New Credit Score Disclosures: Will They Enlighten or Confuse?

By Michael Staten, Professor and Director, TCAI

Lost in this year’s daily news of government budget confrontations and foreign debt crises has been the quiet implementation of new disclosures of consumer credit scores. These new regulations could provide a powerful boost to financial education efforts – or they could create more apprehension and confusion in the marketplace for credit. Either way, financial educators should prepare themselves to explain the topic of credit scores: why they matter to consumers, the factors that determine scores, the existence of multiple scores on the same person, and the most important things consumers should know about their credit score(s).

Potential for Confusion?
Consumers who receive credit scores from lenders – and those who proactively set out to check their credit scores on their own – will probably be surprised to find that they have multiple scores, not just one. Certainly, the best known credit score product is the FICO score developed by Fair Isaac Corp. FICO score products are widely used by credit grantors for assessing borrower risk. But, lenders use many other brands of scores as well, including some they develop internally using just their own customers’ account data. And, all of these scores have different scales, so that a score of “700” from one brand may not be equivalent to a “700” from a different scoring model. So, what score will be disclosed to the consumer? At this point it is not clear.

I advise anyone actively engaged in financial education to get ahead of the learning curve here by doing some research on their own score(s). To get a sense of the diversity of scores, start by finding out your own FICO score through the Fair Isaac consumer website, www.myfico.com. Once there, you’ll discover that you don’t have just one FICO score – you actually have three scores at any point in time, and they are frequently all different! This is because most consumers typically have a credit report file with each of the three major credit reporting agencies (Equifax, Trans Union and Experian), and there are often differences across the agencies in the information in those files. Some creditors (especially smaller, local creditors) only report information to a single credit bureau with whom they do business. For example, collection activity – perhaps an unpaid or disputed medical bill – will often be reported only to a single credit reporting agency. Consequently, your FICO credit score (which is calculated based on the information in your credit report) will differ across the three credit reporting agencies.

The story doesn’t end there. The process of acquiring your credit score gets more confusing if you go to the credit bureaus’ own websites. Each of the three bureaus develops and sells credit score products to consumers along with an array of credit report and ID theft monitoring products. However, it is not always clear from the website whether the score being sold is a FICO score or the bureau’s own proprietary score product that they each sell in competition with Fair Isaac. Still another score that is featured on the credit reporting agencies’ websites is the VantageScore product that was developed jointly by all three credit bureaus and launched in 2006 in the hope that it would one day displace the FICO score as the industry standard. (continued on page 2)
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Clearly, if you are dealing directly with consumers or students as an educator, you'll be getting questions about these disclosures in the coming months. But, you don't have to be an expert on each of these score brands to give your audience good advice. There are a few general principles that consumers should remember when they receive their credit scores. I'll summarize three of them here:

1. What's most important about a credit score is not its absolute level, but its relation to other scores from the same source. Check the score provider's website for information about how your score compares with those of other consumers (e.g., is your score in the top 5%, top 25%, bottom 50%, etc). This tells you whether your score is good, fair, or poor in the eyes of a potential lender.

2. Know the factors that influence the score (lenders are required to disclose these) and adjust your behavior accordingly. For example, late payments are usually a powerful driver of score level, and this is a factor in your direct control.

3. Your credit score is based on the information in your credit report. It may be low because one or more reports contain inaccurate data. Check your credit report from each credit reporting agency at least once a year.

Calendar of Events

- "What You Need To Know: How The New Credit Rules And Disclosures Will Affect You" webinar
  - September 29, 2011
- Office of Economic Education
  - Fall High School Workshop Day 1
  - September 30, 2011
- APLUS Participant Interviews
  - September-December 2011
- Office of Economic Education
  - Fall High School Workshop Day 2
  - October 1, 2011
- Office of Economic Education
  - FTE Workshop, Economic Forces in American History
  - October 21, 2011
- Office of Economic Education
  - Fall High School Workshop Day 3
  - October 22, 2011
- "Give Yourself Some Credit" video contest voting begins
  - November 3, 2011
- Office of Economic Education
  - Foundation for Teaching Economics Workshop, Economics and the Environment
  - November 17-20, 2011
- "Give Yourself Some Credit" video contest winner announced
  - November 21, 2011
- APLUS Wave 2.5, credit scores and changing financial behaviors of young adults launched
  - January 2012
- APLUS Wave 3 design
  - March 2012
- Credit-Wise Cats Arizona Financial Face-off
  - April 14, 2012
- FEFE National Training
  - June 25-28, 2012
Nationally, a consensus has emerged that we need to provide financial literacy education for youth. According to the FINRA Investor Education Foundation's 2010 Financial Capability Survey, young Americans (18-34 years old) were less financially capable than older Americans: 23% spent more than their household income, 68% did not have money set aside to cover expenses for three months, and 34% engaged in non-bank borrowing. In addition, young survey participants averaged only 2.6 correct out of 5 questions covering concepts of economics and finance expressed in everyday life.

Today, 44 states have adopted personal finance education standards or guidelines of some kind, almost double the proportion of states (42%) that had such policies in 1998 (NCEE, 2009). Awareness and state guidelines are necessary but not sufficient. The 2010 Teachers' Background and Capacity to Teach Personal Finance study (Wendy L. Way, Ph.D., and Karen Holden, Ph.D.) found no influence of state mandates on whether a teacher had taken a course in personal finance, taught a course, or felt competent to teach a course. In fact, over 60% of teachers and prospective teachers said that they did not feel qualified to teach their state’s financial education standards.

The Family Economics and Financial Education (FEFE) project at the University of Arizona’s Take Charge America Institute (TCAI) directly addresses this gap. The FEFE project strengthens and extends the ability of schools and community organizations to improve the personal financial capabilities of young adults. By providing a ready-to-teach, standards-based curriculum, free of charge, FEFE makes it easier for schools and teachers to say “yes” to the adoption and inclusion of personal finance into the classroom.

But FEFE does more than provide curriculum. In establishing a true partnership with teachers and schools, FEFE provides professional development and online networking opportunities. In addition to webinars, newsletters and online communities, FEFE organizes local, regional, and national in-person trainings.

During summer 2011, the FEFE team was able to provide over 350 teachers with intensive three and four-day training opportunities at FEFE’s National Training in Tucson, Arizona, as well as state-level trainings in Maryland, Arkansas and Iowa. Each of these trainings became a reality because of public/private partnerships. FEFE collaborates with state leaders in departments of education, professional organizations, and universities to customize training events to meet state specific needs. When asked why she chose to partner with the FEFE program when creating a professional development program for Iowa Educators, Cynthia Needles Fletcher, Professor, Human Development and Family Studies at Iowa State University stated:

“This is a great example of avoiding “reinventing the wheel.” We did not need to develop another curriculum; we simply needed to partner with the FEFE program to make it accessible to Iowa teachers. The curriculum is very well designed and the professional development workshop clearly meets the needs of the teachers. The feedback from teachers has been extremely positive. I think the key to the success of the FEFE program is the philosophy of ‘by educators for educators’---a partnership of classroom teachers and university scholars working together. Finally, the FEFE team has made the planning and implementation----with multiple partners and sponsors----very doable.”

Private and foundation support helps to subsidize registration costs and offset the resource constraints that teachers and schools face when budgeting for professional development. Investment in teachers not only instills the skills and confidence they need to teach personal finance but also translates into thousands of students each year becoming more financially capable.
What You Need To Know: How The New Credit Rules And Disclosures Will Affect You

Brought to you by:

Join us on Thursday, September 29, for an hour-long webinar about the new credit rules and disclosures hosted by University of Arizona Professor and Director of the Take Charge America Institute for Consumer Financial Education and Research, Dr. Michael Staten. This webinar will also feature FEFE National Master Educator, Shelly Stanton, as she demonstrates activities from the 1.4.2 Understanding Credit Reports lesson plan. Shelly will also share teaching tips for creating relevance for students regarding this topic as well as highlight some of her favorite resources for teaching credit reports.

Attend this Webinar to:

★ **Improve** your knowledge about credit scoring and regulations
★ **Become** more comfortable teaching this topic in your classroom
★ **Gain** ideas on how to implement the FEFE Credit Report lesson plan and activities
★ **Learn** teaching tips about integrating the Credit Report lesson into your classroom from FEFE National Master Educator, Shelly Stanton

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**Date:** September 29, 2011

**Time:** 12:30 PM (PDT) / 3:30 PM (EDT)

**Register:** [http://fefe.arizona.edu/webinars/credit-scoring/registration](http://fefe.arizona.edu/webinars/credit-scoring/registration)

**Note:** PC users must download free software in order to view the webinar.

For more information, please visit [http://fefe.arizona.edu/webinars/credit-scoring](http://fefe.arizona.edu/webinars/credit-scoring).