credit reporting agency does**; 53%** were at least partially correct and showed a possible understanding (1 point)**; 19%** showed a clear understanding (2 points).

5. **To the best of your knowledge, which of the following phrases best describes a "credit reporting agency"? (★1 point)**

   a) a company that lends you money—**3%**
   b) an organization that helps you get out of debt—**4%**
   c) an organization that gathers information about your credit history and provides that information to others for a fee—**82%**
   d) a government agency that regulates banks, or—**2%**
   e) don't know—**10%**

6. **Can you name any of the nationwide credit reporting agencies?**

Correct responses include "Experian," "Equifax," and "TransUnion." Respondents received an additional point if they named "Innovis."

Named 1 CRA—**20%** **(★1 point)**
Named 2 CRAs—**10%** **(★1 point)**
Named 3 CRAs—**3%** **(★1 point)**
Named 4 CRAs—**0%** **(★1 point)**
Respondent unable to name any credit reporting agencies—**67%**

1

7. **In your own words, what is a credit report? (★2 points)**

Verbatim responses are not shown, but analysis of these responses showed that **14%** did not know what a credit report was**; 63%** were at least partially correct and showed a possible understanding of a credit report (1 point)**; 19%** showed a clear understanding (2 points).

8. **If you want to see your own credit report, when are you able to order a copy? (★1 point)**

a) at any time for any reason—**71%**
b) only when you are taking out a loan—**8%**
c) only when you have been turned down for a loan—**6%**
d) never—**1%**
e) don't know—**14%**

9. **Where would you get a copy of your credit report?**

VERBATIM RESPONSES NOT SHOWN. Responses collapsed into the following categories:

- the Internet/online (in general)—**26%**
- CRA/Credit Bureau (in general)—**25%**
- from a bank/financial institution—**12%**
- CRA (named specifically)—**6%**
- the internet/online (named CRA specifically)—**3%**
- from the institution where you applied for a loan—**3%**
- credit card companies—**1%**
- an 800 number—**1%**
- from the government—**0%**
- other—**3%**
- don't know—**19%**

10. **Some states have laws that allow residents to receive one or more free credit reports a year. Is your state one of these?[1] (★1 point)**

Yes—**29%**
No—**11%**
Don't know—**60%**

Correct Response Based on State of Residency and Corresponding Answer

Response	Lived in state that allowed free credit report	Did NOT live in state that allowed free credit report
Correct	49%	26%
Incorrect	5%	12%
"Don't know"	46%	62%

[1] Respondents received one point if they said "yes" and lived in one of the states that offered free credit reports prior to the FACT Act or said "no" and did not live in one of these states.

2

11. **If you don't live in a state that allows residents to receive one free credit report a year, about how much will a credit reporting agency charge you for a copy of your credit report?[2] (★1 point)**

Provided a Correct Response—**45%**
Provided an Incorrect Response—**10%**
Don't know—**45%**

12. **When a credit report is prepared on someone, the information can come from different sources. Please tell me which of the following sources you believe it can come from by answering yes, no, or don't know.**

	Yes	No	Don't know
a) from banks and other lenders? **(★1 point)**	**89%**	**4%**	**7%**
b) from courthouse and other public records? **(★1 point)**	**46%**	**30%**	**24%**
c) from credit card companies? **(★1 point)**	**90%**	**4%**	**5%**
d) from debt collectors? **(★1 point)**	**79%**	**9%**	**11%**

13. **After you take out a loan, a lender may provide information to a credit reporting agency about the loan and your history of paying it back. How many credit reporting agencies are lenders required to report to? (★1 point)**

a) none—**7%**
b) one—**11%**
c) all—**25%**
d) Don't know—**57%**

14. **For each of the following items, please tell me if you think it is or is not on a credit report or if you don't know whether it is on a credit report?**

	Yes	No	Don't know
a) Social Security number? **(★1 point)**	**71%**	**12%**	**16%**
b) bankruptcies? **(★1 point)**	**87%**	**3%**	**10%**
c) credit history such as credit card balances? **(★1 point)**	**82%**	**9%**	**9%**
d) race? **(★1 point)**	**15%**	**59%**	**25%**
e) income? **(★1 point)**	**43%**	**37%**	**20%**
f) a list of those who have requested and received your credit report? **(★1 point)**	**64%**	**15%**	**21%**
g) balances in your checking account? **(★1 point)**	**21%**	**58%**	**21%**

[2] Respondents received one point for answering a) between $8.00 and $40.00—a possible cost range based on prices of credit reports and credit report-related products, b) free in certain instances, c) $0 or nothing, d) $3 and lived in MN, and e) $5 and lived in CT.

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15. If you do not pay your credit card bill, can the credit card company report this on your credit report? (★1 point)

a) Yes—**92%**
b) No—**2%**
c) Don't know—**6%**

16. For about how long does information, such as making a late payment or going bankrupt, remain on your credit report?[3] (★1 point)

VERBATIM RESPONSES NOT SHOWN. Responses collapsed into the following categories:

Provided a Correct Response—**47%**
Provided an Incorrect Response—**26%**
Don't know—**27%**

17. Who is permitted to see your credit report without your consent? Please respond by answering yes, no, or don't know.

	Yes	No	Don't know
a) a potential employer? (★1 point)	19%	61%	20%
b) someone who has a need for your credit history in connection with a product or service that you have requested? (★1 point)	55%	30%	15%
c) anyone who wants to view it? (★1 point)	6%	85%	9%
d) someone who has a court order? (★1 point)	76%	9%	16%

18. Do you think your credit history can affect the following things? Please answer yes, no, or don't know.

	Yes	No	Don't know
a) your ability to get a loan? (★1 point)	95%	2%	3%
b) the interest rate you are charged for a loan? (★1 point)	81%	10%	9%
c) your ability to receive Social Security benefits? (★1 point)	8%	71%	21%
d) insurance coverage and/or premiums? (★1 point)	36%	42%	22%
e) whether an employer decides to hire you? (★1 point)	33%	50%	17%
f) your ability to get a driver's license? (★1 point)	4%	86%	10%
g) whether a landlord decides to rent to you? (★1 point)	72%	15%	12%

19. Have you ever viewed your credit report?

Yes—**58%**
No—**41%** → **GO TO QUESTION #26**
Don't know—**1%** → **Go to question #26**

[3] Respondents received one point if they said 7 or 10 years.

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20. When did you last see your credit report? Was it…

a) within the last year—**45%**
b) 1 to 2 years ago—**20%**
c) more than 2 but fewer than 5 years ago—**20%**
d) 5 or more years ago—**15%**
e) Don't know—**1%**

21. When you last saw your credit report, did you order it yourself or was it ordered by someone else?

I ordered it myself—**53%** → **Go to question #23**
It was given to me by someone else who ordered it—**47%**

22. Who?

VERBATIM RESPONSES NOT SHOWN. Responses collapsed into the following categories:

- Mortgage company—**29%**
- Bank/financial institution—**25%**
- Lender (in general)—**16%**
- Car dealership—**12%**
- Credit card company—**4%**
- Don't remember—**4%**
- Family member—**2%**
- Employer—**1%**
- Other—**7%**

23. Why was your last credit report ordered? Was it...

		Yes	No	Don't know
a)	due to an adverse action, such as denial of credit, based on your credit report?	**14%**	**83%**	**2%**
b)	because you suspected fraud and/or identity theft?	**8%**	**91%**	**1%**
c)	because you were looking for a job?	**1%**	**98%**	**1%**
d)	because you were making a large purchase or refinancing, such as a home or car?	**52%**	**48%**	**0%**
e)	to check for completeness and accuracy?	**47%**	**52%**	**1%**
f)	for another reason? Please specify. (VERBATIM RESPONSES NOT SHOWN)	**10%**	**88%**	**1%**

24. If respondent provided more than one answer to #23: What was your primary reason?

a) due to an adverse action, such as denial of credit, based on your credit report—**9%**
b) because you suspected fraud and/or identity theft—**5%**
c) because you were looking for a job—**1%**
d) because you were making a large purchase or refinancing, such as a home or car—**46%**
e) to check for completeness and accuracy—**29%**
f) for another reason—**10%**

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***NOTE: Responses to Questions 23 and 24 were combined to report on primary reasons for all responses:**

- because you were making a large purchase or refinancing, such as a home or car—**48%**
- to check for completeness and accuracy—**30%**
- for another reason—**9%**
- due to an adverse action, such as denial of credit, based on your credit report—**8%**
- because you suspected fraud and/or identity theft—**4%**
- because you were looking for a job—**1%**

25. Overall, did you find the information on your credit report or reports…

a) very easy to understand**—37%**
b) somewhat easy to understand**—42%**
c) somewhat hard to understand**—14%**
d) very hard to understand**—4%**
e) unsure/don't know**—3%**

Dispute Resolution

The next few questions have to do with dispute resolution.

26. If you feel information on your credit report is wrong, can you dispute, or request that a correction be made? (★1 point)

Yes**—90%**
No**—2%**
Don't know**—9%**

27. Do you think you need to check your credit report from time to time for possible errors?

Yes**—86%**
No**—10%**
Don't know**—4%**

28. Imagine you are looking at your credit report and see that a lender has incorrectly reported that you have made a late payment. Which of the following would you contact first to dispute this error?

a) the lender—**64%**
b) the credit reporting agency—**18%**
c) the Better Business Bureau—**4%**
d) other (**please specify)**—**1%** (VERBATIM RESPONSES NOT SHOWN)
e) don't know—**13%**

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29. If your credit report has incorrect information that you want corrected, the credit reporting agency: (★1 point)

a) will charge you a set fee to investigate the information—**9%**
b) will investigate for no cost—**28%**
c) will charge an hourly rate to investigate the information—**2%**
d) don't know—**60%**

30. While they are investigating disputed information, the credit reporting agency is required to do which of the following:

a) note the information as under investigation**—34%**
b) notify other credit reporting agencies about the investigation**—10%**
c) do nothing**— 6%**
d) don't know**—50%**

31. By law, if you are unable to resolve a disputed item with a credit reporting agency… (★1 point)

a) you have the right to delete the information from your credit report—**5%**
b) you have the right to add a statement to your credit report—**41%**
c) you cannot do anything—**7%**
d) don't know—**47%**

32. If you resolve an inaccuracy on your credit report with one credit reporting agency, will the same inaccuracy automatically be corrected by all credit reporting agencies? (★1 point)

Yes**—20%**
No**—40%**
Don't know**—40%**

33. With which government agency would you file a complaint if you are not satisfied with a credit reporting agency's work?

VERBATIM RESPONSES NOT SHOWN. Responses collapsed into the following categories:
- Better Business Bureau—**24%**
- Federal Trade Commission or FTC**—6%**
- Don't know **62%**
- Other—**8%**

34. Have you ever actually tried to dispute or correct information that you felt was inaccurate on your credit report?

Yes**—18%**
No**—81%** → **GO TO QUESTION #41**
Don't know**—1%** → **GO TO QUESTION #41**

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35. What type of information did you dispute?

VERBATIM RESPONSES NOT SHOWN. Responses collapsed into the following categories:

- Things that were not mine—**17%**
- Incorrect late payments—**14%**
- Incorrect payment history—**14%**
- Incorrect credit card information—**13%**
- Incorrect bill information—**13%**
- Incorrect personal information—**10%**
- Incorrect balance information—**7%**
- Incorrect bankruptcy information—**4%**
- Incorrect information from a former spouse—**3%**
- Identity theft—**2%**
- Other—**4%**

36. When was the last time you disputed information on your credit report?

a) within the last year**—29%**
b) 1 to 2 years ago**—17%**
c) more than 2 but less than 5 years ago**—18%**
d) 5 or more years ago**—36%**
e) Don't know**—1%**

37. Who did you contact to dispute this information?

a) the lender—**29%**
b) a credit reporting agency—**32%**
c) both the lender and the credit reporting agency—**30%**
d) some other agency—**6%** IF YES, PLEASE SPECIFY VERBATIM RESPONSES NOT SHOWN
e) Don't know—**3%**

38. Was the information determined to be inaccurate and removed from your credit report?

❑ Yes**—69%**
❑ No**—23%** → **GO TO QUESTION #40**
❑ Don't know**—7%** → **GO TO QUESTION #40**

39. After the inaccurate information was removed from your credit report, was this information later reinserted?

❑ Yes**—13%**
❑ No**—72%**
❑ Don't know**—15%**

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40. Did you add a statement to your report explaining your dispute?

❑ Yes—**30%**
❑ No—**66%**
❑ Don't know—**4%**

Identity Theft

41. Have you ever been a victim of identity theft?

Yes—**10%**
No—**89%**
Don't know—**2%**

42. Do you know anyone who has been a victim of identity theft?

Yes—**29%**
No—**70%**
Don't know—**1%**

Credit Scores

The next few questions have to do with your credit score knowledge.

43. In your own words, what is a credit score? (★2 points)

Verbatim responses are not shown, but analysis of these responses showed that **32%** did not know what a credit score was**; 53%** were at least partially correct and showed a possible understanding of a credit score (1 point)**;** and **15%** showed a clear understanding (2 points).

44. OK, so which of the following best describes a credit score? Would you say it is a score that … (★1 point)

a) measures your knowledge of consumer credit—**6%**
b) predicts the likelihood that you will repay a loan—**70%**
c) measures your total wealth—**3%**
d) don't know—**21%**

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45. Do you think the following situations affect your credit score in a positive way, has no effect, affects your score in a negative way, or don't know.

	Positive way	Has no effect	Negative way	Don't know
a) having a credit history for a short time? **(★1 point)**	**15%**	**12%**	**49%**	**24%**
b) having a credit history for a long time? **(★1 point)**	**79%**	**3%**	**4%**	**14%**
c) having a low checking account balance? **(★1 point)**	**4%**	**43%**	**29%**	**24%**
d) frequently applying for new credit? **(★1 point)**	**11%**	**10%**	**60%**	**19%**
e) making late payments on your credit card? **(★1 point)**	**5%**	**2%**	**87%**	**7%**
f) using most of the credit available to you? **(★1 point)**	**15%**	**12%**	**52%**	**21%**
g) skipping a loan payment that is due? **(★1 point)**	**4%**	**2%**	**87%**	**8%**
h) requesting a copy of your own credit report? **(★1 point)**	**21%**	**50%**	**10%**	**19%**

46. What do you think a possible credit score, based on someone's credit history, is? Please provide a number …[4] (★1 point)

Provided a score within legitimate range—**28%**
Provided a score outside legitimate range—**28%**
Don't know—**44%**

47. Have you ever obtained your credit score?

Yes—**33%**
No—**64%**
Unsure/don't know—**3%**

FACT Act

48. There is a new law that affects your rights regarding credit reports and scores. Which of the following changes will be made? Please respond by answering yes, no, or don't know.

	Yes	No	Don't know	Refused
a) all consumers will be entitled to request one free credit report a year? **(★1 point)**	**47%**	**4%**	**49%**	**1%**
b) all lenders must report to all three credit reporting agencies? **(★1 point)**	**38%**	**8%**	**54%**	**0%**
c) the use of credit scores by lenders will be prohibited. **(★1 point)**	**9%**	**33%**	**57%**	**1%**

[4] Respondents who gave an answer between 300 and 900 received one point.

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*** Demographics**

Now we have a few questions that will only be used for analysis purposes.

***Demographic questions #49 through 51 were collapsed for the following results:**

- **White—69%**
- **Black—12%**
- **Hispanic—14%**
- **Other—5%**

49. Are you of Spanish, Hispanic, or Latino origin?

No, not Spanish/Hispanic → **GO TO QUESTION #51**
Yes → **CONTINUE TO #50 THEN SKIP TO QUESTION #52**
Don't know → **GO TO QUESTION #51**
Refused → **GO TO QUESTION #51**

50. You have told us that you are of Hispanic origin. Now I am going to read a list of categories. Please choose one or more of the following categories to describe your race: White, Black or African American, American Indian, Alaska Native, Asian, Native Hawaiian, Pacific Islander, or any other category? [MARK ALL THATAPPLY]

White
Black/African American
American Indian
Alaska Native
Asian
Native Hawaiian/Pacific Islander
Other **Please Specify:** ___________________________
Don't know
Refused

51. Now, I am going to read a list of categories. Please choose one or more of the following categories to describe your race: White, Black or African American, American Indian, Alaska Native, Asian, Native Hawaiian or other Pacific Islander? [MARK ALL THAT APPLY]

White
Black/African American
American Indian
Alaska Native
Asian
Native Hawaiian/Pacific Islander
Other **Please Specify:** ___________________________
Don't Know
Refused

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52. What year were you born?

1 9 ______

- **24 and under (at least 18 years old)—13%**
- **25 to 34—19%**
- **35 to 44—22%**
- **45 to 54—18%**
- **55 to 64—12%**
- **65 and older—17%**

53. Are you Male or Female?

Male—**48%**
Female **52%**
Refused—**0%**

54. What is the highest grade or level of regular school you have completed?

8th grade or less
9th to 11th ***Less than high school—10%**
12th Grade/GED/High School Diploma ***High school—30%**
Some coc/tech/business
Voc/tech/business certificate or diploma
Some college
Associate's degree ***Some postsecondary education—28%**[5]
Bachelor's degree (BA; BS)
Some graduate/professional school
Graduate/professional degree (MA; MS; PhD; EdD: Medicine/MD; Dentistry/DDS; Law/JD; Etc.)
***BA or more—31%**

55. How would you describe your current employment status? Would you say you are …

Employed full time—**51%**
Retired—**17%**
Employed part time—**9%**
Homemaker—**7%**
Unemployed—**7%**
Full-time student—**4%**
Other—**5%**

[5] The figure for "some postsecondary education" includes those with some college; a vocational, technical, or business certificate or diploma; or some vocational, technical, or business education.

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56. Different people have different types of financial accounts, investments and loans. We don't want to know the amounts, but have you ever had any of the following?

	Yes	No	DON'T KNOW	REFUSED
a) a checking account?	**91%**	**8%**	**0%**	**1%**
b) a credit card?	**85%**	**14%**	**0%**	**1%**
c) an automobile loan?	**72%**	**27%**	**0%**	**1%**
d) a mortgage or home loan?	**61%**	**37%**	**0%**	**1%**
e) a savings account or certificate of deposit?	**84%**	**14%**	**1%**	**1%**
f) a mutual fund?	**43%**	**54%**	**2%**	**1%**
g) stocks in individual companies?	**43%**	**55%**	**1%**	**1%**
h) government bonds?	**32%**	**66%**	**1%**	**1%**

57. Now for the final question, I am going to read a list of income categories. Which category best represents your total combined income during the past 12 months of all the members of your family? This includes money from jobs; net income from business, tips, farm or rent; pensions; dividends; interest; social security payments; and other income or money received.

Less than $25,000**—24%**
$25,000—$49,999**—25%**
$50,000—$74,999**—19%**
$75,000 or more**—22%**
Refused—**10%**

58. We understand that you would prefer not to tell us your actual income, but could you just confirm if it is less than $25,000 or over $25,000? (For the 10% who refused on Question 57)

Less than $25,000?—**15%**
Greater than $25,000?—**33%**
Refused?—**52%**

Combined Responses for Question 57 and Question 58	
Response	**Percentage of Respondents**
Less than $25,000	**26%**
$25,000—$49,999	**25%**
$50,000—$74,999	**19%**
$75,000 or more	**22%**
Refused	**9%**

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Review of Selected Findings from Other Studies

GAO conducted a literature search to identify some of the relevant non-GAO sample surveys and other studies on consumers' knowledge of credit reporting issues, the extent to which consumers review their credit reports and scores and their reasons for doing so, and other related matters. We attempted to evaluate the quality of the data and findings of these reports, but the limited methodological documentation available to us prevented a thorough review. We included only those surveys for which we had some indication that a random sample of a known population, typically a nationwide random-digit dial telephone survey of U.S. adults, had been conducted. However, due to possible shortcomings in important design aspects of these studies that are not known, the possibility for error still exists in each of these studies. Therefore, GAO does not consider any one estimate from the following studies to be sufficiently accurate to base conclusions on. However, in the aggregate, these other results may serve as a general comparison to the GAO survey of U.S. consumers and provide a background description of what other researchers have reported on these issues.

Table 4: Review of Selected Findings from Other Studies

Results	Study/Source of Data
Credit Reports	
The number of consumers who review their credit reports	
There were 57.4 million credit file disclosures in 2003. CDIA estimates that there are a total of approximately 200 million credit files maintained by each of the three nationwide CRAs.	Consumer Data Industry Association (CDIA). Data was collected from the three nationwide CRAs—Equifax, Experian, and TransUnion—and provided to GAO in January 2005. The data on credit files issued includes all direct-to-consumer disclosures—meaning offers to consumers (for a fee) and online products, which commonly include file disclosures, credit scores, credit score and analyses, file monitoring, fraud alert systems and more. This data also includes all consumer relations disclosures—meaning disclosures made to consumers who contact a CRA to receive a file disclosure because of an adverse action notice, concern about fraud, being unemployed and seeking employment, or being on public assistance. These data are an estimate of total requests by all consumers and could include multiple requests from the same consumer.

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Results	Study/Source of Data
Credit Reports	
• TransUnion estimates that in the 44 states that do not have a law requiring CRAs to provide an annual free credit report upon request, the consumer request rate ranges between 1.5% and 2%. • In GA, MA, NJ, MD, Vermont (where credit reports are made available for free) the request rate ranges between 3.5% and 4%. • In Colorado (where consumers review one free report per year and, in addition, are notified via mail of this right under two specific circumstances), the request rate is between 10% and 11%.	Congressional Research Service (CRS). "A Consumer's Access to a Free Credit Report: A Legal and Economic Analysis." Washington, D.C.: December 2003.
An estimated 16 million are issued to consumers each year, 95% of them for free.	CDIA. Testimonies from CEO and President Stuart Pratt: (1) before the U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*, Hearings, 108th Congress,1st sess., July 10, 2003; and (2) *Fair and Accurate Credit Transactions Act of 2003*, hearing H.R. 2622, 108th Congress,1st sess., July 9, 2003.
34% of respondents 45 years and older said they had reviewed a copy of their credit report.	American Association of Retired People (AARP). "Consumer Experience Survey: Insights on Consumer Credit Behavior, Fraud and Financial Planning." Washington, D.C., October 2003.
43% of respondents said that they had reviewed their credit report in the last 2 years.	Consumer Federation of America (CFA). "Consumers Lack Essential Knowledge and Strongly Support New Protections on Credit Reporting and Scores," Washington, D.C. July 2003. Information available at http://www.consumerfed.org.
58% of respondents said that they had reviewed their credit report.	Hilgert, Marianne A., Jeanne M. Hogarth, and Sondra G. Beverly. "Household Financial Management: The Connection between Knowledge and Behavior." *Federal Reserve Bulletin*, July 2003.
63% of respondents said that they had reviewed their credit report.	Fair Isaac Corporation. "myFICO Consumer Survey Results," March 2003. Unpublished.
Almost 20% of respondents had never seen their credit report.	Household International. "Household Your Credit Counts Challenge," December 2002. Unpublished.
Why consumers obtained their credit reports	
Of the 16 million reports requested by consumers: • 84% were disclosed due to adverse action; • 11.5% for fraud;[a] • 5.25% for curiosity; • 0.4% due to being unemployed or seeking employment; and • 0.1% due to being on public assistance.	CDIA. Prepared testimony from CEO and President Stuart Pratt, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*.
Reasons why respondents looked at their credit report: • 39% curiosity; • 31% ready to apply for loan/credit; • 10% denied credit, insurance, employment; • 6% concerned you were a victim of identity theft; • 12% some other reason; and • 1% did not know.	Louis Harris and Associates. "Consumer Interest in Free Credit Reports," 2003. Unpublished. Selected findings from this study were provided to GAO by CDIA.

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Results	Study/Source of Data
Credit Reports	
How much consumers know about the data collection process	
• 94% of respondents 45 years and older knew that a missed credit card payment could be reported on their credit report. • 88% of respondents 45 years and older were aware that a lender could report a non-payment of a mortgage payment on the homeowner's credit report.	AARP. "Consumer Experience Survey."
81% of respondents answered "true" to the following statement: Your credit report includes employment data, your payment history, any inquiries made by creditors, and any public record information.	Hilgert, Hogarth, and Beverly. "Household Financial Management."
What consumers know about obtaining their credit reports	
• 97% answered "true"--consumers have the right to see their credit report. • 46% answered "true"--consumers in almost every state must pay a fee to obtain their credit report. • 81% answered "true"--consumers who fail to qualify for a loan have the right to a free credit report. • 3% were able to name all three CRAs, 7% named two correctly, 15% named one correctly, and 75% named none of the CRAs correctly.	CFA. "Consumers Lack Essential Knowledge."
What consumers know about the possible impacts of their credit histories	
88% of respondents 45 years and older answered "true" to the following statement: "An individual's bill paying history on their credit record affects their ability to get a home loan."	AARP. "Consumer Experience Survey."
Who determines your interest rate (unaided)? • 52%--my lender; • 22%--I do; • 20%--federal government (6%--Alan Greenspan); and • 5%--my credit rating/credit history.	Fair Isaac Corporation. "myFICO Consumer Survey Results."
Other	
48% of respondents said their knowledge of credit reports was excellent/good and 50% said it was fair/poor.	CFA. "Consumers Lack Essential Knowledge."
Credit Scores	
What consumers know about the factors that can impact credit scores and their use	
9.8 million credit scores were provided to consumers by the CRAs during calendar year 2003.	CDIA collected data from the three nationwide CRAs—Equifax, Experian, and TransUnion. This data does not include the entire score disclosure market place, which, in addition to scores sold by the three CRAs, includes scores sold by Fair Isaacs Corporation and by lenders, such as banks.

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Results	Study/Source of Data
Credit Scores	
• 34% of respondents answered "true"—a credit score mainly indicates the risk of repaying a loan. • These percentages of respondents answered "true" to the following statements: *76%--credit scores change whenever a credit report changes; *52%--a married couple has a combined credit score; *43%--those with a credit score have only one score; and *16%--only those at least 21 years of age have a credit score.	CFA and Providian.® "Most Consumers Do Not Understand Credit Scores According to a New Comprehensive Survey," Washington, D.C., July 2004. Information available at http://www.consumerfed.org.
If your credit score is below a certain level, you will probably either be denied credit or have to pay a higher, subprime rate. Would you say this level is in the … • 33% of respondents said the low 500s; • 13%--high 500s; • 12%--low 600s; • 5%--high 600s; • 7%--low 700s; and • 30%--did not know/none of the above.	CFA and Providian. "Most Consumers Do Not Understand Credit Scores."
If your credit score is above a certain level, creditors will usually charge you the lowest rates. Would you say this level is in the… • 11% of respondents said the high 500s; • 8%--low 600s; • 10%--high 600s; • 13%--low 700s; • 29%--high 700s; and • 29%--did not know/none of these.	CFA and Providian. "Most Consumers Do Not Understand Credit Scores."
Percentage of respondents who indicated that the following factors can influence one's credit score: • 87%--whether loan payments have been paid on time; • 79%--amount of debt related to income; • 66%--whether one has maxed out the credit line on a credit card; • 65%--income; • 38%--age; • 37%--marital status; • 25%--education; and • 3%--did not know/none of these.	CFA and Providian. "Most Consumers Do Not Understand Credit Scores."

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Results	Study/Source of Data
Credit Scores	
Thinking about when a young adult gets and begins using their first major credit card, how much lower or higher would their credit score go if they did each of the following? Would you say much higher (MH), somewhat higher (SH), little or no change (NC), somewhat lower (SL), or much lower (ML) [or don't know (DK)]? The following data are percentages of respondents.	CFA and Providian. "Most Consumers Do Not Understand Credit Scores."

	MH	SH	NC	SL	ML	DK
Paid off a large balance on the card	25%	34%	13%	10%	10%	7%
Maxed out the card by using the entire credit line	17	11	15	23	23	10
Paid $50 more than the minimum balance for a year	17	37	21	12	6	8
Made a monthly payment more than 30 days late	16	12	6	33	27	7
Paid the minimum balance on the card for a year	8	22	42	15	6	7

Results	Study/Source of Data
Which of the following service providers often use credit scores to decide whether you can buy a service or at what price? The following percentages said "yes": • 81%--mortgage lender; • 77%--credit card lender; • 50%--cell phone company; • 48%--landlord; • 47%--home insurer; • 30%--electric utility; and • 8%--did not know/none of these.	CFA and Providian. "Most Consumers Do Not Understand Credit Scores."
90.1% of respondents 25 to 49 years old (and of certain education and income levels) selected the response: "A credit score is a rating of my credit history. It is calculated by credit bureaus and most often reviewed by lenders in considering whether to grant credit."	Providian. "Credit Cards and Mainstream America," February 2004. Unpublished.

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Results	Study/Source of Data
Credit Scores	
The following percentages of respondents said that second to filing for bankruptcy, the following element had the greatest influence on their credit score: • 5.4%--the number of bankcard charge accounts that you have; • 20.8%--the amount of available credit you have compared with the outstanding balances on your credit cards; • 5.9%--paying credit card bills online; • 66%--late or missed payments reported on your credit accounts; and • 1.9%--the number of times you use an automatic teller machine (ATM) in a month.	Providian. "Credit Cards and Mainstream America."
60% of respondents answered "false" to the following statement: Your credit rating is not affected by how much you charge on your credit cards.	Hilgert, Hogarth, and Beverly. "Household Financial Management."
• 67% of respondents answered "false"—your credit score mainly measures your knowledge of consumer credit. 27% of respondents answered "true." • 38% answered "true"—your credit score may be lowered if you apply for a credit card and 55% said "false." • 45% answered "true"—your credit score may be lowered if you use all of the credit available on your credit card. • Regarding who uses credit scores to decide whether they can use a service and/or at what cost: *92% answered that mortgage lenders may; *87%--credit card companies; *62%--cell phone companies; *59%--landlord; *59%--home insurers; and *40%--electric utility companies.	CFA. "Consumers Lack Essential Knowledge."

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Results	Study/Source of Data
Credit Scores	
How many consumers have obtained credit scores	
Have you ever obtained your credit score? • 53%--yes; and • 45%--no; • 2%--did not know. Of those who had obtained their score, they obtained it: • 46% within the past year; • 22%--1 to 2 years ago; • 19%--2 to 5 years ago; • 10%--more than 5 years ago; and • 2%--did not know. Of those who had obtained their score, they said they had obtained it from: • 35% mortgage lender or broker; • 28% credit bureau or reporting agency; • 12% credit issuer or other consumer lender; • 19% some other company or source; and • 5% did not know/none of these.	CFA and Providian. "Most Consumers Do Not Understand Credit Scores."
31.9% of respondents said that they knew what their current personal credit score was.	Providian. "Credit Cards and Mainstream America."
24% of respondents 45 years and older had obtained a copy of their credit score.	AARP. "Consumer Experience Survey."
25% of respondents said that they knew their credit score.	CFA. "Consumers Lack Essential Knowledge."
Have you ever seen or reviewed your own credit score? • 30.7% yes; and • 69.3% no. Those who had seen their score were asked for what purpose did they see their credit score: • 65.9% said due to a loan/major purchase; and • 27.5% said to keep informed/personal/curiosity.	Fair Isaac Corporation. "myFICO Consumer Survey Results."
Other	
• 10% of respondents could answer the question, "What is your credit score?" with a correct three-digit response ranging between 300 and 850. • One in eight knew what constituted a "good" credit score (650-850).	TrueCredit, "TrueCredit Survey Reveals Startling Illiteracy: Nearly 90 Percent of Americans Do Not Know Their Credit Scores," September 15, 2004.
34% of respondents over the age of 45 said their knowledge of credit scores was excellent/good and 61% said it was fair/poor.	AARP. "Consumer Experience Survey."
85% of respondents knew what a credit score was.	Household International. "Household Your Credit Counts Challenge."
78% of consumers agree that it was important to know their credit score, yet only 26% actually did.	Household International. "Household Your Credit Counts Challenge."

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Results	Study/Source of Data
Credit Scores	
65% of respondents believed they should check their credit score at least once per year, but only 53% of these people had done so within the last year.	Household International. “Household Your Credit Counts Challenge.”
Dispute Resolution	
What consumers understand about the dispute resolution process	
• 32% of respondents answered “false” to the following statement: “Consumers who believe their credit reports or scores are inaccurate must contact their lenders.” • 64% of respondents answered “true.”	CFA. “Consumers Lack Essential Knowledge.”
Disputes and inaccuracy	
Of the 57.4 million credit files disclosed to consumers in 2003, 12.5 million were reinvestigated/disputed.	CDIA collected data from the three nationwide CRAs and provided it to GAO in January 2005. As noted on page 1 of this appendix, the data on credit files issued from 2003 includes all direct-to-consumer disclosures and all consumer relations disclosures.
• 14% of revolving credit accounts were reported without information about credit limits; • Individuals with scores below 600 tended to have the highest frequency of data problems and were the most likely to experience a score increase of 10 points or more in response to corrections of data problems; and • Individuals with scores above 660 had the lowest incidence of data problems.	Avery, Robert B., Paul S. Calem, and Glenn B. Canner. “Credit Report Accuracy and Access to Credit.” *Federal Reserve Bulletin*, Summer 2004. The Federal Reserve analyzed the credit records (drawn as of June 30, 2003) of a nationally representative sample of individuals and examined the possible effects of data limitations on consumers by estimating the changes in consumers’ credit history scores that would result from correcting data problems in their credit records.
• 25% of the credit reports had serious errors that could result in the denial of credit; • 54% had personal demographic information that was incorrect; • 22% listed the same mortgage or loan twice; • almost 8% were missing major credit, loan, mortgage, or other consumer accounts that demonstrate the creditworthiness of the consumer; • 30% contained credit accounts that had been closed by the consumer but remained listed as open; and • altogether 79% contained either serious errors or other mistakes.	U.S. Public Interest Research Group (PIRG)—also known as the National Association of State PIRGs. “Mistakes Do Happen: A Look at Errors in Consumer Credit Reports,” June 2004. Available at http://uspirg.org/uspirg.asp?id2=13649&id3=USPIRG&. PIRG asked adults in 30 states to order their credit reports and complete a survey on the reports’ accuracy. All of those surveyed were PIRG citizen members, in addition to PIRG staff, coalition partners, and friends and family. PIRG collected 197 surveys from 154 adults in 30 states.
• Over 8 million consumers (of the 16 million who received credit reports) did not call a CRA back after receiving a copy of their credit report. • 50% of callbacks each month to CRAs are of an educational nature--that is consumers simply have questions about their reports.	CDIA. Prepared testimony from CEO and President Stuart Pratt, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*.

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Results	Study/Source of Data
Dispute Resolution	
• 46% of credit file data was verified as the information reported; • 27% of data was modified per data furnisher's instruction but this could be due to an update of information rather than a dispute; • 10.5% of data was deleted per data furnisher's direction; and • 16% of data was deleted due to expiration of the 30-day period and no response received from the data furnisher (it cannot be determined whether the data was accurate or not).	CDIA. Prepared testimony from CEO and President Stuart Pratt, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*. These results are based on an industry-wide data set of disclosures to consumers and dispute responses to disputes submitted. CDIA collected the data from their nationwide consumer reporting members.
• Average number of files issued per year (for the data set)—180,000; • Average number of contacts/disputes relative to this population—9,000; and • Based on these numbers, approximately 5% of consumers requesting their files disputed.	CDIA. Prepared testimony from CEO and President Stuart Pratt, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*. Based on a data set collected by CDIA on the number of consumers who reviewed their credit files after receiving notices about (1) a certain level of inquiry activity or (2) additional adverse information being reported.
Only four tenths of one percent of all reports sold in this country ended up with the consumer contacting a CRA.	CDIA. Prepared testimony from CEO and President Stuart Pratt, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*. These results were based on data collected by CDIA on 2 billion credit reports sold annually.
• 61 (32%)--number of the 189 reports that were accurate but needed to be updated due to a new account or other new additional information; and • 2 (1%)--number of reports with an identified inaccuracy based on direct contact with the original provider of the information in the report.	CDIA. Prepared testimony from CEO and President Stuart Pratt, *The Fair Credit Reporting Act and Issues Presented by Reauthorization of the Expiring Preemption Provisions*. These results were based on data collected by CDIA based on a sample of 189 three-file merged reports that were reviewed by a mortgage reporting service and some were updated via direct contact with data furnishers.
• About 70% of individuals in the sample had a missing credit limit on one or more of their revolving accounts. • About 40% of individuals with public records had more than one such record, and about 40% of those with accounts reported by collection agencies had more than one collection item. For many of these individuals, the multiple record items appeared to be pertaining to the same episode.	Avery, Robert B., Paul S. Calem, Glenn B. Canner, and Raphael W. Bostic. "An Overview of Consumer Data and Credit Reporting." *Federal Reserve Bulletin*, February 2003. The Federal Reserve analyzed 248,000 credit records (excluding any identifying information) that were randomly selected from a nationally representative sample of credit records (as of June 1999) provided by one of the nationwide CRAs.
• 78% of credit files omitted a revolving account in good standing; • 33% were missing a mortgage account that had never been late; • 67% omitted other types of installment accounts that had never been late; • 82% of credit files had inconsistencies regarding the balance of revolving accounts or collections; and • 96% had inconsistencies regarding an account's credit limit.	CFA and National Credit Reporting Association, *Credit Score Accuracy and Implications for Consumers,* December 2002. CFA and NCRA initially reviewed 1,704 credit files representing consumers from 22 states and then reexamined a sample of 51 three-agency merged files. These results are based on the reexamination.
Including all types of ID theft, a total of 4.6 percent of respondents indicated that they had discovered they were victims of identity theft in the past year.	Federal Trade Commission (FTC). "Federal Trade Commission—Identity Theft Survey Report," September 2003. Available at www.ftc.gov.

(Continued From Previous Page)

Results	Study/Source of Data
Identity Theft	
• Are you aware of ID theft? *83.6%--yes; and *16.4% no. • Have you or someone you know been the victim of ID theft? *28.2%--yes. • How concerned are you about being the victim of ID theft? *20.4%--extremely concerned; *29.1%--very concerned; *34.4%--somewhat; *10.7%--not very; and *5.1%--not at all.	Fair Isaac Corporation. “myFICO Consumer Survey Results.”
Legislation	
Later this year, a new federal law giving consumers more credit score rights will go into effect. Do you think this new law gives consumers the right to obtain their credit score… (the following percentages of respondents said “yes” to the statements below): • 74%--for free if they have been denied a mortgage loan; • 72%--for free once a year; • 71%--for free if they have been denied a credit card; and • 69%--at any time for a small fee.	CFA and Providian. “Most Consumers Do Not Understand Credit Scores.”

Source: GAO.

[a]In the body of our report, we rounded this and other percentages to the nearest whole number.

Certain Demographics and Credit Experiences Are Associated with Consumers' Understanding of Credit Reporting Issues

Using two methodologies—a regression analysis and cross-tabulation analysis—that generally provided consistent conclusions, we found that certain factors were associated with consumers' knowledge of credit reporting issues.[1] First, we found that having experience with credit—for example, having an automobile loan or a mortgage—and the credit reporting process had a statistically significant effect on consumers' knowledge of credit issues. In addition, we found that certain demographic factors, such as educational level, income level, race/ethnicity, and age had a significant effect on consumers' awareness of these issues. Finally, we found that other factors, including gender and residence in one of the seven "free report states," did not have a significant effect on consumers' credit reporting knowledge.[2]

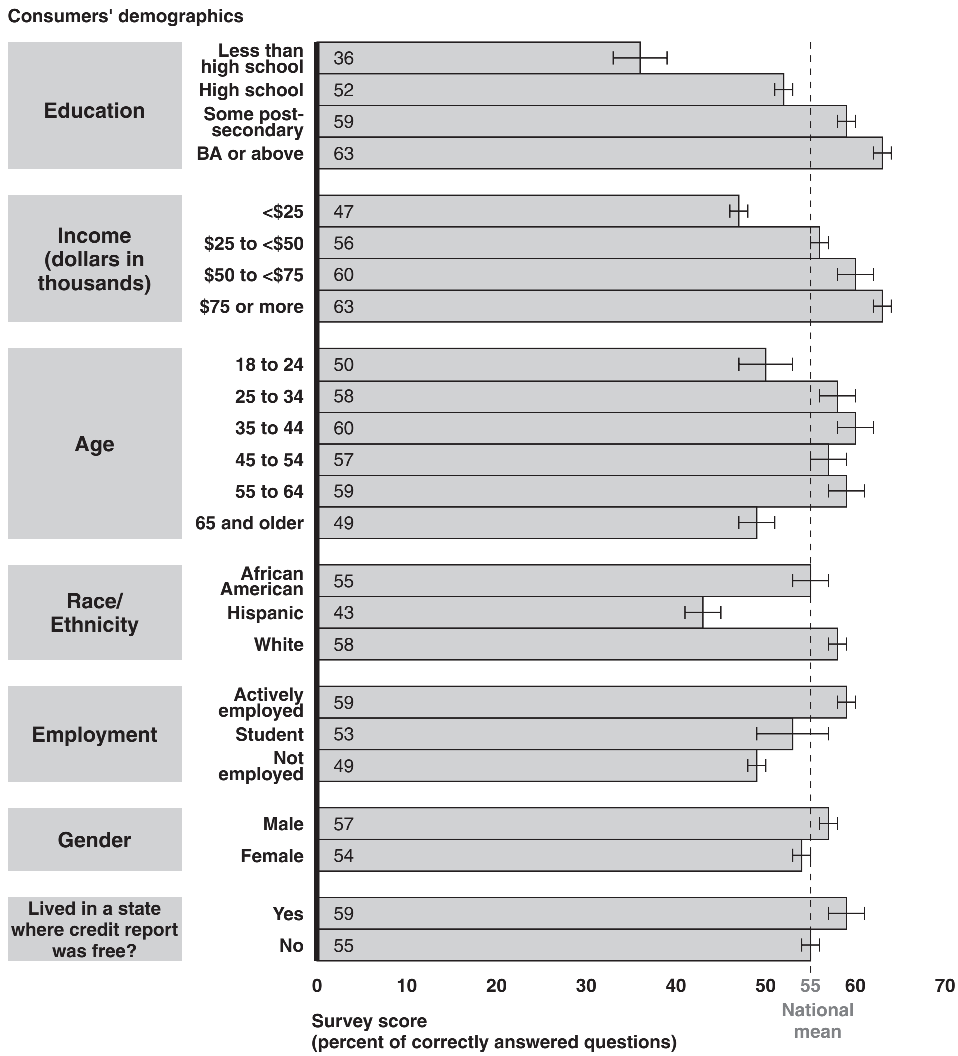
Those with Less Education and Lower Incomes Scored Lower on Our Survey

Our survey results show that awareness of credit reporting issues generally increased as a consumers' educational level increased. This trend was most evident for those with less than a high school education. As figure 10 shows, consumers with less than a high school education had a lower mean score overall (36 percent) than those with a high school education or more (at least 52 percent). Our regression analysis also confirmed that increases in educational level had a significant effect on consumers' knowledge. For example, compared with having less than a high school degree, having earned at least a bachelor's degree could increase scores by more than 13 percentage points.

[1]The regression analysis shows the independent effects of certain factors on an individual's total knowledge score. It can also show the simultaneous and cumulative effects of certain factors if we add the effects of each statistically significant factor. The cross-tabulation analysis shows the differences in average total knowledge scores and specific survey question responses for different populations. The statistical significance of a result is the probability that the observed relationship between variables did not occur by pure chance. Please see appendix V for additional discussion of the regression analysis.

[2]Prior to the Fair and Accurate Credit Transactions Act (FACT Act), seven states—Colorado, Georgia, Maine, Maryland, Massachusetts, New Jersey, and Vermont—already allowed residents to request at least one free copy of their credit report annually. See 69 Fed. Reg. 35468, 35488 n. 66 (June 24, 2004). In our report, we refer to these states as "free report states."

Figure 10: Average Total Scores and Demographic Groups

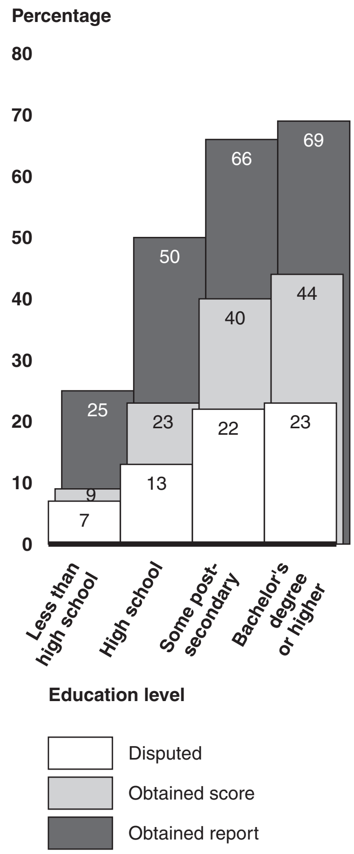


Source: GAO.

Note: Brackets on each bar represent the sampling error (or confidence interval) for that estimate at the 95 percent level of confidence.

In addition, as educational level increased, consumers obtained reports and scores and disputed information more often than those with less education. Figure 11 shows at least 50 percent of those with a high school education or more had viewed their credit reports, compared with 25 percent of consumers with less than a high school education. Similarly, at least 23 percent of consumers with a high school education or more had obtained their scores, compared with 9 percent of consumers with less than a high school education. Further, those with some postsecondary education disputed more frequently than those with less education (22 percent versus 7–13 percent, respectively).

Figure 11: Credit Reporting Experience by Educational Level



Source: GAO.

We also found that consumers with less than a high school degree were less aware of credit reporting issues in several areas, including the "basic" questions, than those with more education (table 5). For example, we found that those with less than a high school degree were less able to identify the correct definition of a credit reporting agency (CRA) (44 percent) than those with higher levels of education (74 percent and more).

These consumers were also less aware that they had the right to check their credit reports at any time for any reason and less likely to know that skipping loan payments and making late credit card payments had a negative effect on their credit scores. We found that 10 percent of consumers with less than a high school education named the Internet as a source for obtaining their credit report, compared with 24 percent or more of those with a high school education or more.

Table 5: Selected Survey Responses and Educational Level

	Education (in percentages)			
Survey Question	**Less than high school**	**High school**	**Some post-secondary**	**Bachelor's degree or above**
Credit Report Section:				
Knew the correct definition of a CRA	44%	74%	89%	97%
Knew they had the right to obtain their report at any time	37	63	76	85
Knew race was not on their credit report	37	54	65	66
Knew credit history could impact insurance coverage and premiums	22	34	38	41
Credit Score Section:				
Knew the correct definition of a credit score	31	57	79	88
Knew skipping loan payments could affect scores negatively	55	84	93	95
Knew that making late credit card payments could affect scores negatively	56	83	93	96
Dispute Section:				
Knew they had the right to dispute information on their report	72	87	93	96

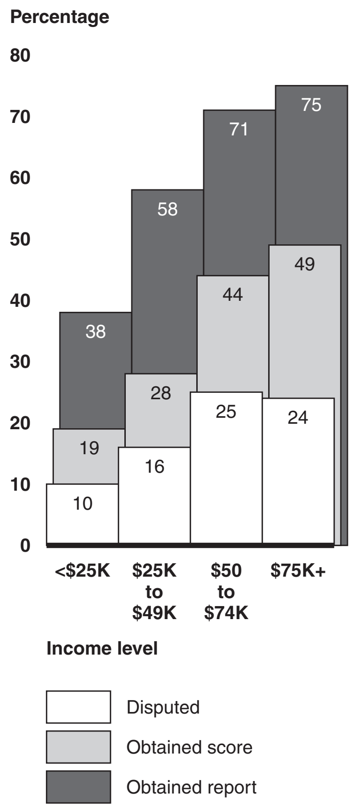
Source: GAO.

Note: The sampling errors for those with less than high school education are +/- 7 percentage points or less.

Consumers with relatively low household incomes were also less aware of issues related to credit reports, credit scores, and the dispute process than consumers in higher-income households. For example, those in the lowest household income group (less than $25,000 annually) correctly answered an average of 47 percent of survey questions, while those in the highest household income group ($75,000 and above annually) answered around 63 percent (fig. 10). Our regression model confirmed these results and found that income had a significant effect on knowledge. For example, a consumer with a household income of less than $25,000 per year could score almost 3 percentage points lower on the overall survey than a consumer with a higher household income.

The percentage of consumers who had viewed their reports and scores and disputed inaccurate information generally increased with household income level (fig. 12). For example, of those consumers with household incomes of $25,000 or less, 38 percent had viewed their credit reports, 19 percent had obtained their scores, and 10 percent had undertaken the dispute process (fig. 12). In contrast, of those consumers with household incomes of $75,000 or more, 75 percent had viewed their credit report, 49 percent had obtained their credit score, and 24 percent had undertaken the dispute process.

Figure 12: Credit Reporting Experience and Household Income Level



Source: GAO.

Note: The sampling errors for those with incomes of $50,000 - $74,999 and $75,000 or more are +/- 7 percentage points or less.

Consumers with relatively low household incomes— in particular, those in households making less than $25,000—generally were less aware of issues pertaining to credit reports, scores, and the dispute process compared with those in higher income groups (table 6). For example, consumers in households making less than $25,000 were less likely than those in households making $50,000 or more to know that their credit history could affect the interest rates lenders offered them. In addition, consumers in the lowest household income group were less likely to name the Internet as a place to go for one's credit report compared with other household income groups (about 17 percent compared with 32–36 percent).[3] Finally, the differences in knowledge between lower- and higher-income consumers were most pronounced for credit scores. For example, 44 percent of consumers in the lowest household income group knew that frequently applying for credit affected scores negatively, compared with 78 percent of consumers in the highest income group.

Table 6: Selected Survey Responses of Different Household Income Levels

	Income (in percentages)			
Survey Question	**Less than $25K**	**$25K - $49K**	**$50K - $74K**	**$75K and above**
Credit Report Section:				
Knew credit history could affect interest rates on loans	73%	80%	88%	89%
Knew credit history could affect employment decisions	27	33	34	39
Credit Score Section:				
Knew the correct definition of a credit score	49	71	81	88
Knew having credit history for a short time could affect scores negatively	36	47	58	60
Knew frequently applying for credit could affect scores negatively	44	60	68	78
Knew using most of your available credit could affect scores negatively	40	52	59	62
Knew requesting a copy of your own report had no effect on credit scores	35	50	53	64

Source: GAO.

Note: The sampling errors for those with incomes of $50,000 - $74,999 and $75,000 or more are +/- 7 percentage points or less.

[3]The sampling errors for the 32-36 percent of other household income groups are +/- 7 percentage points or less.

Race/Ethnicity Was Associated with Differences in Survey Scores

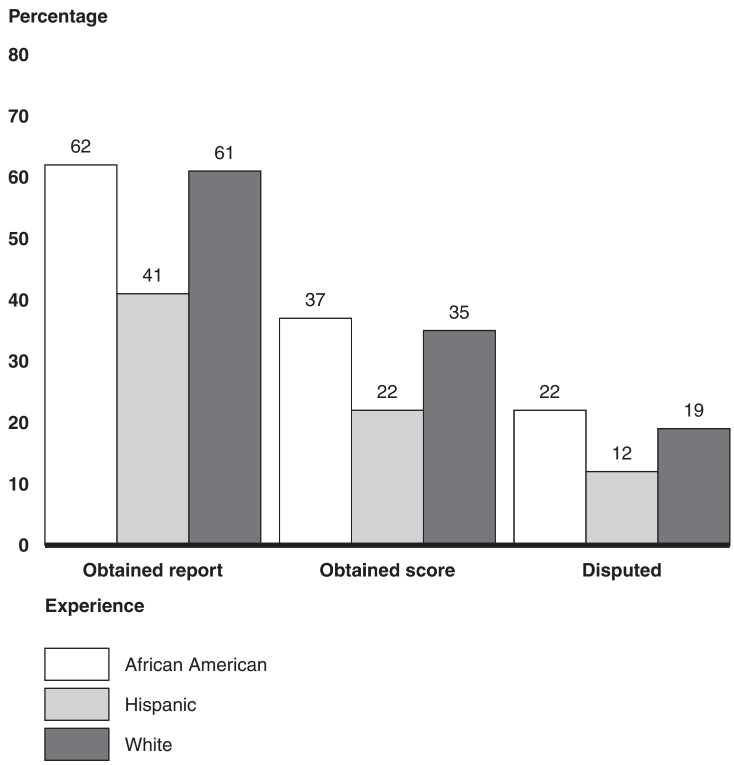
We also found that race/ethnicity was associated with consumers' knowledge of credit reporting issues. We found that African Americans and whites scored similarly, showing approximately equal levels of knowledge, while Hispanics scored consistently lower on our survey. As shown in figure 10, African Americans earned an average score on the survey of 55 percent, whites had a score of 58 percent, and Hispanics earned 43 percent. The regression confirmed these findings. It showed that being African American rather than white had no significant effect on consumer's scores but that being Hispanic could decrease survey scores by approximately 6 percentage points compared with whites (holding other variables, such as education and income constant).[4]

As shown in Figure 13, we found that African Americans and whites were almost equally as likely to have viewed their credit reports and obtained their credit scores and that Hispanics were less likely to have done either. More African Americans than whites said that they had ordered their credit reports themselves—65 percent compared with 50 percent of whites.[5] In addition, more African Americans (15 percent) than whites (6 percent) said that they had ordered their reports because of adverse action.

[4]Such effects are cumulative. For example, a Hispanic consumer with a college degree, credit experience, and a high income could score around 30 percentage points higher than a low-income ($25,000 or less) Hispanic without a high school education or credit experience.

[5] The sampling error for the 65 percent of African Americans that ordered their reports themselves is +/- 7 percentage points.

Figure 13: Credit Reporting Experience by Race/Ethnicity



Source: GAO.

Table 7 highlights some specific survey responses for each racial/ethnic group, including responses that varied somewhat from overall survey scores. Whites and African-Americans scored similarly on the survey and consistently higher than Hispanics. For example, 84 percent of African Americans and 92 percent of whites knew that skipping loan payments could lower their credit score. And around the same percentage of both groups (about 90 percent) knew that they could dispute information on their credit reports. As shown in table 7, Hispanics scored lower on these questions. However, when asked whether race appeared on credit reports, Hispanics scored virtually the same as African Americans, though still lower than whites. Finally, we found that more whites (35 percent) named the Internet as a source for obtaining their credit reports than African Americans (18 percent) and Hispanics (16 percent).

Table 7: Selected Survey Responses by Race/Ethnicity

	Race/Ethnicity (in percentages)		
Survey Question	**African American**	**Hispanic**	**White**
Credit Report Section:			
Knew they had the right to obtain their report at any time	66%	48%	77%
Knew race was not on their credit report	51	50	63
Credit Score Section:			
Knew the correct definition of a credit score	59	39	78
Knew skipping loan payments could affect scores negatively	84	63	92
Knew making late credit card payments could affect scores negatively	86	69	91
Dispute Section:			
Knew they had the right to dispute information on their credit report	89	78	92

Source: GAO.

Our survey findings are consistent with information we collected during interviews with federal agencies and other organizations, including the National Council of La Raza (La Raza). The Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (OCC), and FTC told us that their financial literacy efforts are often targeted at certain populations, including Hispanics, who may more often be "unbanked" or less financially literate.[6] Government officials and representatives of other organizations, including La Raza, discussed the need for financial literacy programs among the low-income Latino community.[7] They also told us that some Latinos tend to avoid debt, making them less likely to obtain credit and thus less likely to have experience with credit reports and scores. In our survey, we found that more white consumers had experience with credit-related products than African Americans or Hispanics, with Hispanics having the least amount of experience (table 8).

[6]"Unbanked" populations do not maintain deposit accounts with mainstream financial service providers.

[7]La Raza discusses financial literacy programs in the Latino community as well as the results of some of these efforts in its 2004 report, *Financial Education in Latino Communities: An Analysis of Programs, Products, and Results/Effects*, available at www.nclr.org.

Table 8: Experience with Credit-Related Products and Race/Ethnicity

	Race/Ethnicity (in percentages)		
Have had the following credit-related products at some point in time	African American	Hispanic	White
Credit card	75%	62%	92%
Automobile loan	62	45	80
Home loan/mortgage	42	28	73

Source: GAO.

Younger and Older Consumers Scored Lower on Our Survey

Our cross-tabulation analysis showed that consumers' knowledge of credit reporting issues also differed with age and that the youngest consumers (aged 18 to 24) and the oldest (aged 65 and older) were the least likely to have obtained a credit report or score or to have undertaken the dispute process. In the regression, each 1-year increase in the respondent's age was associated with about a tenth of a percentage point decrease in the respondent's total knowledge score.[8] The mean scores for credit knowledge for consumers in the six age groups ranged from 49 to 60 percent, with the youngest and oldest groups having the lowest scores (fig. 10).

We found that experience with the credit reporting process also varied somewhat by age (fig. 14). For example, 24 percent of the youngest consumers and 42 percent of the oldest had ordered their credit reports, compared with 61 to 74 percent of all other age groups.[9] In addition, 7 percent of the youngest consumers and 17 percent of the oldest consumers had obtained their credit scores, compared with 33 to 48 percent of those in all other age groups.[10] The differences were similar for dispute, with 7 percent of the youngest group and 10 percent of the oldest disputing

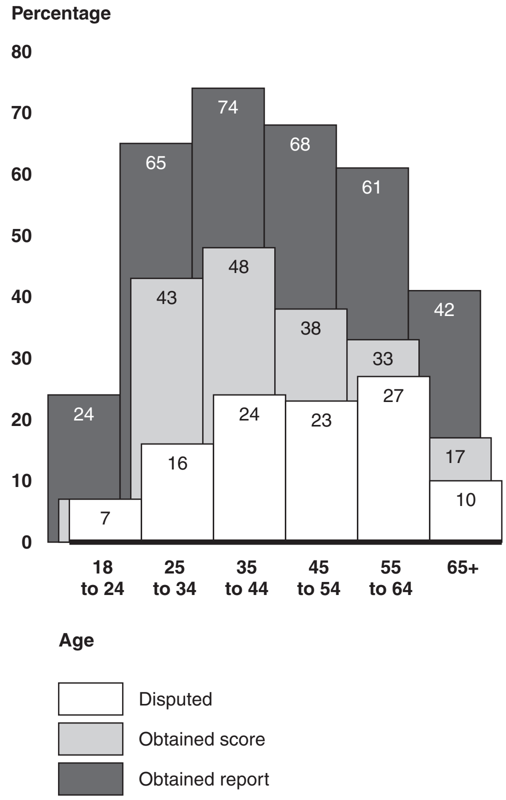
[8]The small independent impact found for age with the regression analysis and the larger differences among age groups found with the cross-tabulation analysis suggest that the cross-tabulation analysis captured not only age but also factors such as education and experience with the credit system. See appendix V.

[9]The sampling error for the 24 percent of the youngest consumers (aged 18 to 24) who had seen their reports is +/- 9 percentage points. The sampling errors for the oldest group (65 or over) and all other age groups are +/- 7 percentage points or less.

[10]The sampling errors for the 33 and 48 percent of those who had obtained their scores are +/- 7 percentage points.

information in their credit reports; in comparison, 16 to 27 percent in all other age groups reported having disputed information.[11]

Figure 14: Credit Reporting Experience by Age Group



Source: GAO.

Note: The sampling errors are +/- 7 percentage points or less, except for the 24 percent of those aged 18 to 24 who had seen their reports (+/- 9 percentage points).

According to our survey, consumers in the youngest and oldest age groups also knew fewer details about credit reports and scores than those in other age groups (table 9). For instance, 18 percent of those aged 18 to 24 knew that their credit history could affect employment decisions—an issue of particular importance to persons in this age group, who are likely to be

[11]The sampling error for the 27 percent of those in the 55 to 64 age group who said they had disputed is +/- 7 percentage points.

engaging in their first job search—while 29 to 46 percent of those in all other age groups knew this fact.[12] In addition, fewer consumers aged 18 to 24—55 percent—and those aged 65 and over—60 percent—could identify the correct definition of a credit score compared with consumers in other age groups (table 9).[13] Younger consumers were also less aware that having had a credit history for a short time could affect scores negatively, especially when compared with those aged 25 to 34 (41 percent compared with 61 percent).[14] In addition, 71 percent of consumers aged 65 and over said they should check their credit reports from time to time, while 88 to 92 percent of consumers in all other age groups said they should.[15] Finally, 14 percent of consumers in the oldest age group named the Internet as a source for obtaining their credit report, while 29 to 37 percent of those in all other age groups cited the Internet.[16]

[12] The sampling error for the 18 percent of those aged 18 to 24 who knew that their credit history could affect employment decisions is +/- 8 percentage points. The sampling errors for all other age groups that knew this fact are +/- 7 percentage points or less.

[13] The sampling error for the 55 percent of those aged 18 to 24 who could identify the correct definition of a credit score is +/- 10 percentage points.

[14] The sampling error for the 41 percent of those aged 18 to 24 who knew that having had a credit history for a short time affected scores negatively is +/- 10 percentage points. For the 61 percent of those aged 25 to 34 who knew this fact, the error is +/- 7 percentage points.

[15] The sampling errors for the 88 to 92 percent of those in other age groups who said they should check their report from time to time are +/- 7 percentage points or less.

[16] The sampling errors for the 29 to 37 percent of those in all other age groups who named the Internet are +/-7 percentage points or less, except for the 37 percent of those aged 18 to 24 (+/- 10 percentage points).

Table 9: Selected Survey Responses by Age Group

	Age (in percentages)					
Survey Question	**18 to 24**	**25 to 34**	**35 to 44**	**45 to 54**	**55 to 64**	**65 +**
Credit Report Section:						
Knew credit history could affect employment decisions	18%	29%	35%	31%	46%	36%
Knew credit history could affect ability to rent an apartment	80	74	75	73	79	61
Credit Score Section:						
Knew the correct definition of a credit score	55	74	80	77	74	60
Knew having credit for a short time could affect scores negatively	41	61	53	53	52	30
Knew frequently applying for new credit could affect scores negatively	60	74	62	59	65	44

Source: GAO.

Note: The sampling errors are +/- 7 percentage points or less, except for the three estimates under the credit score section for those aged 18 to 24. These errors are +/- 10 percentage points; for the 18 percent of those aged 18 to 24 who knew their credit history could affect employment decisions, the error is +/- 8 percentage points.

Actively Employed Consumers Scored Slightly Higher on Our Survey

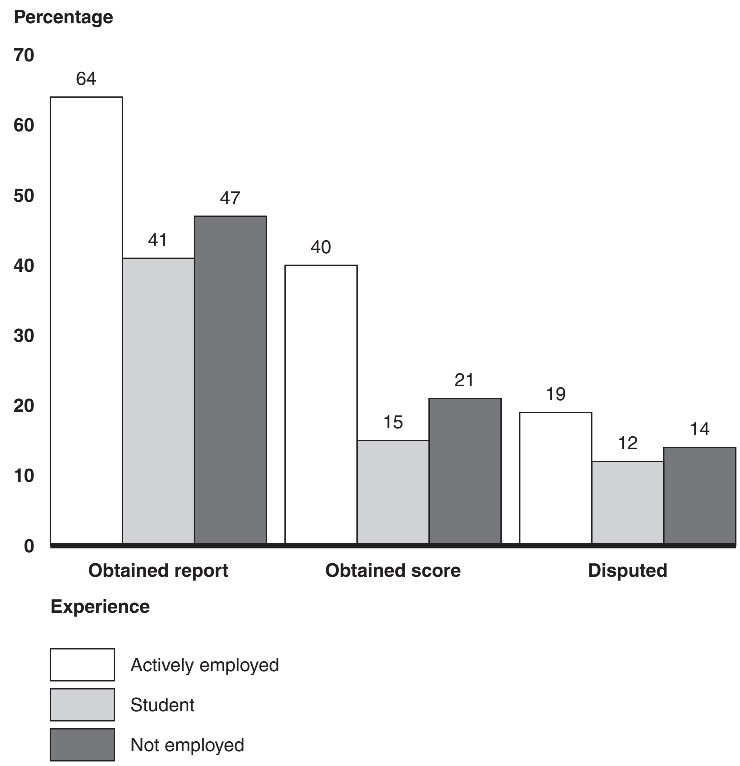
We also analyzed survey results for consumers in different employment groups and found some differences. Specifically, we found that actively employed consumers working either full or part time showed slightly more knowledge of credit reporting issues than any other group answering 59 percent of the survey questions correctly. Students and unemployed consumers (including homemakers, retirees, and those lacking any job) had somewhat lower scores—53 percent for students and 49 percent for consumers who were unemployed. However, our regression analysis showed that students made up the only employment group that had a significant effect and that their employment status could potentially lower their scores by about 3 percentage points.[17]

As figure 15 shows, we also found that actively employed consumers were more likely to obtain their credit reports and scores than consumers in

[17]Once again, the differences in the results of the cross-tabulation and regression analyses reflect the cumulative effect of independent factors. For example, age as well as employment status may affect the results for students and retirees. See appendix V.

other employment categories. However, we found little difference among the percentages of those in each employment group that reported having disputed information on their credit reports.

Figure 15: Credit Reporting Experience by Employment Group



Source: GAO.

Note: The sampling error for students is +/- 11 percentage points or less, except for the 41 percent of student who had obtained their report (+/- 17 percentage points).

Table 10 highlights some other responses to specific survey questions among the employment groups. Also, more students and unemployed consumers were unable to name any CRAs (84 percent and 79 percent, respectively), while 59 percent of actively employed consumers were unable to name any.[18]

[18]The sampling error for the 84 percent of students who were unable to name any of the CRAs is +/- 12 percentage points.

Table 10: Selected Survey Responses by Employment Group

Survey Question	Employment group (in percentages)		
	Actively employed	Student	Not employed
Credit Report Section:			
Knew credit history could affect employment decisions	32%	29%	34%
Credit Score Section:			
Knew the correct definition of a credit score	77	70	58
Dispute Section:			
Knew they could add a statement to their credit report	43	21	39

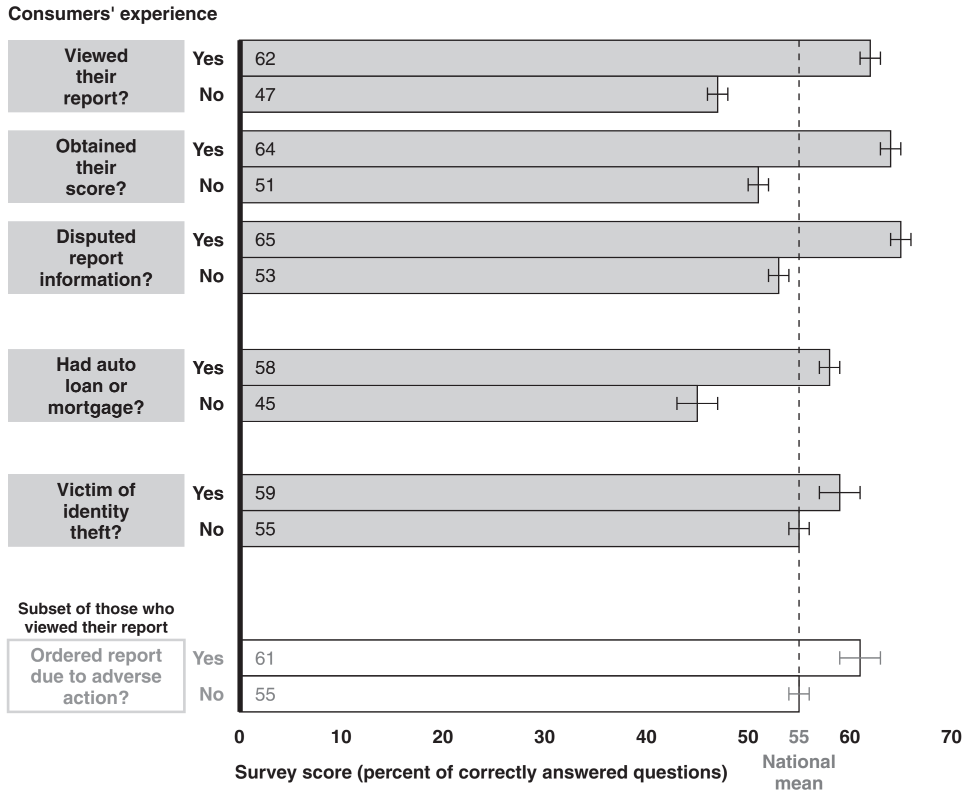
Source: GAO.

Note: The sampling error for students who knew that their credit history could affect employment decisions is +/- 16 percentage points; all other sampling errors for students are +/- 14 percentage points or less.

Consumers with Credit Experiences Scored Higher on Our Survey

Our analysis also showed that consumers who had viewed their reports, obtained their scores, or disputed information demonstrated more knowledge of credit reporting issues. Our findings are consistent with expert opinion in the field of financial literacy. Several experts have noted that consumers who have experience with a financial product or transaction—in other words, those who have been able to "learn by doing"—are better informed about financial products and transactions than those who lack experience. Specifically, as shown in figure 16, we found that consumers who had viewed their credit reports had a higher average survey score—62 percent—than those who had not—47 percent. Consumers who had seen their credit scores were better informed about credit issues, with a mean survey score of 64 percent, while those who had not obtained their scores had a mean survey score of 51 percent. Those consumers who had undertaken the dispute process also demonstrated increased knowledge. Those who had disputed had a mean score of 65 percent, while those who had not had a mean score of 53 percent. Our regression analysis also confirmed that having viewed a report or score or having disputed were associated with an increase in the consumer's total knowledge score. Each experience was associated with at least a 4 percentage point increase in the total knowledge score.

Figure 16: Average Total Scores and Credit Experience



Source: GAO.

Note: Brackets on each bar represent the sampling error (or confidence interval) for that estimate at the 95-percent level of confidence.

Table 11 shows some of the differences in selected survey responses for those consumers who had obtained their credit reports and scores and had engaged in the dispute process and those who had not had these experiences. We found that having one of these three experiences could increase responses to certain questions by almost 20 percent—for instance, knowing how long information remained on a credit report or that frequently applying for new credit could have a negative effect on a credit score.

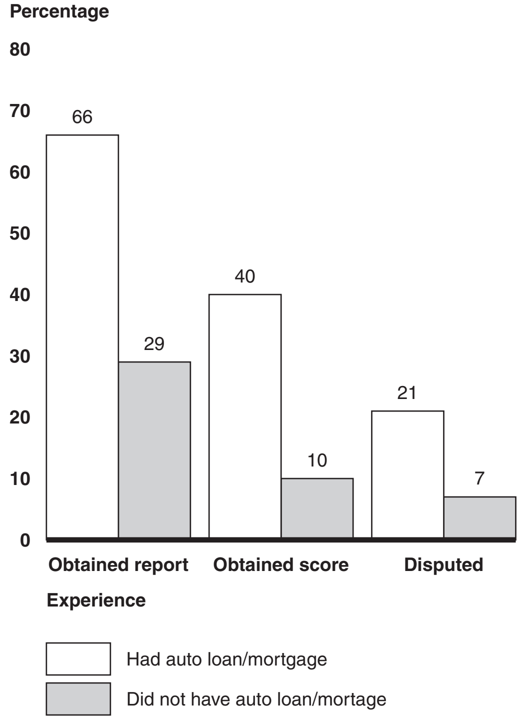
Table 11: Selected Survey Responses and Consumers' Credit Reporting Experience

Survey Question	Credit report (in percentages)		Credit score (in percentages)		Dispute (in percentages)	
	Viewed credit report	Did not view credit report	Obtained credit score	Did not obtain credit score	Disputed	Did not dispute
Credit Report Section:						
Knew how long information remained on report	59%	30%	64%	38%	69%	42%
Knew credit history could affect the rate of interest charged on a loan	88	71	93	75	91	79
Credit Score Section:						
Knew having a credit history for a short time could affect scores negatively	59	36	64	41	61	46
Knew frequently applying for credit could affect scores negatively	70	47	76	52	75	57
Knew using most of your available credit could affect scores negatively	59	41	61	47	68	48

Source: GAO.

Second, we found that consumers with certain types of credit experiences, such as having had either an automobile loan or a home loan/mortgage, scored higher on the overall survey and that more of these consumers had viewed their credit reports and scores and disputed information on their reports (fig. 17). As we have seen, consumers who had obtained either an automobile loan or a mortgage—about 74 percent of consumers—had higher overall scores than those who had not (fig. 16). The regression showed that having an automobile loan or mortgage had a significant effect and could increase a consumer's score by around 4 percentage points.

Figure 17: Credit Reporting Experience and Experience with Automobile Loans or Home Loans/Mortgages



Source: GAO.

Table 12 highlights some of the larger differences in survey responses between consumers who had had automobile loans or mortgages and those who had not. For example, consumers who had had automobile loans or mortgages were most familiar with some of the factors that might or might not affect credit scores—frequently applying for credit, having low checking account balances, and using most of the credit available to them—than consumers who had not had such loans.

Table 12: Selected Survey Responses and Experience with Automobile Loans or Home Loans/Mortgages

	Auto loan/mortgage (in percentages)	
Survey Question	Had an auto/ mortgage loan	Did not have auto/mortgage loan
Credit Report Section:		
Knew they had the right to obtain their report at any time	75%	56%
Knew how long information remained on report	52	30
Credit Score Section:		
Knew the correct definition of a credit score	76	49
Knew having a credit history for a long time could affect scores positively	85	59
Knew frequently applying for credit could affect scores negatively	65	43
Knew low checking account balances had no effect on scores	48	27
Knew using most of the credit available to you could affect scores negatively	57	34
Dispute Section:		
Knew they had the right to add a statement to their credit report	46	24

Source: GAO.

Being a Victim of Identity Theft and Being from a Free Report State Had Little Effect on Consumers' Survey Scores

Government and industry officials told us that certain experiences, including having been a victim of identity theft or having requested a credit report because of an adverse action such as denial of credit, might increase consumers' knowledge of credit issues. However, we found that these experiences did not affect consumers' overall scores. As figure 16 shows, consumers who said they had been victims of identity theft (approximately 10 percent of our survey respondents) scored only slightly higher than other consumers. The regression analysis showed that being a victim of identity theft did not have a significant effect on consumers' knowledge. Similarly, consumers who had obtained their credit report because of an adverse action scored only slightly higher than those who had not. [19]

Although we did not see large differences in the overall knowledge of credit issues between those who had been victims of identity theft and those who had not been, we found that identity theft victims were more likely to

[19]We did not use adverse action in the regression analysis because it is a subset of those who requested their credit reports. The regression was designed to predict the knowledge score of the general population, not the score of those who had obtained their credit report.

obtain their credit reports (72 percent versus 56 percent).[20] In addition, we found that victims of identity theft disputed information more frequently than those who had not had this experience. Of those who had disputed, identity theft victims had information removed from their reports less frequently than other consumers who had disputed (48 percent versus 74 percent) and were more likely to add an explanatory statement.[21] Further, we found that consumers who had been victims of identity theft had more knowledge of certain details about credit reporting than consumers who had not been victims. More—53 percent—knew that correcting information with one CRA did not mean that the others would also make the correction, compared with 39 percent of other consumers.[22] In addition, like all other groups, victims of identity theft did not name the Federal Trade Commission (FTC) as the agency to contact if they had a problem with a CRA, although Congress designated FTC as the agency that handles the identity theft claims of consumers. The number of identity theft complaints filed with FTC doubled every year between November 1999 and 2002, and in 2003 FTC received about 215,000 identity theft complaints. Similarly, we did not see large differences in overall knowledge between those who had obtained their report because of an adverse action and those who had not. However, we found that consumers who had had an adverse action against them were more likely to dispute information. These consumers were also far more likely to order their reports themselves than those who had not had this experience (78 percent versus 49 percent).[23]

We also looked at consumers who live in free report states—one of the seven states where residents could order a free copy of their credit report annually before the FACT Act was passed (about 21 percent of respondents). On the basis of our discussions with government and industry officials, we decided to test whether these consumers would have more knowledge about credit reporting issues than consumers in states

[20]The sampling error for the 72 percent of victims of identity theft who had obtained reports is +/- 8 percentage points.

[21]The sampling error for the 48 percent of identity theft victims who had had information removed after a dispute is +/- 14 percentage points. The sampling error for the 74 percent of those who had not been victims and had had information removed is +/- 7 percentage points.

[22]The sampling error for the 53 percent of identity theft victims who knew this fact was +/- 9 percentage points.

[23]The sampling error for the 78 percent of those who obtained reports because of adverse action and who ordered their reports themselves is +/- 8 percentage points.

where free reports were not available. As figure 10 shows, consumers residing in free report states had only slightly higher survey scores than consumers who did not (59 percent compared with 55 percent). The regression analysis showed no significant effect for those living in a free report state compared with those that did not. TransUnion, one of the three nationwide CRAs, found in a 2003 study that around 4 percent of consumers in free report states had requested their reports, compared with around 2 percent of consumers in other states. Colorado was the exception, with more than 10 percent requesting their reports, possibly because consumers were notified of this right by mail under two specific circumstances.[24] Our study showed that 46 percent of consumers in free report states said that they did not know they had the right to order a free credit report.

Finally, we assessed the effect of gender (male versus female) on consumers' knowledge and found that gender did not impact consumers' knowledge of credit reporting, with males and females having similar overall survey scores—57 percent and 54 percent, respectively (see fig. 10). The regression model also showed that gender did not have a significant independent effect on knowledge of credit issues. In addition, approximately the same percentages of males and females had obtained their credit reports and scores and had disputed information. Further, we found few specific areas in which knowledge differed between genders. Among those we did find, females were somewhat more likely to know how long negative information remained on a credit report (51 percent compared with 42 percent of males) and to say that they had added a written statement to their report after a dispute (38 percent, compared with 21 percent of males).[25] In contrast, males were slightly more likely to know that their credit history could affect the interest rate charged on a loan (85 percent compared with 77 percent of females) and that having had a credit history for a short time had a negative effect on their credit score (54 percent, compared with 44 percent of females).

[24]In Colorado, a CRA is required to notify consumers of their right to a free credit report if a CRA has received 8 credit inquiries pertaining to the consumer or the agency has received a report that would add negative information to the consumer's file. C.R.S. § 12-14.3-104(2)(a).

[25]The sampling error for the 38 percent of females and 21 percent of males who said that they added a written statement to their report after a dispute is +/- 8 percentage points.

A Regression Model to Explain Differences in Total Knowledge Scores

This appendix provides more detail on the regression model that GAO developed to explain how different variables such as education are associated with the survey scores, or the “total credit reporting knowledge scores,” discussed in the body of the report. Such a model can be used to illustrate the influences of different independent variables on the total knowledge score.[1] In the first section, we describe the variables used in the model. In the next two sections, we describe the structure of the model and the statistical results. In the last section, we discuss our interpretation of the regression model.

Variables in the Model

The model includes variables taken from the survey that represent consumers’ experience with the credit and financial system, and consumers’ socio-economic characteristics that might influence consumers’ knowledge of credit reporting issues. Table 13 shows the proportion of socio-economic and experience variables of respondents to our survey. There are many factors that might potentially affect knowledge and this model only considered those that we asked respondents about in our survey. Specifically, the socio-economic variables are: race/ethnicity, age, income, employment status, gender, and education. The race/ethnicity variable tests whether certain racial or ethnic groups systematically score differently on the survey. Age is included because of concerns that younger and older consumers may be less aware of the importance of credit reports and scores. The income variable tests the influence of different levels of a household’s annual income on total scores and the employment status variable tests for the influences of having full- or part-time work, or none at all, as well as being a student. The gender variable is included to determine whether males and females have a different understanding of credit reporting issues. Education levels are included to determine whether consumers’ level of formal education influence total knowledge scores.

Several variables reflect factors that we believe could directly affect consumers’ experience with and knowledge of credit reporting. For example, living in a state where consumers receive copies of their credit reports free each year before the passage of the FACT Act is included because we hypothesized that having this right might have encouraged

[1]The influence or statistical impact measures how much the value of the dependent variable will change for a change in the value of a specific independent variable. It is a statistical relationship and not causal. The coefficient of the independent variable in the regression model is the measure of influence of that variable.

more individuals to look at their credit reports, which could increase their credit reporting knowledge. Similarly, we thought that having had a mortgage or an automobile loan could mean that consumers were more likely to know more about credit reporting issues. We included having seen a credit report or credit score, disputing information on a credit report, and experiencing identity theft to assess the possible influence of these experiences on a consumer's understanding of credit reporting issues.

Table 13: Variables in the Statistical Model

Variable	Percent of Sample
Dependent Variable = Total Knowledge Score (percent correct)	
Independent Variables:	
Ethnic Classifications	
• White	68.8%
• Black	12.4
• Hispanic	13.9
• Other	4.9
• Age*	Not applicable since it is a continuous variable
Household Income (per year)	
• Below $25,000	28.2
• $25,000 to $49,999	27.4
• $50,000 to $74,999	20.3
• $75,000 and above	24.1
Employment Status	
• Actively employed (full- or part-time employment)	60.4
• Student	3.7
• Not employed (homemakers, retired or unemployed)	31.1
• Other	4.8
Gender	
• Male	48.2
• Female	51.8
Education Level	
• Less than high school	10.4
• High school completed	30.4
• Some postsecondary	28.5
• At least a college degree (Bachelor's degree or more)	30.7

(Continued From Previous Page)

Variable	Percent of Sample
Financial Experience	
• Living in a free credit report state	12.8
• Having had a mortgage or an automobile loan	77.0
• Having seen one's credit report	57.8
• Having seen one's credit score	32.8
• Having disputed the contents of a credit report	17.9
• Having experienced identity theft	9.8
*The average age was 45.2 with a 17.3 standard deviation.	

Source: GAO.

The Structure of the Model

This multiple regression model is designed to estimate how various independent variables influence the dependent variable – total knowledge score (results are presented in table 14). Evaluating a multiple regression requires considering both the influence of each independent variable on the dependent variable (the total knowledge score, or the percent correct answers) and the statistical significance of the estimates.[2] Total scores are cumulative and represent the sum of the influences of all the independent variables in the model.

Much of the data puts consumers into categories (i.e. whether or not one has completed high school or different income categories) and is called categorical data. When categorical data is used for variables there is always a base state and the variable information shows whether the consumer is in or not in that base state. For example, in the case of gender, being female is the base state. Thus being a male increases the total knowledge score on average by about six-tenths of a percentage point as compared to being female. Other binary variables are constructed in a similar manner. Several categorical variables have multiple states. For example, there are four states of education with having less than a high school degree being the base state. In general, a consumer who has completed high school will have about a 9 percentage point increase in his total knowledge score as compared to a consumer who never finished high school, while having

[2]An effect is statistically significant if the value of a test statistic used to test it provides strong evidence that the observed effect did not occur by pure chance. Effects can be statistically significant at different levels, for example, a result can be statistically significant at a 5 percent level. The smaller the level at which a result is statistically significant, the stronger the evidence is that the observed effect did not occur by pure chance.

completed college increases the total knowledge score on average by about 14 percentage points over the base case. Other multiple state variables are constructed in a similar manner.

Table 14: A Regression Model to Explain Differences in Total Knowledge Scores

Dependent Variable = Total Knowledge Score (percent correct answers)	
Independent Variable	**Coefficient**
Intercept	40.47%*
Ethnic Classifications	
• White	Base state
• Black	.15
• Hispanic	-6.31*
• Other	1.31
Age of the individual (years)	-.09*
Household Income (per year)	
• Below $25,000	Base state
• $25,000 to $49,999	3.11*
• $50,000 to $74,999	2.94*
• $75,000 or above	3.28*
Employment Status	
• Actively employed (full- or part-time employment)	Base state
• Student	-3.33*
• Not employed (homemakers, retired or unemployed)	-1.56
• Other	-3.13
Gender	
• Female	Base state
• Male	.59
Education Level	
• Less than high school	Base state
• High school completed	8.51*
• Some postsecondary	11.49*
• At least a college degree (Bachelor's degree or more)	13.79*
Financial Experience	
• Living in a free credit report state	1.38
• Having had a mortgage or an automobile loan	3.73*
• Having seen one's credit report	5.15*
• Having seen one's credit score	4.24*

(Continued From Previous Page)

Dependent Variable = Total Knowledge Score (percent correct answers)	
Independent Variable	**Coefficient**
• Having disputed the contents of a credit report	5.13*
• Having experienced identity theft	1.14

Source: GAO.

Note: R2 = .455. Observations in the analysis = 1380.

Items with a * are statistically significant at the alpha = .05 level.

The Statistical Results

The model shows that the independent variables explain about 45 percent of the variation in the total knowledge score as shown in the R^2 statistic. Most of the independent variables in the model are statistically significant, and their influences are reasonable.[3] For example, having a relatively high household income or educational level increases the total knowledge score as shown in table 14. For several variables, the influences are statistically significant. If an effect is statistically significant we can reject the null hypothesis that the variable in question has no influence on the consumer's total knowledge score, i.e. the variable does influence the total knowledge score. In our analysis, a coefficient is considered statistically significant if the p-value for the t-test is less than 0.05.

In the following discussion of the regression model, we usually address the statistically significant coefficients. Statistically insignificant coefficients are discussed only when they have important implications. When discussing each variable we assume that all other variables are being held constant. As a result, the coefficient of each independent variable shows, on average, its independent influence on the total knowledge score.

The regression shows that socio-economic factors influence scores. The consumer's race/ethnicity can influence the total knowledge score. For example, in the model Hispanics will score about 6 percentage points lower than whites on average, holding all other variables constant. Age also influences the score with each additional year lowering the score by one-

[3]Other factors not collected, and thus not studied, could have affected the total knowledge score if they had been available. For simplicity, our equation was linear. Using a more complex non-linear functional form could affect both the explanatory power of the equation and the coefficients on the independent variables. In our judgment, variations in the functional form would increase the complexity of our analysis without improving the ability of the equation to explain variations in the total knowledge scores.

tenth of 1 percentage point.[4] In addition, those with incomes above $25,000 have higher total knowledge scores than those earning less than $25,000 per year. For example, consumers earning between $25,000 and $49,999 scored about 3 percentage points higher than those earning less than $25,000. But only one employment state variable is significant—being a student rather than working full or part time. According to our model, students score about 3 percentage points less on average than those employed full or part time. Finally, knowledge increases with educational levels, so that those who finish high school score about 9 percentage points higher on average than those who have not.

We tested how living in a free credit report state, having experienced identity theft, and experience with credit and the financial system can influence total knowledge scores. Living in a free report state and having experienced identity theft had no statistically significant effect on the total knowledge scores. Having a mortgage or an automobile loan increases a consumer's score by about 4 percentage points on average. Similarly, having seen a credit report raises the total knowledge score by about 5 percentage points. Having seen a credit score increased the consumer's total knowledge score, on average, by about 4 percentage points, while having disputed a credit report increased the consumer's total knowledge score by about 5 percentage points. These increases in scores are consistent with a belief that increased experience with credit and credit reporting improves the consumer's knowledge of these issues.

Using the Regression to Illustrate the Simultaneous Influences of Several Variables

A multiple regression shows the simultaneous and cumulative influences of all the independent variables on the total knowledge score. In contrast, cross-tabulations show differences in average total knowledge scores for different populations and do not allow the independent influences of various factors to be separated. The average scores from the cross-tabulations reflect the cumulative influences of all the independent variables. For example, consumers from high-income households are likely to also be highly educated and to have a car loan or mortgage. Thus their

[4]This finding is consistent with the idea that older consumers are less knowledgeable or familiar with modern credit reports and credit scoring approaches to loan applications. We also tested to see if there was a non-linear relationship between age and total knowledge scores to see if both the younger and older consumers were less knowledgeable. This tested non-linear relationship did not improve the model so we stayed with the simpler linear model.

average score is generally higher than scores for those with lower household incomes because of the positive influences of several variables.

To illustrate this tendency, we constructed two “straw” consumers and used the statistical model to predict their total knowledge scores as reported in table 15. In constructing our two “straw” consumers and showing how their total knowledge scores vary based on differences in the values of the independent variables, we are assuming that our model is reasonable and representative of consumer behaviors.[5]

Consumer 1 is a 25-year-old male Hispanic with a household income of less than $25,000 a year, who does not have a high school degree, does not have an automobile loan or mortgage, and has no experience with credit reports or scores. Consumer 2 is also a 25-year-old male Hispanic, but with at least a college degree, an automobile loan or mortgage, and some experience with credit reports and scores. The model allows us to determine the influences of the independent variables on the total knowledge scores for each of these consumers. According to the model, consumer 1 would score about 33 percent, while consume 2 would score about 63 percent. Changing the race/ethnicity of both consumers to white raises the scores to about 39 percent and 69 percent, respectively. The differences in the scores reflect the effects of a number of individual variables.

[5]In practice, our model is one of many models that could be used to reasonably represent the relationship between total knowledge scores and the independent variables. If we had chosen additional independent variables or a different functional form, we could have produced other reasonable models. However, given the data available to us and our desire to keep a simple functional form with reasonable statistical properties we chose to report this model and use it to evaluate how the total knowledge score of our “straw” consumers varied.

Table 15: Comparing Two Hypothetical Hispanics Using the Regression Model

Consumer 1		**Consumer 2**	
Intercept	40.47%	Intercept	40.47%
Hispanic	-6.31	Hispanic	-6.31
Age 25 (age times -.09)	-2.25	Age 25 (age times -.09)	-2.25
Household income less than $25,000	0	Household income over $75,000	3.28
Employed	0	Employed	0
Male	.59	Male	.59
Less than high school education	0	At least a Bachelor's degree	13.79
No auto loan or mortgage	0	Has an auto loan or mortgage	3.73
Has not seen a credit report	0	Has seen a credit report	5.15
Has not seen a credit score	0	Has seen a credit score	4.24
Total Knowledge Score	**32.5**	**Total Knowledge Score**	**62.69**

Source: GAO.

Web Appendix on Credit Reporting Literacy Survey Data

This document presents survey data for all respondents, as well as cross-tabulation results for demographic and other subpopulations of respondents, and can be found on GAO's Web site at http://www.gao.gov/cgi-bin/getrpt?GAO-05-411SP.

Comment from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

March 14, 2005

Ms. Debra Johnson
Assistant Director, Financial Markets and Community Investment
United States Government Accountability Office
Washington, DC 20548

Dear Ms. Johnson:

Thank you for the opportunity to review and provide comments for the Government Accountability Office's proposed report entitled *Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts, GAO-05-223.* The Department of the Treasury is a leader in promoting financial education through its own Office of Financial Education and through the Secretary of the Treasury's leadership of the Financial Literacy and Education Commission, and we greatly appreciate the opportunity to be involved in this valuable study of consumer knowledge and behavior regarding credit reporting.

The Office of Financial Education employs a multi-faceted approach in its efforts to promote access to the financial education tools that can help all Americans make wiser choices in all areas of personal financial management, with a special emphasis on saving, credit management, home ownership and retirement planning. First, through our public outreach efforts, we are raising awareness of the importance of financial education. Second, we have established standards for effective financial education programs, and through a variety of means we recognize programs that meet those standards. Third, through our Technical Assistance Center we offer advice to those trying to establish or improve financial education programs. Fourth, the Treasury uses its contacts within the government and financial education community to bring together those who need financial education with those who provide it. And finally, the Treasury coordinates the federal financial education effort by leading the Financial Literacy and Education Commission.

Through the Office's efforts, we have become very familiar with the issues facing consumers in today's increasingly complex financial environment. As the GAO study has indicated, many consumers understand basic issues of credit and have some sense of how their past behavior may influence their ability to meet future financial needs. However, we agree that most consumers would benefit from increased exposure to more detailed information about credit reports in general and how their actions can influence the contents of their own reports.

The information in this study will be invaluable to the Department of the Treasury and the Financial Literacy and Education Commission in two ways. First, the study will enable the Commission and other groups following its lead to identify and penetrate particular demographic groups which would benefit the most from financial education efforts. The information will give us the ability to prioritize particular segments of the population in our efforts. Second, the report will allow us to understand which parts of the credit reporting system are least understood. We can then channel our efforts to increasing knowledge of those areas.

Since the survey portion of the GAO study was concluded in early October 2004, the Commission has taken some important steps in its effort to improve the financial literacy and education of persons in the United States. That same month, the Commission successfully launched the **MyMoney.gov** website and the **1-888-MyMoney** toll free hotline, both of which are available in English and Spanish. The content available through the MyMoney resources provides information on a wealth of financial topics including how to build a better credit record, understanding consumer rights regarding credit and the credit reporting process, credit scoring, and choosing a credit card. In the first five months of operation, **MyMoney.gov** has recorded more than 100,000 hits and distributed more than 275,000 publications in English and Spanish.

The Commission is also in the process of developing a national strategy to promote basic financial literacy and education among all Americans. The Department of Treasury, through a formal public comment process in 2004, has received input from more than one hundred fifty organizations and individuals representing government, non-profit, private, and academic sectors. Additionally, the Commission is holding six information-gathering public meetings which will provide further input to the national strategy. The GAO report will be a valuable tool in identifying particular areas of emphasis for the national strategy and will help guide future Commission efforts.

Again, we appreciate the opportunity to take part in this process and welcome the valuable input provided by the study. In addition to the comments contained herein, we are providing several technical observations in an addendum to this correspondence. If I may be of additional assistance or if you have any questions regarding this matter, please contact me.

Sincerely,

Dan Iannicola Jr.

Dan Iannicola, Jr.
Deputy Assistant Secretary
Office of Financial Education

Comments from the Federal Trade Commission

Note: GAO comments supplementing those in the report text appear at the end of this appendix.

OFFICE OF
THE CHAIRMAN

UNITED STATES OF AMERICA
FEDERAL TRADE COMMISSION
WASHINGTON, D.C. 20580

March 4, 2005

Ms. Yvonne D. Jones
Acting Director
Financial Markets and Community Investment
U.S. Government Accountability Office
441 G Street, N.W.
Washington, DC 20548

Dear Ms. Jones:

Thank you for the opportunity to comment on a draft of the Government Accountability Office's survey report entitled *Credit Reporting Literacy: Consumers Understood the Basics but Could Benefit from Targeted Educational Efforts* (GAO-05-223). Consumer knowledge of a topic as complex as credit reporting is difficult to measure, and we commend the Government Accountability Office ("GAO") for having undertaken a nationwide consumer survey.

We understand that the staff of the Federal Trade Commission ("FTC" or "the Commission") provided technical comments on a draft of the report to the GAO staff on February 28, 2005, and on March 1, GAO staff responded informally to the FTC staff's suggestions. GAO has requested the Commission's comment letter by March 4, 2005. Although we have not seen a copy of the final report, we understand that it will reflect the FTC staff's most significant comments. We would like to take this opportunity, however, to reiterate some of those suggestions, respond to the GAO's recommendations, and highlight some of the efforts that the FTC already is undertaking to improve consumers' understanding of the credit reporting process.

The draft report reviewed by our staff contains many useful findings. Most notably the draft report found that a large percentage of consumers surveyed have a good understanding of the basics of credit reporting: they appear to know how credit reports are used, what information is contained in a credit report, and that they have a right to dispute inaccurate information. Moreover, those respondents who had seen their own credit report had a better understanding of the credit reporting process than those respondents who had never seen their report.

Nonetheless, the draft report also concluded that there is significant room for improvement in consumers' understanding of credit reporting. For example, many respondents did not appear to understand that credit reports are used to price and underwrite insurance policies. The draft report also found that Hispanic respondents and respondents under the age of 25 were less knowledgeable about the credit reporting process. The draft recommended targeted educational initiatives. Specifically, it recommended that the Commission educate consumers about its role in enforcing the Fair Credit Reporting Act ("FCRA") and encourage consumers "to understand how credit reports and scores are used," and to obtain their credit report and credit score and dispute any inaccurate information.

The Commission appreciates GAO's recommendations, and over the last several years has been engaging in outreach efforts such as those recommended by GAO. Moreover, the FTC has been targeting those efforts to reach certain groups, such as Hispanic consumers and high school and college students. The FTC has developed a portfolio of practical, plain-language information in English and Spanish that is available for free by mail, toll-free telephone, and the Web. These materials address most, if not all, of the areas where GAO found that consumers could benefit from more education.[1] FTC outreach efforts include the following:

- The FTC has more than 50 credit-related publications for consumers; topics range from avoiding abusive lending practices to using secured credit cards to understanding the protections granted by the Fair Debt Collection Practices Act. Publications specific to credit reporting, credit scores, and dispute rights include: *Building a Better Credit Record; Credit Scoring; How to Dispute Credit Report Errors; Credit and Your Consumer Rights;* and *Ready, Set . . . Credit.*

- In fiscal year 2004, the FTC distributed more than **four million** print copies of credit publications in English and Spanish; web accesses for the same materials exceeded **5.7 million**.

- The FTC distributes these materials through its own outreach efforts and those of its partners, such as AARP, the Jump$tart Coalition for Personal Financial Literacy, and the American Savings Education Council.

- The FTC has produced specialized publications to reach college-age students who have

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[1] For example, GAO found that many consumers did not know that (1) their credit score is affected by how much of their available credit they use and (2) that credit reports are used to price insurance or evaluate applicants for employment. Various FTC publications address these topics. *See, e.g., Credit Scoring* ("If the amount you owe is close to your credit limit, that is likely to have a negative effect on your score"); *Your Access to Free Credit Reports* ("Inaccurate information . . . could affect your ability to get credit, insurance, or even a job.")

limited experience with credit, such as *Getting Credit: What You Need to Know About Your Credit*, and conducts outreach on college campuses, at local school districts' college fairs, and in high schools nationwide.

- The FTC distributes public service announcements and press kits, and FTC officials regularly conduct interviews on credit reporting issues with local and national radio, television, and print media, in both English and Spanish.

The Commission also notes that FCRA section 609(c) requires that credit bureaus include the Commission's "Summary of Rights" with every credit report they provide to consumers.[2] According to the draft report, credit bureaus provided 57.4 million credit reports to consumers in 2003. Each of these reports was required by law to be accompanied by the summary of rights. The summary of rights explains consumers' rights under the FCRA and provides contact information for the FTC and other enforcement agencies. Although the draft report found that many consumers do not know of certain specific dispute rights (such as the right to add a statement to one's file if a dispute is not satisfactorily resolved), the Commission believes that targeted education like the statutorily required summary of rights is the best means to address this issue. Consumers who obtain their credit reports and find possible errors will have at hand the summary of rights and the necessary information to conduct a dispute. The summary of rights tells consumers what they need to know, when they need to know it.

In addition to highlighting the Commission's substantial consumer education efforts and the statutorily required summary of rights, we would like to reiterate three additional comments made by FTC staff to GAO staff:

- The draft report reviewed by our staff found that few consumers identified the FTC as the agency responsible for enforcing the FCRA and recommended that the FTC publicize its enforcement role.[3] As noted above, we have been publicizing our enforcement authority

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[2] FCRA section 609(d), added by the Fair and Accurate Credit Transactions Act of 2003, requires credit bureaus to send a Commission-promulgated "Summary of Identity Theft Rights" to consumers who complain of identity theft. This provision just recently became effective.

[3] In response to an open-ended question, six percent of respondents identified the FTC as the government agency to which they would complain if they were not satisfied with a credit bureau's work, 24 percent identified the Better Business Bureau ("BBB"), eight percent identified another agency, and the remaining respondents answered "do not know." *See* Survey Question 33. Given that this is an open-ended question asked of a general population of respondents, we do not believe that this result shows that consumers who might wish to complain about a credit bureau would be unaware of the FTC's role. It is also worth noting that many

See comment 1.

through the summary of rights and our outreach efforts. These targeted efforts inform consumers of the FTC's enforcement role when it is most useful, for example, when consumers request and review their credit reports.[4]

- The draft report found that 69 percent of respondents who had disputed information to credit bureaus reported that the information was removed from their report. *See* Survey Question 38. The purpose of GAO's survey is to measure consumers' understanding of the credit reporting process, and it is important to avoid confusing that purpose with any conclusion about the actual accuracy of the underlying credit reports. In 2003 testimony, GAO recognized the complexity of studying credit report accuracy.[5] Nevertheless, potential inaccuracies remain an important reason for consumers to understand and review their credit reports. Section 319 of the Fair and Accurate Credit Transactions Act of 2003 directs the FTC to study credit report accuracy for the next 10 years. We provided Congress with our first interim report late last year.[6]

- We understand that the final report will reflect most of FTC staff's technical suggestions to GAO, including the FTC staff's comment with respect to the draft report's finding that respondents did not understand that resolving a dispute with one credit bureau would not result in an automatic correction of the inaccuracy in every credit bureau's file. *See* Survey Question 32. The Commission believes that this finding should be qualified by noting that the FCRA requires that information corrected by a consumer in the file of one of the three national credit bureaus be automatically corrected with all three bureaus. *See*

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other agencies, including BBBs and state and local consumer protection agencies, accept and act upon individual consumer complaints, while the FTC does not mediate individual disputes. *But see* FCRA § 611(e) (requiring the FTC to refer certain consumer complaints to credit bureaus).

4 The effectiveness of these efforts is demonstrated to some degree by the fact that the number of complaints the Commission receives about credit bureaus has increased over the past few years, both in absolute terms and as a percentage of overall complaints. In 2002, we received 13,278 complaints about credit bureaus; in 2003, we received 19,223; and in 2004, we received 23,831. Based on complaints received directly by the FTC (excluding identity theft and do not call registry-related complaints), credit bureaus accounted for 5.59% of overall complaints in 2002, 6.98% in 2003, and 6.89% in 2004.

5 *See* General Accounting Office, *Consumer Credit: Limited Information Exists on the Extent of Credit Report Errors and their Implications for Consumers* (GAO-03-1036T), at 17 (July 31, 2003).

6 Federal Trade Commission, *Report to Congress Under Sections 318 and 319 of the Fair and Accurate Credit Transactions Act of 2003*, at 22-27 (December 2004).

FCRA § 623(b)(1)(D) (furnishers must correct inaccurate information with each of the three national credit bureaus to which they furnished the information); FCRA § 611(a)(5)(D) (the three national credit bureaus must maintain an automated system that shares the results of reinvestigations among all three bureaus).

The Commission appreciates the opportunity to review and comment on the draft GAO report, and looks forward to working further with GAO as both agencies work to fulfill their many obligations under the Fair and Accurate Credit Transactions Act of 2003.

By direction of the Commission.

Deborah P. Majoras

Deborah Platt Majoras
Chairman

The following are GAO's comments to FTC's letter dated March 4, 2005.

GAO Comments

Referring to our finding that respondents did not understand that resolving a dispute with one credit bureau would not result in automatic correction of the inaccuracy in every credit bureau's file, FTC suggested a clarification. FTC stated that FCRA "requires that information corrected by a consumer in the file of one of the three national credit bureaus be automatically corrected with all three bureaus" (citing FCRA sections 623(b)(1)(D), 611(a)(5)(D). We believe that FTC overstates the effect of these provisions.

First, except for information obtained fraudulently or through identity theft, FCRA does not require a CRA to notify other CRAs that information in its files is inaccurate or incomplete. Instead, the process described by FTC depends upon furnishers to notify CRAs of corrections to disputed information. Specifically, under section 623(b)(1)(D), if a furnisher receives notice from a CRA that information the furnisher provided has been disputed by a consumer, the furnisher must conduct an investigation and, if the furnisher finds the disputed information to be incomplete or inaccurate, the furnisher must report the finding to all nationwide CRAs to whom the furnisher provided the information. Because of these provisions, a dispute with one CRA generally should result in the correction of the disputed information maintained by the other CRAs. However, this would occur only if all of the CRAs obtained the disputed information from the same furnisher. Section 623(b)(1)(D) does not address situations where CRAs obtained the disputed information from different sources. Moreover, if a furnisher has gone out of business, the process under section 623(b)(1)(D) would not ensure that erroneous information the furnisher gave to multiple CRAs would be corrected where a consumer initiated a dispute with only one CRA. Assuming that the CRA could not verify the information, it would have to be deleted. The CRA is not required to report the deletion to other CRAs. With respect to section 611(a)(5)(D), we note that the section requires CRAs to establish an automated system that furnishers may use to report findings of incomplete or inaccurate information to other CRAs, but it appears that a furnishers' use of this system would be optional.

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