



Highlights of [GAO-05-223](#), a report to congressional committees

# 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](http://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](mailto: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
<b>Credit report section... Consumers:</b>	
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
<b>Credit score section... Consumers:</b>	
Knew late credit card payments could negatively affect their score	87
Could name a number within a possible credit score range	28
<b>Dispute section... Consumers:</b>	
Knew they could dispute information on their credit report	90
Knew CRAs investigate incorrect information for free	28

Source: GAO.