

# Curing Credit Score Confusion – Tens of Millions at a Time for Free

Lenders and Consumers Benefit from  
Consumer Financial Education

On any given day, US consumers are bombarded with various advertisements for “free” credit scores. These offers come from a wide variety of vendors who tout the benefits of knowing one’s credit score. Yet, despite that onslaught, surveys show that most consumers understand very little about credit lending decisions and even less about credit scores. Why?

Since the financial crisis, consumers are more interested in being knowledgeable about their personal financial situation and want lenders to be more transparent about how decisions that affect their financial well-being are made. If there is a hunger for this information and a wealth of it out there, what’s the problem? The answer is that in many cases, the credit scores consumers are receiving are not **FICO® Scores – The score lenders use™** – and consumers don’t have access to sufficient credit education or credit score information.

Many consumers lack a clear understanding about how credit works and their own creditworthiness. Regulators and consumer advocates have pointed out the potential financial consequences that can result from today’s dysfunctional market for obtaining credit scores. This paper explains how FICO is addressing the problem by working with lenders to make the same FICO® Scores they use to manage a consumer’s account available to that consumer at no additional charge through the **FICO® Score Open Access** program. The program is designed for lenders to provide free consumer access to FICO® Scores, along with educational information to help the consumer understand FICO® Scores, as well as responsible financial health management.

**A Significant and  
Challenging Issue**



**Reasons for Consumer  
Credit Score Confusion**

According to a Consumer Financial Protection Bureau (CFPB) report to Congress in July 2011 entitled “The Impact of Differences Between Consumer- and Creditor-Purchased Credit Scores”, consumers certainly pay a price – monetarily and in other costly ways – by purchasing “marketing” or “educational” scores that are not used by lenders in making credit decisions.<sup>1</sup> The CFPB report states: “The scarcity of public educational tools to inform consumers of the differences among credit scores, the large combined market share and brand recognition of FICO Scores, and the marketing practices of some credit score sellers, may all perpetuate such [consumer] confusion. In these circumstances, the consumer would have spent money on a score or subscribed to a credit monitoring service that he or she otherwise might not have purchased. Believing he or she purchased a FICO Score may lead to dissatisfaction upon learning otherwise. Most importantly, the consumer may be frustrated to learn that they cannot know exactly how a creditor will view them.”

**Overcoming the Size, Cost and Market Force Challenges**

**It is estimated that there are over 210 million American adults that the government is trying to help educate about responsible practices for accessing, leveraging and managing individual debt.**

This is a massive undertaking, facing two strong headwinds: one is the sheer number of American adults to reach and the costs associated with these ongoing communications; but the other may be even more challenging – the market forces competing against such efforts.

A successful consumer credit education program will create a new, more savvy, and hopefully more responsible

consumer population when it comes to assessing, acquiring and managing personal credit.

Trying to sell credit education scores or credit correction services to a newly savvy and confident consumer will likely be much more difficult; to succeed will require a higher value, more relevant offer than ever before.

The report goes on to say “...it is highly unlikely that when a consumer purchases a credit score, it will be the same score their lender uses when reviewing their credit application. This occurs when:

- The score the consumer purchased is an educational score that is not used by lenders.
- The particular lender to which the consumer applies uses a different scoring model than the one purchased by the consumer.
- The CRA from which the consumer obtains a score is not the same CRA that the lender uses to obtain scores.
- The underlying data in the consumer’s credit report changes significantly between the time the consumer purchases a score and the time the lender obtains a score for that consumer.”

<sup>1</sup>“The Impact of Differences Between Consumer- and Creditor-Purchased Credit Scores”, Consumer Financial Protection Bureau, July 2011.

FICO agrees with the CFPB that when a credit score sold to a consumer is not a score used in lending decisions, it can be confusing and frustrating to consumers. This can erode consumer confidence about which credit score is the “right” one. The scores used for marketing to or “educating” consumers should be the same scores lenders use in making credit decisions.



## Impact of Credit Score Misinformation on Consumers

Today’s uncertain economic conditions are partially the result of an unbridled rise in consumerism without a broad understanding of credit management or the consequences of excessive, unsustainable debt by many consumers. The resulting tightening of available credit by lenders made it even more important for consumers to effectively manage their individual debt. That included developing a better understanding of credit management, as well as how lenders assess risk – particularly with the use of credit scoring. Consumers have not traditionally been aware of how lenders view them from a credit risk perspective, including how lenders incorporate credit scores, credit bureau reports and other information into their lending decisions.

This lack of knowledge is a problem when consumers make poor borrowing decisions based on their misunderstanding about credit and credit scores because of a lack of sufficient educational guidance.

## Explaining the Reasons for a Consumer’s Credit Score

**Consumers should receive a reliable explanation – key factors – of why an individual FICO® Score is or is not at the optimal score.**

These key factors – reason codes – enable a lender to help further educate consumers on how a score was impacted. The reason codes should be available to customers through their lender, over the Internet or summarized on individual statements. When consumers know what impacts a score, and know how their lending institution views their score, there is a win-win

proposition for the consumer and the lender.

The consumer knows what behaviors receive the most advantageous lending terms available; and lenders are providing a structure for deepening relationships with consumers – through greater trust and more beneficial product value propositions.

## Need for Education and Transparency

The 2011 CFPB report further explains that consumers may be harmed if they have a different impression of their creditworthiness from that of a lender. “If, on the other hand, the consumer obtains a score that makes him or her believe he or she is a worse credit risk than lenders would believe, the consumer may apply to lenders that offer less favorable terms. The consumer may apply for or accept loans with higher interest rates, for lower amounts, or with otherwise worse terms than other loans for which the consumer would qualify. In addition, consumers who believe they are worse credit risks than they are may not seek out credit that they would benefit from and could qualify for, believing they would be denied or that the credit would be too costly.”

The downside to financial services institutions is that a potential profitable and creditworthy customer might never walk through the lender’s door.



### Building Consumers’ Credit Score Knowledge and Trust in Lenders

As noted in the 2014 Consumer Financial Literacy Survey by Harris Poll, most US adults have not reviewed their credit scores (60%) nor their credit reports (65%) in the past year.<sup>2</sup> Without this fundamental knowledge, many consumers have no foundation on which to build their personal financial house and are easily swayed by marketing tactics. They need access to relevant information to help them more clearly understand their credit scores and what factors affect scores. This credit score awareness is part of changing demand, as the Harris Survey also determined that consumers want to learn about personal finance. According to the study, nearly three in four, or 73% of adults, admit they could benefit from answers to everyday financial questions from a professional. In fact, many adults give themselves a grade of C, D or F on their knowledge of personal finance.

In a follow-on assessment of their earlier 2011 findings, the CFPB published a September 2012 report, “Analysis of Differences between Consumer- and Creditor-Purchased Credit Scores,” which clearly revealed a number of measurable challenges limiting and thwarting the consumer’s ability to access credit scores used in lending decisions by their financial institutions.<sup>3</sup> The study concluded that, “Different scoring models would place consumers in credit-quality categories that are off by one category 19%–24% of the time.”

This finding means that nearly one quarter of the consumer credit population could be denied credit, or may accept less favorable credit rates and terms, because their true credit worthiness may be hidden or misunderstood by receiving non-FICO® Scores. The September 2012 CFPB study further stated that... “Consumers cannot know ahead of time whether the scores they purchase will closely track or vary

<sup>2</sup> “The 2014 Consumer Financial Literacy Survey” prepared for the National Foundation for Credit Counselling (NFCC) by Harris Poll.

<sup>3</sup> “Analysis of Differences Between Consumer- and Creditor-Purchased Credit Scores”, Consumer Financial Protection Bureau, September 2012.



moderately or significantly from a score sold to creditors. Thus, consumers should not rely on credit scores they purchase exclusively as a guide to how creditors will view their credit quality.”

To counter these realities FICO believes that consumers need a greater general understanding of the world of credit, including an understanding of factors behind a score, so they can more responsibly manage their financial health. A logical starting point is providing the individual consumer with free access to the same credit scores their financial institutions use in credit decisions involving them. That way, as a consumer evaluates the type and amount of debt to assume, they can see and understand the same credit scores lenders use.

**Understanding What  
Affects a Consumer's  
Credit Score**

**For years, FICO has published the factors that affect a consumer's FICO® Score. The primary factors include:**

- Payment history, including late payments and collection items
- Balances, available credit and the percentage of existing credit lines being utilized
- Negative public records such as bankruptcy, judgments and liens
- Length of the credit history and the mix of credit types
- Evidence of taking on new debt, such as new accounts or credit inquiries

**FICO® SCORE**  
The score lenders use.™

This provides a level of consistency and transparency between the consumer and the lender that is key to building greater trust within the lending system. Along with FICO's early free credit score research and consumer credit score education pilot projects, various consumer advocates and governmental agencies have also been calling for this type of credit score disclosure program for the last few years. And beyond the simple three-digit number, the consumer should also know what behaviors impact their score and how a score influences a lending decision, which is critical to building consumer confidence through greater lending transparency.

FICO is committed to making consumer education about credit scores broadly available, including education to consumers on what factors can impact their individual credit score. This kind of ongoing education, plus access to FICO® Scores, is key to improving consumer confidence. Over ten years ago, FICO created [www.myfico.com](http://www.myfico.com) as a single destination for consumers to learn everything necessary to understand FICO® Scores and improve their credit knowledge. In addition to educational information on FICO® Scores, there is a vibrant peer-to-peer community where people share information and personal success stories about FICO® Scores. All of this educational information and content is available for free.

Clearly consumers crave this information and knowledge, based on the fact that about 25 million individuals pay to access and monitor their personal credit performance in the form of credit reports. That's a strong indication that consumers are actively attempting to gain confidence in their ability to qualify for and receive the best possible debt financing terms from a lender.





## FICO® Score Open Access

To address this issue, FICO has partnered with financial institutions to provide consumers with access to their FICO® Scores – the same scores used by each institution to manage their accounts – at no additional score fee charged by FICO.\* Through the FICO® Score Open Access program, FICO® Scores will reach tens of millions of consumers monthly and provide them with meaningful credit scores as well as detailed credit and score educational information, with the goal of increasing consumer confidence, credit knowledge and trust in the lending system.

By launching the FICO® Score Open Access program, FICO enables financial institutions to make individual industry standard FICO® Scores available free to their consumer customers – with no additional score fee charged by FICO to the lender\*, credit bureaus or any other institution participating in the program.

FICO® Score Open Access is a world class education program addressing the need for transparency into consumer credit and credit score education and including the scores used by financial institutions to make lending decisions about the borrower. With this program, there is no risk that the consumer would receive a meaningfully different score because the consumer is provided with the same credit score the lender relied on to make risk management decisions. Historical score trends, superior insights into consumer credit education and responsible financial health management information from the industry leader, FICO, is all provided to the consumer for free through FICO® Score Open Access. FICO has designed the most transparent, relevant and comprehensive consumer credit score education program available to the market.



**Consumer and Lender****Win-Win**

Any participating financial institution that uses FICO® Scores in its day-to-day management of individual consumer accounts has the right to provide that FICO® Score to the individual consumer for free, along with educational information on their monthly paper or electronic statements, within online banking or through individual account access on their mobile device. As part of the FICO® Score Open Access program, lenders can provide a FICO® Score for free for the consumer's own personal review use, with no hooks attached, no hidden fees or any other caveats.

**Free Credit Score  
Best Practices**

A FICO® Score in the hands of a consumer by itself is insightful, but it is much more valuable to the consumer when they learn what factors can affect the score. That's why the FICO® Score Open Access program also enables lending institutions to give top score factors, or reason codes, to consumers along with their FICO® Score. This helps the consumer understand the rationale for their FICO® Score, what impacted their score, and responsible financial health management. Under the program, lenders also have the ability to display the consumer's past 12 monthly credit scores so the individual can track changes in their own scores on an historical basis.

In addition, through FICO® Score Open Access, lenders receive FICO's latest consumer credit education content for free; lenders can disseminate that information to consumers through various channels including the lending institution's website, which allows consumers to access the information relevant to their personal circumstances, at their own time and place. FICO educational information is regularly updated to help consumers develop an individual understanding of their credit health.

Consumer loyalty, particularly among financial services firms, continues to ebb and flow in a very competitive market. One casualty of the financial crisis was the trust between consumers and their financial institution. Winning back that trust and committed relationship is a slow journey. By aligning with the most widely used credit score that has the highest consumer brand awareness, lenders position themselves as leaders. FICO® Score Open Access is one way of improving customer satisfaction and loyalty by providing consumers with information lenders know they want. As noted, consumers are hungry for information that helps them better understand their credit. There is a clear benefit to helping make customers smarter and savvier. They are likely to be more loyal and more profitable since higher credit health awareness translates into better financial management and less risk.

## The Solution to Credit Score Confusion

With the proliferation of “free” credit scores in the marketplace today, consumers are confused and misguided about which scores matter. CFPB studies show there may be a significant difference between the various individual credit scores purchased in the marketplace and the FICO® Scores that are used to make the vast majority of credit decisions in the United States. This difference has led to significant confusion and uncertainty among consumers.

In order to help address this problem, FICO has launched the FICO® Score Open Access program so all lenders can give FICO® Scores to their US customers for free. Through this program, FICO partners with lenders to help consumers not only know their FICO® Score, but understand credit, credit scores and how they are part of a lender’s decision through educational information accompanying the score. Creating an environment where consumers obtain their FICO® Scores and credit score education for free eliminates the confusion caused by the differences between “education” scores consumers purchase or receive and the FICO® Scores lenders use in their lending decisions.

The FICO® Score Open Access program is about transparency into consumer credit and credit score education and ensures 100% of the time the consumer is provided with the same credit score their lender relied on to make risk management decisions. Historical score trends, superior insights into consumer credit education and responsible financial health management from the industry leader – FICO – are all made available for free to the consumer. FICO provides the most transparent, relevant and comprehensive consumer credit score education program available.

**In order to help address this problem once and for all, FICO has launched a program under which lenders can provide FICO® Scores and leading credit score education to their customers for free.**

FICO and many of today’s leading lenders are working to help consumers understand credit, credit scores and how they are part of a lenders’ decision about whether and under what terms to extend credit to a consumer applicant.

FICO® Score Open Access creates an environment where consumers obtain FICO® Scores used in lending decisions

and credit score education, for free, helping to minimize consumer confusion between “educational” credit scores not used by lenders and FICO® Scores used in 90% of lending decisions.

The industry has an opportunity to provide meaningful credit education to tens of millions of consumers under a “free to the consumer” credit education program.

By making the credit score industry more transparent to consumers through its FICO® Score Open Access program, FICO is hoping to eventually reach all consumers with the goal of helping them be more knowledgeable, savvy and confident about their creditworthiness than ever before.



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