CRA Credit Education Services:
An Examination of Consumer Impacts

Interim Report

Michael Turner
Patrick Walker

PERC
RESULTS AND SOLUTIONS

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Abstract

This study was designed to gauge the impact of a personalized credit education service from a national credit bureau on consumer understanding of credit reports and scores as measured by changes in credit scores during a period after the completion of the service as well as participant feedback on the perceived value of the credit education session.

For those who completed the personalized credit education session with a credit advisor from a nationwide consumer reporting agency (CRA), most seemed to benefit. More than 85% of those who completed the personalized credit education session with a credit advisor and completed a follow-up survey reported that the experience was useful—with many reporting profound and positive impacts on their overall credit literacy.

In an earlier PERC / University of Arizona joint study and in this interim PERC report, individuals who completed the personalized credit education session saw material benefits (credit score improvement resulting in movement into a better credit risk tier) at higher rates than those who only read generic literature on credit reports and credit scores—22% vs. 13% in the earlier analysis. In both the studies, the majority of those who took the credit education session witnessed credit score increases in the months following the credit education session. In the new analysis presented in this interim report, 68% of such consumers witnessed a credit score increase with 38% witnessing a credit score increase greater than 20 points.

One limitation from this analysis is that it did not measure longer-term impacts on credit score stability and by extension longer-term financial stability. Recent analysis from the JP Morgan Chase Institute and Center for Financial Services Innovation's (CFSI) FinLab highlights the prodigious volatility experienced by the modal American consumer over time.[1]

The full and final report with the full sample of individuals and small business owners will be released during the Summer of 2016 by PERC.

[1] Wintraub, Noah. "What Do Financial Volatility and Resiliency Have in Common?" March 25, 2016. Forbes. Downloaded at http://www.forbes.com/sites/jpmorganchase/2016/03/25/what-do-financial-volatility-and-resiliency-have-in-common/#3bce668921d6 The JPMorgan Chase Institute analyzed anonymous transaction data from 2.5 million customers and found that households across the income spectrum struggle with managing income and expense volatility. They further found that people don't have a sufficient cushion to weather an exogenous shock such as an unexpected job loss, divorce, or a major illness/injury. This only highlights the need for personalized credit report and credit score education to increase awareness among the broader population on how behavior affects credit scores and credit reports, and why that matters to financial well being and manageability.

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Executive Summary and Key Findings

For a variety of reasons, many consumers remain confused about the basic facts relating to credit reports, credit scores, and how their behavior impacts each. Given the importance of credit reports and credit scores to an individual's ability to access affordable credit, this lack of credit report and score literacy should be of concern for policy makers and consumer advocates. Perversely, the Credit Repair Organizations Act (CROA) acts to inhibit the use of fee based credit report and score education services with waiting periods and intimidating legal disclaimers. It was aimed at fraudulent credit repair organizations and written prior to the development of direct-to-consumer credit report and score information and education services by the likes of the national credit bureaus, FICO, and certainly on-line service such as Credit Karma.

This interim report presents findings from a larger ongoing study examining the impacts of the CROA upon consumer behavior when using services provided by the national credit bureaus that offer advice on how to improve their credit scores. Additionally, our research design seeks to measure the impacts of personalized credit education from a national credit bureau on a consumer's credit standing. That is, after completing a personalized credit education session does the consumer experience any benefit? Finally, the ongoing research includes a survey of those who completed the personalized credit education session and those who dropped off in an effort to understand better the consumers' views on whether the experience was beneficial or why they did not complete a session. Key findings from the interim report include:

- **Personalized credit education materially benefits consumers:** For the Credit Educator group, nearly three times as many consumers, 23%, improved and moved up score bands (such as from subprime to near prime or prime) compared to the number that moved down a score band, 8%, three months following the credit education session. For the control group, there is no systematic change in the distribution, with the same share moving up as moved down, 7%.
- **Nearly 7 in 10 experience score increase after personalized credit education session**: In the interim results, 68% see a credit score rise using the VantageScore 3.0 three months after the credit education. A full 30% of those receiving personalized credit education from a credit bureau advisor experienced a score increase between 1 and 20 points, while an astounding 38% experienced a score increase of 21 points or more 90 days after completing the session.
- **Nearly all participants report improved understanding of credit reports and credit scores after completing personalized credit education session**: 93% of those completing a personalized credit education session with a credit bureau credit advisor reported that they have a better understanding of the actions they can take to improve their credit score.
- **Most consumers likely to act on knowledge**: More than half of those who completed a personalized credit education session with a credit bureau credit advisor reported that the would request their free annual credit reports from each of the three national credit bureaus (63%), are more likely to review their credit reports (59%), and are more likely to dispute any perceived errors in their credit reports (58%).

1. Introduction

Connecting the Dots—Credit Reports and Credit Scores Enable Asset Building. Asset Building is linked to Sustainable Poverty Alleviation.

For more than a generation, the link between asset building and poverty alleviation has been documented and well understood.[2] While earlier poverty alleviation programs in the U.S. focused upon income, since 1990 this has been recognized as necessary but insufficient. Instead, it was established that true poverty alleviation can only be sustained when a household is able to build assets and generate enduring wealth.

According to the Corporation for Enterprise Development (CFED), households invest and grow wealth by "…leveraging savings through debt financing and public incentives that allow them to purchase a home, make financial investments or start a business."[3] Despite evidence of the relatively higher risk and lower returns for lower-income and minority home/small business owners versus their middle-income white counterparts, owning a home and/or small business remains virtually the only sources of asset building and wealth creation available to lower-income households.[4]

Since 2007, the Policy and Economic Research Council (PERC), along with the Center for Financial Services Innovation (CFSI) and CFED have been publicly raising awareness about the link between credit reporting, on one hand, and asset building on the other. PERC, CFSI, and CFED brought attention to the fact that access to credit is necessary to enable asset building. However, they estimated that as many as 54 million Credit Invisibles—people with either no credit report or insufficient data in their credit report to generate a credit score—were trapped by the "Credit Catch 22"—that in order to qualify for credit, you must already have established credit.[5] The CFPB paper *Data Point: Credit Invisibles* estimates that around 1-in-5 adults (around 45 million) are unscoreable with traditional credit scores using traditional credit data.[6] As with past PERC work, this report finds much higher rates of unscoreability among members of lower-income households, where the CFPB finds 45% of adults in the lowest income census tracts are unscoreable.

While separate policy efforts are afoot to thicken credit files by having non-financial payment data included in consumer credit reports—a national effort known as the "Alternative Data

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[2] Sherraden, Michael and Neil Gilbert. *Assets and the Poor: New American Welfare Policy*. Routledge. February 1991. See also Sherraden, Michael and Signe-Mary McKernan. *Asset Building and Low-Income Families*. Urban Institute Press. Washington, DC. 2008.

[3] Asset Building FAQ. Corporation for Enterprise Development. Text downloaded from http://cfed.org/about/asset_building_faq/

[4] Jacobus, Rick and John Emmeus Davis. "The Asset Building Potential of Shared Equity Homeownership." New America Foundation. Washington, DC. January 2010. Downloadable at https://static.newamerica.org/attachments/3856-the-asset-building-potential-of-shared-equity-homeownership/Shared_Equity_Jacobus_Davis_1_2010.9719b1f6de3f45a5a1f439eb4c69e89b.pdf

[5] See Jacob, Katy and Rachel Schneider. Market Interest in Alternative Data Services and Credit Scoring, The Center for Financial Services Innovation (CFSI), December 2006 for this Fair Isaac estimate.

[6] Kenneth P. Brevoort, Philipp Grimm, and Michelle Kambara. "Data Point: Credit Invisibles." CFPB. May 2015. Available at: http://files.consumerfinance.gov/f/201505_cfpb_data-point-credit-invisibles.pdf

Initiative"—by exposing the magnitude and plight of Credit Invisibles in the US, much needed policymaker attention is now being allocated to the need for lower income Americans to engage with their credit reports and credit scores to aid them on their pathway out of poverty.

The simple truth is that credit reports and credit scores are of paramount importance. They are the keys that enable Americans to access affordable credit needed to generate wealth and build assets. Given low levels of understanding about credit reports and credit scores, empowering a full range of market responses is responsible social policy.

Credit Reports and Credit Scores Increasingly Important

An estimated 3 billion credit reports are issued every year to lenders and other companies for risk management and other permissible purposes.[7] More than 10 billion credit scores are purchased annually in the US, including for origination and account maintenance purposes.[8] These credit reports and credit scores are used by lenders to assess consumer credit risk and ultimately help determine the price of credit, the amounts of credit extended and whether credit applications are approved.[9] A consumer could save thousands of dollars a year from lower interest payments on their mortgage, auto loan, and credit cards if they maintain a high credit rating relative to what they would pay with a lower, subprime or near prime credit rating.

Since a consumer's credit standing results from their behavior, it is clear how important it is for consumers to understand the basics of credit scores, credit reports, and, importantly, how their behavior impacts them. Even a blemish that a consumer believes to be minor can stay with them for many years.

Congress has recognized the importance of improving consumer credit report and score literacy. In 2003, Congress passed the Fair and Accurate Transactions Act ("FACT Act"). Among other things, the FACT Act granted consumers access to one free credit report (often referred to

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[7] This CDIA estimate come from CFPB. "Fact Sheet: Credit Reporting Market." 2012. Available at: http://files.consumerfinance.gov/f/201207_cfpb_factsheet_credit-reporting-market.pdf

[8] A 9.9 billion TowerGroup estimate is found in CFPB, "The impact of differences between consumer- and creditor-purchased credit scores", July 19th, 2011. Available at: http://files.consumerfinance.gov/f/2011/07/Report_20110719_CreditScores.pdf), and Stuart Pratt of the CDIA noted that "CDIA member products are used in more than nine billion transactions each year" in his September 10th, 2014 Statements for Subcommittee on Financial Institutions and Consumer Credit (United States House of Representatives) on "An Overview of the Credit Reporting System." Available at: http://financialservices.house.gov/uploadedfiles/hhrg-113-ba15-wstate-spratt-20140910.pdf. In 2011, FICO noted that "About 10 billion FICO® Scores are purchased in the U.S. alone each year," in a FICO Score Fact Sheet (http://www.fico.com/en/node/8140?file=5283). And a 2015 Yahoo Finance article noted that while FICO produced 10 billion scores, VantageScore produced 6 billion (see http://finance.yahoo.com/news/vantagescore-vs-fico-score-difference-150323240.html). As such, we are estimating more than 10 billion credit are sold in the US annually.

[9] Michael Staten, "Risk-Based Pricing in Consumer Lending", Center for Capital Markets Competitiveness, U.S. Chamber of Commerce, 2014, pp 8-14.

as a “disclosure”) each year from each of the nationwide consumer credit bureaus (Equifax, Experian, and TransUnion).[10] This enables consumers to regularly check their credit reports to ensure the contents are accurate and up to date. The Fair Credit Reporting Act (FCRA) also requires lenders to send adverse action notices, whereby if the consumer is denied a loan based on information from a consumer report, for example, the consumer must be notified and provided free access to their credit disclosure.[11] And following requirements by the Dodd–Frank Wall Street Reform and Consumer Protection Act, the Risk-Based Pricing Rule has required a “risk-based pricing” notice or a Credit Score Disclosure notice be sent to consumers.[12] In 2011, the disclosure of the credit score used (and related other related information) was added to the requirements of adverse action notices.

The CFPB also recognized how important it is for consumers to learn about their credit standing and their credit scores. In a February 10, 2014 letter to CEOs of credit card issuers, the Director of the CFPB asked them to freely provide credit scores to customers, stating, “I strongly encourage you to make the credit scores on which you rely available to your customers regularly and freely, along with educational content to help them make use of this information.”[13] The Director also noted, “As public awareness grows and spreads, people also will likely want to learn more about how to improve their credit scores and build their credit profiles in ways that will make them better managers of their financial affairs and more attractive candidates for credit.” Last year, the CFPB estimated that due in part to its credit score initiative “that more than 50 million consumers now have free and regular access to their credit scores through their monthly credit card statements or online.” However, there is both a significant need and a growing demand for credit score and report education, as will be discussed in the next section.

Credit Reports and Scores Not Well Understood

Evidence suggests that there does not appear to be a particularly high level of consumer credit report and credit score literacy. For instance, a December 2014 survey conducted by Ipsos found that 44% of respondents incorrectly thought that credit reports and credit scores were just different names for the same thing, with even greater misunderstanding for lower income households (49%) and for younger respondents (52%).[14]

As noted in a prior PERC publication, the movement to greater consumer access to credit scores as well as credit score and credit report information is a very positive development.[15] So too is

[10] Public Law 108-159, 108th Congress, retrieved 2009-02-02.
[11] https://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0111-fair-credit-reporting-act.pdf
[12] See https://www.ftc.gov/news-events/press-releases/2011/07/ftc-federal-reserve-board-issue-final-changes-risk-based-pricing and https://www.ftc.gov/news-events/press-releases/2009/12/agencies-issue-final-rules-risk-based-pricing-notices
[13] CFPB. Letter to CEOs. Available at: http://files.consumerfinance.gov/f/201402_cfpb_letters_credit-scores.pdf
[14] Ipsos. “While Most Know that Everyone Is Given Access to a Free Credit Report Each Year, Four in Ten Have not Checked It in the Past 12 Months,” Press Release. January 13, 2015. Available at: http://ipsos-na.com/news-polls/pressrelease.aspx?id=6724
[15] Michael Turner, Michael Staten, and Patrick Walker. “Is CROA Choking Credit Report Literacy?” April 2015. Available at: http://www.perc.net/wp-content/uploads/2015/04/CROA.pdf

the growth of more interactive, consumer-specific online credit information tools, such as Mint or Credit Karma.

However, a likely important impediment to the full development and use of credit education services is the Credit Repair Organizations Act (CROA). CROA was passed two decades ago with the intent of reining in unscrupulous organizations that promised to improve consumer credit records for a fee. Many of these organizations would either not produce results as promised or encourage consumers to dispute accurate but negative information in credit reports. Organizations that provide services for a fee that act to improve a consumer's credit standing are covered by CROA. The law works to discourage usage with a lengthy and repellant disclaimer and mandatory waiting periods before providing a service. Back in 1996, credit bureaus, credit score developers, and other such legitimate organizations did not provide consumer education services. So, at the time, it may have been well crafted in its aim at the unscrupulous credit repair organizations. However, subsequent court rulings have interpreted CROA in such a way to make it more and more expansive in coverage. At the same time, recognizing the demand for consumer credit report and score information and education, CRAs and other legitimate organizations have been developing services for this space.

These efforts have now very much collided with the ever-expanding reach of CROA. Consumers are directed to contact CRAs to discuss questions regarding their consumer report. Such questions often go beyond the dispute resolution services required of the CRAs by law, and evolve to questions regarding how the consumer can raise his or her credit score or otherwise improve their credit standing. And the CRAs as a matter of course have the resources and expertise to offer such additional services in a cost effective and efficient manner. Unfortunately, such services offered the consumer fall under CROA. Consequently, in this scenario, the consumer-initiated conversation must stop for a three-business day waiting period (requiring the scheduling of a future meeting).

In this on-demand, instant information world, a three-day waiting period doesn't just delay a conversation, but instead most likely kills it.

In many respects, one could be left wondering which CRA services are *not* covered and discouraged by CROA?

It is important to note that services like Credit Karma, which do not require monetary payment by the consumer, operate as though they do not have the CROA restrictions.[16] These service, make money other ways, such as by harvesting data about the consumers using their products, then selling marketing opportunities to the likes of card issuers based on the data. The use of these non-CROA covered services has exploded.

On the other hand, organizations that do not wish or would find it difficult to operate by marketing financed services, but instead generate revenues directly from consumers with a paid-

[16] However, it is important to note that CROA includes service "in return for the payment of money or other valuable consideration." As such, the consumer providing data to the online service that is then monetized could potentially be treated as a valuable consideration. If so, the ever-expanding reach of CROA could collide with the "free" online services as well.

for app or a paid-for service would likely suffer from a severe CROA-induced competitive disadvantage. This, no doubt, reduces consumer choice, competition, product development and innovation.

The troublesome result of the collision with CROA is that some of the most useful consumer services for credit report and credit score literacy might be higher-touch services in which a consumer has a one-on-one tutorial / education session about their specific credit report and score or a web-based interactive learning experience. Such services are sufficiently costly and labor intensive to operate that it does not appear possible that they could be financed via marketing and offered at no cost to consumers. The development and use of this entire class of credit report and score education services is likely being severely stunted by CROA restrictions and requirements.

PERC / University of Arizona 2015 Report and other research

In a 2015 joint report by PERC and the University of Arizona, data collected and provided by Experian was critically analyzed to infer possible impacts of CROA on the uptake of a personalized credit education service—Credit Advisor—that was marketed at different price points ($20, $10, and free). While the Experian data is primarily gathered for purposes of market research—to test price elasticity of demand, to test different Web graphic user interfaces and to test different marketing campaigns across various channels—the results do yield valuable insights into the relationship between CROA compliance requirements and consumer use of the Credit Advisor product. Further, the Experian data are also useful to measure impacts of Credit Advisor on a person's credit standing and consumer perspectives on their experience with Credit Advisor—both those who completed a session and those who dropped off before completing a credit education session.

The primary findings from the 2015 PERC / University of Arizona joint study include:

- 94% of those who contacted Experian in response to a Credit Advisor advertisement dropped off before completing a session, even with the service offered at no cost;
- 46% of those who dropped off reported that if the service were available when they called, they would have used it;
- Those who successfully completed Experian's Credit Advisor experience positive material impacts (moving to a better risk tier) at nearly twice the rate of those receiving educational materials only (22% vs. 13% for the VantageScore credit score, and 26% vs. 13% for the PLUS Score).

Since the 2015 PERC / University of Arizona report was published, the Urban Institute released a study commissioned by the CFPB that found among two financial education and coaching programs examined, that receiving such personalized education was associated with higher credit scores following the education.[17] In one of the two programs participants experienced a statistically significant increase in credit scores ranging between 21 and 33 points, depending

[17] Brett Theodos, et al. "An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs." Urban Institute. October 2015. http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000448-An-Evaluation-of-the-Impacts-and-Implementation-Approaches-of-Financial-Coaching-Programs.pdf

upon how score differences were measured. The magnitude of higher credit scores following the education for the two programs, combined, ranged between 12 and 22 points.

These studies demonstrate that financial education and/or more focused and personalized credit score and report education can result in meaningful credit score impacts.

New Research

Following the 2015 PERC / University of Arizona report, PERC began a new examination of the impacts of and barriers to personalized CRA credit education services. This builds on the earlier 2015 report but uses samples drawn by PERC, independent of the CRA (Experian) performing the credit education service examined. This, we believe, is crucial to determining how robust the earlier findings from the 2015 report truly are. First, the 2015 report was based on data from in-house product and marketing evaluations. Since this data was from "live" and "real market" experiences they may be very good at determining consumer sentiment regarding CROA barriers, such as the 3-business day waiting period, in the real world. But, they may be less ideal for determining how the typical consumer, or different segments of consumers, might evaluate the credit education service and be impacted by it. This is because only a small share of consumers who went to Experian's site actually completed the credit education service, even when it was free (in part due to CROA barriers). So, it is possible that only those seeking out such services, who were the most motivated, and willing to make it to the credit education service would find it useful and see credit score benefits. Or, there could have been some other unknown peculiarity in that sample of consumers that drove those results.

The new research, aims to gauge impacts and consumer sentiment from samples of consumers seeking assistance from community development organizations (CDOs), an online consumer panel, and a panel of small business owners. As of this interim report, data is not yet available from the small business panel. The majority of the results shown in this report come from data derived from participants recruited from the community development organizations (United Way Atlanta, Operation Hope, Urban League, and Trident United Way (covering the Lowcountry including the Charleston SC area)). The full, final report, including the panel of small business owners, is scheduled to be published during the Summer of 2016.

2. Interim Results and Methodology

Consumers were recruited via community development organizations (CDOs) across the country as well as by online survey firms to take a CRA credit education session, specifically the Experian Credit Educator service. This personalized credit education session offers an in-depth, one-on-one phone call with an agent at Experian. During the session, consumers receive a copy of their Experian credit report and credit score and a personalized, step-by-step walk-through of the report, as well as specific examples of actions that may improve their credit score and insights for future credit management decisions.

The CDOs participating in this study include United Way Atlanta, Operation Hope (over 15 locations), Urban League (Chicago), and Trident United Way (Charleston area). Consumers were also recruited from a consumer panel by Branded Research Inc. Based upon the initial data snapshot used for this interim report, about 400 consumers had completed the credit education session, with 99, or about one in four, completing a PERC follow-up survey of their impressions of the credit education session. Of the 99 surveys, 34 came from the consumer panel and 65 came from the CDO participants. The survey data presented below comes from the consumers who completed the credit education sessions and the follow-up surveys between August 2015 and the beginning of February 2016. The credit score change data is based on results from 160 consumers who had completed credit education sessions prior to December 2015, to enable a 3-month observation period.

Survey Results

Survey Sample Characteristics:

Channel of Recruitment:

CDOs:	*66%*
Survey firms:	*34%*

Age Profile:

18 to 24	*4%*
25 to 34	*23%*
35 to 44	*22%*
45 to 54	*28%*
55 to 64	*16%*
65 to 74	*5%*
75 or older	*1%*

Annual Household Income Profile:

$0-$24,999	*25%*
$25,000-$49,999	*26%*
$50,000-$74,999	*27%*
$75,000-$99,999	*6%*
$100,000+	*14%*

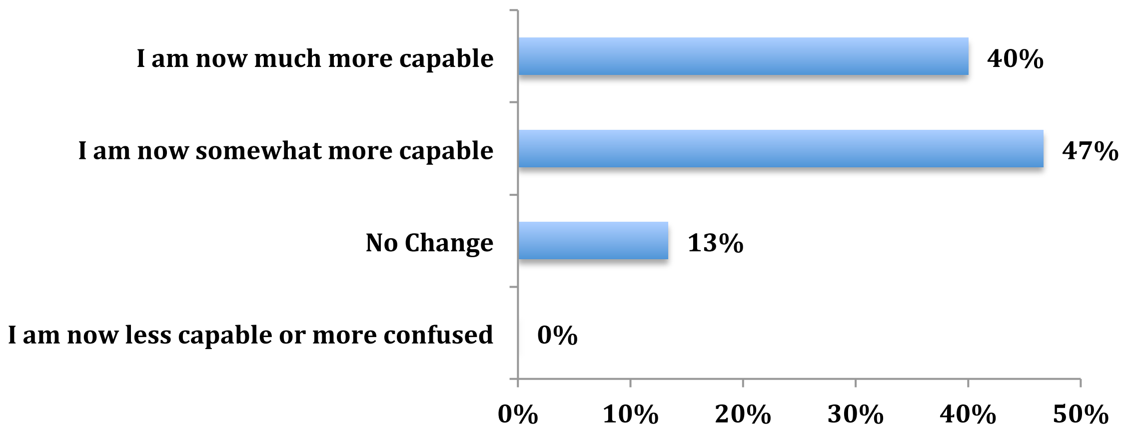
Race/Ethnicity Profile:

Asian / Pacific Islander	*4%*
Black or African American	*59%*
Hispanic American	*2%*
Multiple ethnicity / Other	*5%*
White / Caucasian	*29%*

The basic sociodemographic profile of the interim sample is shown above. Note that the profile is not reflective of the larger US adult population, as the sample was largely derived from CDO participants.

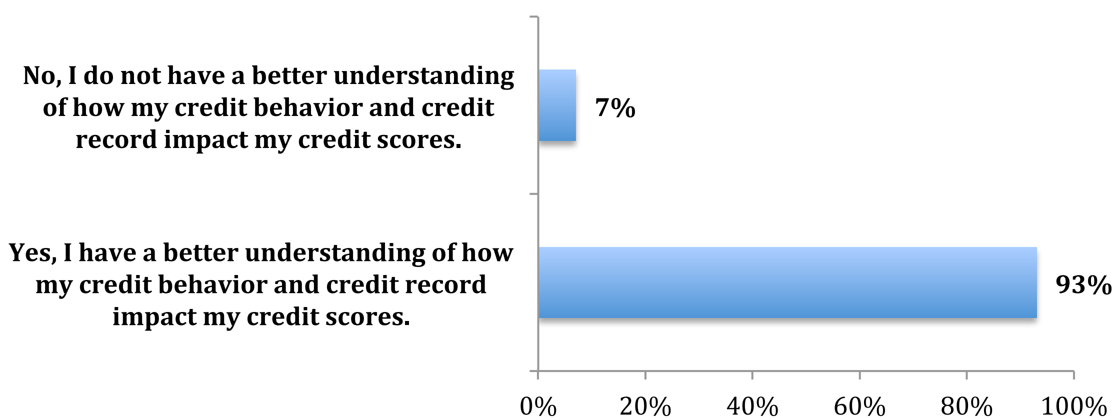
Interim Survey Results:

Figure 1: (Q1) Following the credit education session, how would you say your credit management skills have changed?



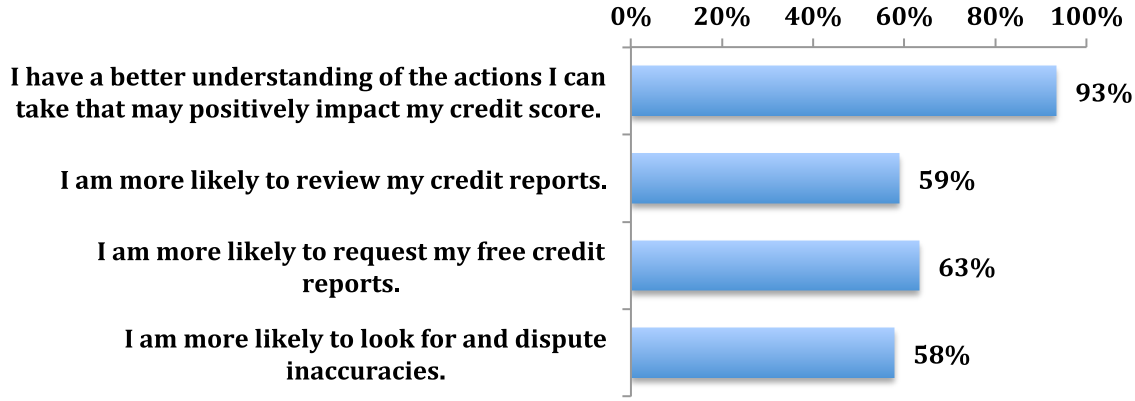
For the above question, 87% of those surveyed indicated that they were more capable in their credit management skills following the credit education session. These results are remarkably similar to the same question reported in the 2015 PERC/ University of Arizona report, in which 85% reported that they were more capable following the credit education session. This consistency in consumer sentiment despite the differences in time period and sample sources speaks well to the overall robustness of these results.

Figure 2: (Q2) Do you have a better understanding of what impacts credit scores?



This question, Q2, aims to narrow down a little from the generalities of Q1 and to determine if consumers feel that they better understand what (behaviors and credit record) impacts their credit scores. Here an even greater share, 93%, answered that they have a better understanding following the credit education session.

Figure 3: (Q3) Following the credit education session, indicate if any of the following are accurate:



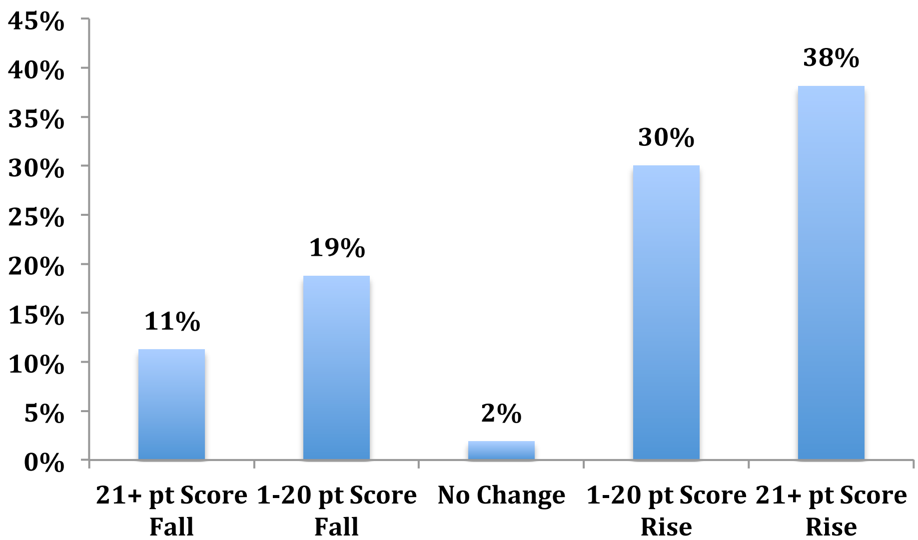
The third question, Q3, focusing more narrowly, again, and touches on specific actions. It asks whether consumers have a better understanding of what action they can take to improve their credit scores. Here, as in Q2, 93% agree. As also shown, between 58% and 63% agreed that following the credit education session they were more likely review their credit reports, request their free credit reports, and look for and dispute inaccuracies.

Consistent with the sample results from the 2015 PERC/ University of Arizona report, a large majority of consumers in the new sample appear to find the CRA credit education session useful, enabling a better understanding of their credit score and how they can influence it.

Credit Score Change Results

Among the 160 consumers that took the credit education session as of December, 2015 as part of this research, the average VantageScore 3.0 credit score change three months following the credit education session was a score increase of 14 points (This average score increase is in line with the two program average score increase of between 12 and 22 points seen in the previously discussed CFPB commissioned Urban Institute study.[18]) These score changes contrast to the typical, little to no change in average credit scores expected in the overall population. For instance, in a 3 to 6 month period, a control sample from Experian showed only a 1-point score increase. And in the 2015 PERC/ University of Arizona report, the control sample saw little systematic change in the distribution of credit scores over a four-month period.

Figure 4: Three-Month VantageScore 3.0 Change following Credit Education Session



As can be seen above, more than twice as many consumers saw a credit score rise following the credit education session than saw credit score declines. These results are broadly consistent with the 2015 PERC/ University of Arizona results, though the newer findings shown above are stronger (showing a greater share of credit score rises) than the earlier PERC/ University of Arizona results. While the 2015 report found 55% of consumers had credit score rises with Experian's PLUS credit score four months after the credit education session, the new results find that 68% see a credit score rise using the VantageScore 3.0 three months after the credit education session.

As discussed in the prior PERC / University of Arizona publication, the actual, material, impacts for consumers from changes in their credit scores will most likely result in changes to their credit score bands. This is the case since offers and terms of credit are often related to credit score bands (such as Prime, Near Prime, or Sub Prime) and not particular credit scores. As such, it is

[18] Brett Theodos, et al. "An Evaluation of the Impacts and Implementation Approaches of Financial Coaching Programs." Urban Institute. October 2015. http://www.urban.org/sites/default/files/alfresco/publication-pdfs/2000448-An-Evaluation-of-the-Impacts-and-Implementation-Approaches-of-Financial-Coaching-Programs.pdf

changes in score bands that are a better gauge of meaningful credit score changes (as opposed to simply 20+ or 25+ point changes).

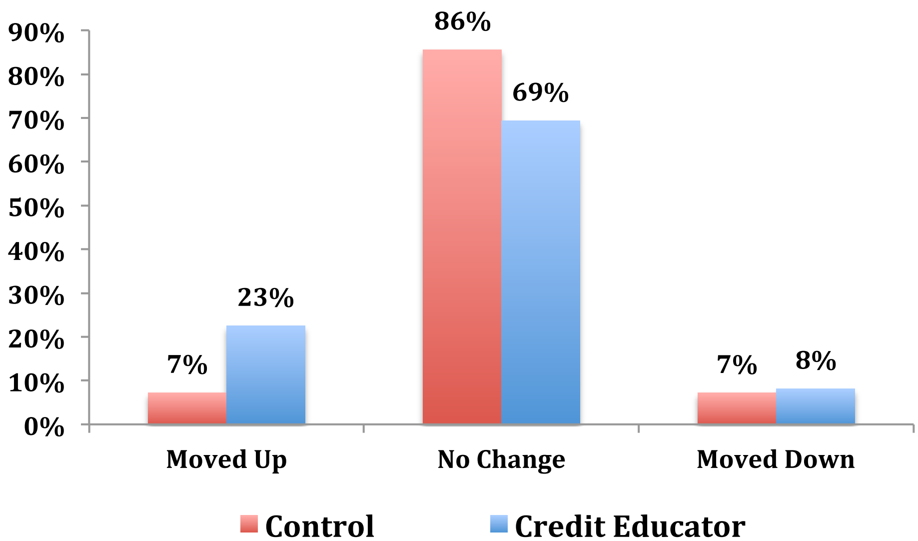
Given that there is no universal set of score bands, we use the following example for purposes of this analysis.

Table1: Score Band Example for VantageScore 3.0

VantageScore 3.0	Risk Level	What this May Mean
781-850	Super Prime	Lenders will likely offer the best interest rates
661-780	Prime	Lenders will likely offer good interest rates
601-660	Near Prime	Lenders will likely offer average interest rates
500-600	Subprime	Lenders who extend credit will likely charge higher interest rates
300-499	Deep Subprime	Lenders are unlikely to extend new credit

Using these score bands, the following bar chart illustrates the share of consumers who moved up and moved down score bands for the group of consumers that took the credit education session and a control group that did not.

Figure 5: VantageScore 3.0 Risk Tier/Band Change for CE Group and Control Group



For the Credit Educator group, nearly three times as many consumers (23%) improved and moved up a score band compared to the number that moved down a score band (8%), three months following the credit education session. That is, among study participants, there was a 15% net rise in score tires. For the control group, there is no systematic or net change in the distribution, with the same share moving up as moved down (7%). These results are very similar to the prior PERC / University of Arizona results which found 22% of consumers witnessing VantageScore credit score band rises and 10% seeing declines.

However, it is important to note that the control sample of more typical consumers had an average beginning credit score of 734, while the Credit Educator study sample had a beginning average credit score of 601. So, if we consider the possibility that there would be a natural "regression to the mean," it may be that we should expect to see more score rises and tier rises in the study sample, in which three-quarters started off with a deep subprime, subprime or near prime credit score. Indeed, those in the deep subprime category have nowhere to go but up. Focusing on these categories individually, we find that in the deep subprime category the net score tier rise is 35% for the control sample compared to 53% for the Credit Educator sample, in the subprime category the net score tier rise is 12% for the control sample compared to 19% for the Credit Educator sample, and for the near prime category the net score tier rise is 5% for the control sample compared to 15% for the Credit Educator sample. The small sample sizes utilized in this interim report, however, make such comparisons of less (statistical) meaning than would be desired, though this more detailed analysis will be explored with larger sample sizes in the final report.

These preliminary results provide early, compelling evidence that the 2015 PERC/ University of Arizona findings of positive credit score and credit tier changes associated with taking the credit education session were not an aberration.

3. Participating Community Development Organizations and Client Testimonials

Community Development Organizations (CDOs)

Operation Hope

The mission of Operation HOPE, Inc. (HOPE) is to make free enterprise work for everyone. They accomplish this through work on the ground as the nonprofit private banker for the working poor, the underserved and struggling middle class. They work to achieve their mission by being the best-in-class provider of financial literacy empowerment for youth, financial capability for communities, and ultimately, financial dignity for all.

The *Banking on Our Future* division focuses on keeping the most at risk youth from repeating the cycles of poverty and despair that have trapped so many in their families and communities by teaching them basic financial literacy, or what Operation Hope calls "the global language of money."

The *HOPE Business In A Box / Gallup HOPE Index* division focuses on inspiring a generation of young people to become future American assets of economic energy, small business and entrepreneurship.

HOPE Inside gives clients the resources to improve their financial situations. Through their 700 Credit Scores Initiative, they approve clients as soon as they seek assistance, commit to the resolution of primary credit denial factors, and work to raise credit scores on average 120 points over 18 months of active counseling.

The *HOPE Coalition America* division is a national partner of FEMA addressing financial disaster preparedness, response, and recovery. HCA responded to and served more than 200,000 Hurricane Katrina survivors and is currently responding to assist survivors of Hurricane Sandy.

Since its inception in 1992, HOPE has served more than 2.5 million individuals. HOPE has also directed more than $1.8 billion in private capital to America's low-wealth communities, maintains a growing army of 22,000 HOPE Corps volunteers, and currently serves more than 300 U.S. cities.

Locations of Operation Hope offices involved in this study and recruiting participants include Atlanta, Birmingham, Brooklyn, Cleveland, Detroit, Las Vegas, Long Beach, Memphis, New Orleans, Oakland, Orlando, St. Louis, Tampa, and Washington D.C.

United Way Atlanta

The United Way Atlanta is one of the largest United Ways in the nation with more than $100 million in annual revenue. They invest in more than 200 programs in 13 counties through the United Way Impact Fund and participate in Collaborative Networks and Opportunity Zones with caring community partners to address challenges facing families and individuals.

Its mission is to engage and bring together people and resources to drive sustainable improvements in the well-being of children, families and individuals in the community.

United Way Atlanta's Individual Development Account (IDA) program was started in 1997 to help low-to-moderate income families save for the purchase of an asset. Skills learned through IDA include:

- Developing a budget and setting goals
- Establishing regular savings habits
- Building assets for long term economic security

Highlights of the IDA program

- More than 800 people have successfully completed the program and have either purchased a home, started a business or obtained additional education for economic success.
- Matches the savings of families with between 1-5 times the amount of their deposit.

IDA components include:

- Financial literacy curriculum
- Asset goal specific training
- IDA Savings Account at partner financial institution (SunTrust, Wells Fargo)

Chicago Urban League

The Chicago Urban League works for economic, educational and social progress for African Americans and promotes strong, sustainable communities through advocacy, collaboration and innovation.

The Chicago Urban League is committed to implementing its mission with a strategic focus on educational equality, economic development and social justice and through the well-informed pursuit of the following strategies:

- Ensuring access to quality education that prepares individuals to become lifelong learners and to be competitive and successful in the global economy.
- Preparing individuals for work at all levels in an ever-changing economy, developing engaged citizens, and building strong families.
- Supporting community based investment and growth through facilitating entrepreneurship, business development, and home and real estate ownership
- Advocating for policies and programs that ensure equal participation by African Americans in the economic and social mainstream.

Trident United Way

The Trident United Way operates in South Carolina's Lowcountry, including the Charleston area. A key issue of focus for the Trident United Way is financial stability. As part of its efforts to increase financial stability in the Lowcountry, particularly among an estimated 200,000 people who have difficulty meeting their basic needs, Trident United Way operates Prosperity Centers. Among other services, these centers provide financial education, credit counseling, and foreclosure prevention assistance. Trident United Way has recruited participants for this study via its Prosperity Centers.

Individual Feedback and Testimonials

The participating CDO's have received a number of positive testimonials regarding the credit education service from their clients. Examples include the following.

> *"I haven't always known how important it is to have and maintain a healthy credit profile, and when I found out later in life it was too late. Over the years, I have done my own research and have learned that I had to get myself together and figure out a way to repair the damage I had done to my creditworthiness. I wasn't sure how I was going to start the process and what resources were available to help me get started. With your guidance and introduction to a Credit Educator, I finally found hope!*
> *I had bought a car out of necessity but I still didn't quite know the status of my credit affairs. My next step was to purchase a home for myself and my family. Speaking with a Credit Educator about personal credit needs and plans reaffirmed and motivated me to remain conscious about the importance of credit responsibility. Without the understanding that I only had to request accounts to be updated or removed from my record, I would not have been able to buy a home.*
>
> *By removing several negative accounts from my report, I have dramatically improved my credit score and have bought my first home!"*

– Study Participant

> "Thank you ever so much for connecting me with my Experian Counselor, Mike A.
> Throughout my adult life, I've been nearly phobic about finances. I get anxious just thinking about my credit score and how to solve the problems I've created for myself through my lack of understanding about credit.
>
> Through my Experian counseling session, I now know my current score. I know what's on my Experian credit report. I know how to receive copies of my reports from all credit bureaus. I know what actions to take to improve my score. I understand how to respond to information on my report to correct mistakes, and what actions to take to respond to other issues as needed.
>
> Thank you again for connecting me with Experian's Credit Counseling Service. I feel certain that within a year or so, my credit score will have greatly improved."

– Study Participant

In addition to such testimonials received by the CDOs, study participants were also able to answer the following open-ended question in the follow-up participant survey.

Q: In your own words, please describe whether you found the credit education session useful. If not, why and if so, what did you find useful about the education?

There were 78 responses received for this question. We classified them as to whether they were generally positive regarding the usefulness of the credit education session, mixed/neutral, or negative.

- *70 (90%) were interpreted as generally positive regarding the usefulness of the credit education session*
- *6 (8%) were interpreted as generally neutral*
- *2 (3%) were interpreted as generally negative*

Examples of the "positive" comments were:

> "I found the credit education session useful because I was provided with information on what I could do immediately to increase my credit score and I was made aware of what had a little impact to a great impact on my credit score."
>
> "It was useful for it clearly explained each section of the report and how I should keep accounts open because the age of the account can give you a better score. It was useful because it showed me how my actions affect my score."

Both and *all* "negative" comments were:

> "It was not very useful. It was common sense things that most people should know. Before I had medical problems, my score was over 800, so I already had a good grasp on the information."
>
> "not really useful to me, i have great credit and he couldnt tell me much to improve anything."

Given that the great majority of comments were positive and the only two negative commenters thought the credit education session was not useful because they already had a high enough credit score and/or already had sufficient knowledge speaks well to the overall perceived usefulness of the service. This is particularly the case for the typical consumer who would most likely benefit from a credit education service.

4. Conclusion

The results from the new empirical analysis provide strong support for the following conclusions:

- **Credit bureau credit education services can have big impacts on credit scores:** Slightly over two-thirds of those who completed a CRA personalized credit education session witnessed an increase in their credit score within 3 months after completing the session. 38% percent witnessed a credit score increase of more than over 20 points, and 23% witnessed a credit score band rise, nearly three times as many that witnessed a score band fall;

- **Consumers are highly positive about credit bureau credit education services:** Almost nine in ten persons who completed a personalized credit education session reported that the session was useful or expressed positive feelings about their experience. 93% agreed that they had a better understanding of what actions they could take to improve their credit score. This is also demonstrated with the participant testimonials and open-ended comments.

These findings are broadly consistent with findings from the 2015 PERC / University of Arizona joint study, which used a separate sample collected by Experian. In addition to the credit score change and consumer sentiment findings, the 2015 study found that well over 9 in 10 consumers that explored a CRA credit education service dropped off before actually taking the credit education session, even when it was offered at no cost. A follow-up survey of the consumers that dropped off found the CROA related restrictions played a big role. Of those surveyed, 46% reported that if the service were available when they called, without the CROA required wait period, then they would have used the service.

Following the release of the 2015 PERC / University of Arizona study, American Student Assistance (ASA), a nonprofit organization assisting college students in the financing of higher education, began to pilot the use of a CRA credit education service. The pilot suffered from a very low participation rate. Of 48,603 students contacted through e-mail campaigns and phone counseling sessions, only 87 fully completed the credit education session. The Director of Strategic Partnerships for ASA, noted in the final report on the pilot that this very low completion rate, of only 0.2%, "was not anticipated by ASA."[19]

The final ASA report on the credit education pilot also noted that the CROA required 3-business day waiting period was suspected to be a major obstacle for use of the service and a major reason for the low completion rate. The report stated,

> "According to ASA's internal benchmark study, credit education ranks third among the most important financial concerns of young consumers. The low completion rate for this pilot seems to contradict this finding. One of the major drawbacks of the Credit Educator program is the requirement for a three day waiting period before a consumer can be

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[19] Robert Cole. "Credit Educator Final Report" American Student Assistance. March, 2016

> counseled on their personal credit. This was seen as a significant barrier to completing a session. First, there were multiple steps in the process including acting on their own student loan issues, scheduling an appointment for a future credit counseling session and finally meeting with an Experian agent. Typically, this population of young consumers is used to on-demand service and waiting three days may have been too complicated and at variance from their usual method of gaining personal financial information."[20]

As many recent studies by government agencies, consumer advocacy groups, and industry have demonstrated, a large segment of the credit eligible population in the United States is confused about credit reports and credit scores. This is especially true for younger and lower-income Americans who together comprise a large majority of the Credit Invisible population in the United States. Both of these groups tend to have well below average credit scores and would greatly benefit from access to personalized credit education services offered by the nationwide credit bureaus.

In this context, lawmakers should be bending over backward to promote market responses to this large unmet need.

CROA was never designed to interrupt the conversation between consumers and nationwide credit bureaus. Clearly, Congress has long been promoting this conversation and recent court rulings are contrary to the spirit and intent of Congress in this regard. National credit bureaus are not trying to scam consumers and take money from them without delivering value—as so many credit repair organizations did and continue to do despite the enactment of CROA. Further, imposing CROA on national credit bureaus offers no additional consumer protections—national credit bureaus are already heavily regulated by the CFPB, the FTC, states attorney's general, and state banking regulators. Should national credit bureaus mislead or deceive consumers in any fashion regarding their personalized credit education services, the FTC and CFPB can act for violations of Unfair, Deceptive, or Abusive Acts and Practices (UDAAPs). Further, none of the national credit bureaus have ever been subject to an administrative enforcement action against them for violations of CROA nor has there been a single court ruling finding consumer harm resulting from national credit bureau CROA violations.

In summary, there is no plausible reason to subject nationwide credit bureaus to CROA. This position is neither supported by reason nor by fact. Quite the contrary! All available evidence suggests that a large segment of the American population is being harmed when CROA is applied to nationwide credit bureaus. CROA requirements—including a lengthy and intimidated legal disclaimer and a mandatory 3-business day wait before receiving the service—act as major barriers between consumers and credit bureaus, deterring all but the most committed consumers from benefitting by engaging a national credit bureau to answer their questions.

The authors of this report urge Congress to take measures to exempt the three nationwide credit bureaus from CROA. We believe they are uniquely positioned to deliver significant and demonstrated value to consumers who greatly need personalized credit education services. These three firms have a legal requirement to maintain accurate data and will not act to compromise the

[20] Robert Cole. "Credit Educator Final Report" American Student Assistance. March, 2016

quality of their data—unlike credit repair organizations that routinely game the law to have removed accurate but negative credit data. A delay in exempting these credit bureaus from CROA is a delay in providing actionable credit information to many consumers who could significantly benefit from this information. Furthermore, exempting them carries no risk and promises great potential upside.

Acting to exempt the nationwide credit bureaus from CROA will not cost the taxpayers a penny, does not carry any risk to consumers, and will result in an immediate and enhanced relationship between consumers and national credit bureaus. Failing to act—especially in the face of compelling evidence of material benefits to consumers and extraordinarily high consumer satisfaction—is anti-consumer and serves only the interests of unscrupulous credit repair organizations…ironically the very same ones against which CROA was designed to protect consumers.