The Credit Score Literacy And Building Credit Report, a collaboration between PYMNTS and Elan (a division of U.S. Bank), explores consumers' perceptions and plans around improving credit scores. Our investigation is based on a census-balanced survey of 2,053 consumers conducted between April 23 and April 26, 2021. We found that consumers have interest in and ascribe value to credit card issuers that provide tools that can help individuals both monitor and improve their credit scores.

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CREDIT SCORE LITERACY AND BUILDING CREDIT REPORT

JULY 2021

CREDIT SCORE LITERACY AND BUILDING CREDIT

REPORT

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The Credit Score Literacy And Building Credit Report was done in collaboration with Elan (a division of U.S. Bank), and PYMNTS is grateful for the company's support and insight. PYMNTS.com retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

Most consumers believe that a good credit score and an established credit history are prerequisites to accessing consumer loans and credit cards, yet several big banks, including JPMorgan Chase, Wells Fargo and U.S. Bank, recently announced plans to offer credit card products to consumers who lack a traditional credit score. Moving away from credit scores can bring individuals into the financial system who are financially responsible yet who lack credit scores, including unbanked individuals, undocumented immigrants and younger consumers who have not yet established a credit history. The big banks' plan includes working with major credit bureaus Equifax, Experian and TransUnion on data sharing as well as with FinTech data sharing platforms such as Plaid.

Despite this news, traditional credit scores are likely here to stay. That program is being piloted by a handful of banks for a relatively small segment of their customer base. Thousands of smaller banks, credit unions and other lenders that do not have the internal resources to create their own scoring systems still rely on credit scores to determine the likelihood that applicants will repay loans and to set the interest rates those consumers will pay. The traditional credit score system will remain relevant, and consumers want help in understanding how to better manage their finances and find ways to improve their creditworthiness. Higher credit scores can help consumers get lower interest rates, reduce fees and save them money on everything from credit cards to home loans.

PYMNTS' research finds that 62 percent of consumers want to improve their credit scores but that consumers do not know how to go about doing so. This lack of understanding even extends to those with good credit scores. For example, many consumers with above-average credit scores are unsure whether having one line of credit or multiple ones is better for their credit scores, and many are unsure of how spending close to their credit card limits could affect their scores.

The Credit Score Literacy And Building Credit Report, a collaboration between PYMNTS and Elan (a division of U.S. Bank), explores consumers' perceptions and plans around improving credit scores. We surveyed a census-balanced sample of 2,053 consumers and found that they have interest in and ascribe value to credit card issuers that provide tools that can help consumers both monitor and improve their credit scores.

Here is what we learned.

PART I:

CONSUMERS TEND TO HAVE OVERLY ROSY VIEWS ABOUT THEIR CREDIT SCORES.

Consumers have false perceptions of their credit scores. More than two-thirds think their scores are above average — nearly twice the portion that actually have such scores.

Seventy percent of surveyed consumers think their credit scores are “above average,” but only 45 percent of them have scores over 751, the above-average mark according to national credit reporting data. At the same time, just 8 percent of consumers believe their credit scores are “below average,” even though 21 percent have scores below 600, the actual marker for below-average scores.

The gap between perception and reality shrinks for consumers with average credit scores of between 600 and 750: 19 percent of consumers think they have average credit, and 29 percent actually do.

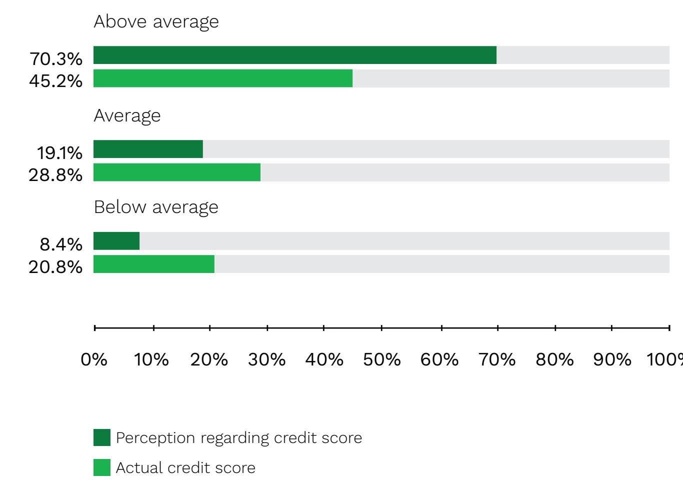
Generation Z and paycheck-to-paycheck consumers possess the greatest difference between the share claiming to have above-average credit scores and the share who actually do, a 33 percentage point gulf. These discrepancies spotlight a knowledge gap and a need for better credit education.

Consumers have two credit cards on average, though baby boomers and seniors and high-income consumers report having more, with 2.3 and 2.5 cards each. Generation Z consumers average only one. Only 24 percent of consumers do not have any credit cards.

FIGURE 1:

CONSUMER CREDIT SCORES

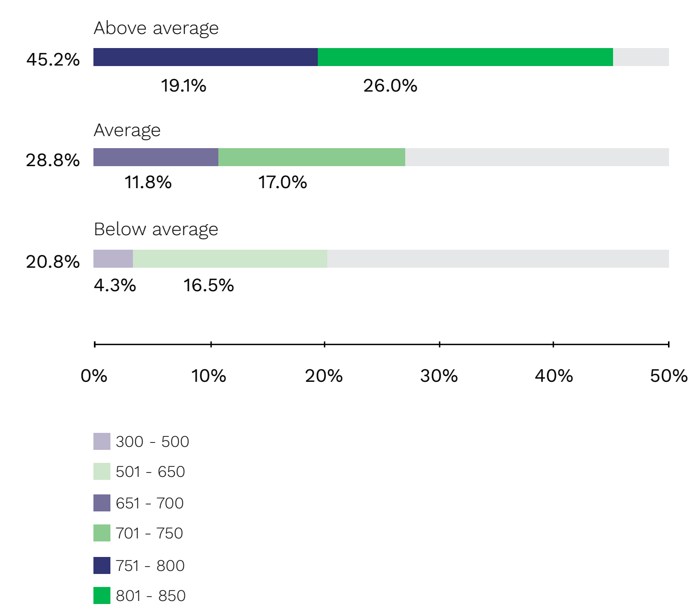
1A: Perception versus actual credit score



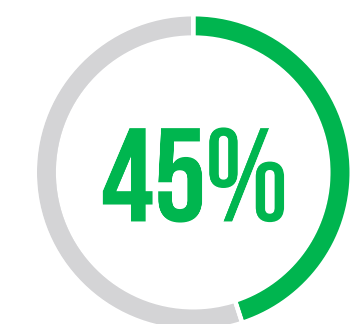
Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

Seventy percent of consumers perceive their credit score to be above average, though only 45 percent of consumers have an above average credit score.

1B: Credit score classification, by score range



Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report



Forty-five percent of consumers have an above average credit score, 26 percent have a score between 801-850.

PART II:
CONSUMERS WANT TO IMPROVE THEIR CREDIT SCORES BUT NEED GUIDANCE.

62 percent of consumers are interested in improving their credit scores, but many are unsure about exactly how to do so.

Sixty-two percent of consumers are interested in improving their credit scores, including a 41 percent share who say they are "very" or "extremely" interested in doing so. Our data shows that 29 percent say they are "very" or "extremely" concerned about their credit scores. This group is very motivated to take action, as 80 percent say they are highly interested in improving their scores.

Millennials and bridge millennials in particular would like to improve their credit scores, as 57 percent and 58 percent, respectively, indicate that they are very interested in doing so. This may be because they are at a stage in life when they want to make big purchases, such as cars or homes, and they want to qualify for better loans with lower interest rates.

Generation Z consumers are generally not as concerned as others about their credit scores, as only 21 percent say they are very concerned. Forty-four percent of Generation Z consumers are still very interested in improving their credit scores. This may be because, as stated earlier, members of this demographic tend to overestimate their actual credit scores.

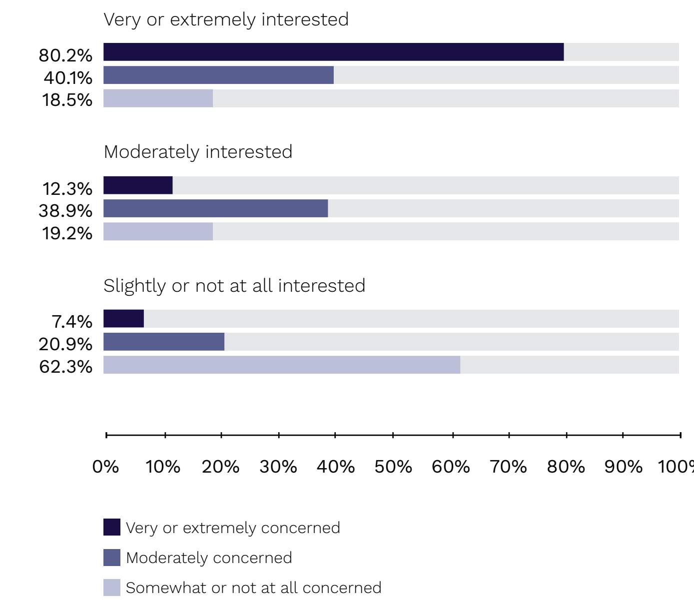
Consumers exhibit some confusion about how exactly to improve their credit scores. While there is wide agreement that paying bills on time and having a good credit history lead to higher credit scores, respondents showed bafflement around some fundamental concepts and the impact of certain behaviors on credit scores. For instance, 39 percent believe that having debt on one credit instrument like a credit card versus having multiple ones will improve their scores, while 33 percent think it will make scores worse. Twenty-eight percent are unsure of the impact. This shows that consumers need more education about how credit scores improve. Savvy credit card issuers can provide credit information and learning tools to help close the knowledge gap and attract customers.

Forty percent of consumers collectively either think that spending close to their credit limits will improve their credit scores (21 percent) or are not sure of its impact (19 percent). This uncertainty about what actions might improve or hurt scores even extends to those with good credit scores: 27 percent of those with above-average scores who are interested in improving credit scores are unsure of whether having one form of debt or multiple forms is better, and 20 percent of consumers in this group are unsure of whether spending close to their card limits makes their credit scores better or worse. Twenty-three percent of the same group of consumers erroneously think that recently opening several credit accounts improves their scores.

What will help consumers improve their creditworthiness is the ability to track their scores so they will know what actions are affecting them the most, such as making payments on time, keeping a certain number open or maintaining low balances. Credit-score tracking better informs consumers and offers additional insight into their credit history and progress, and it may also alert individuals to potential fraud.

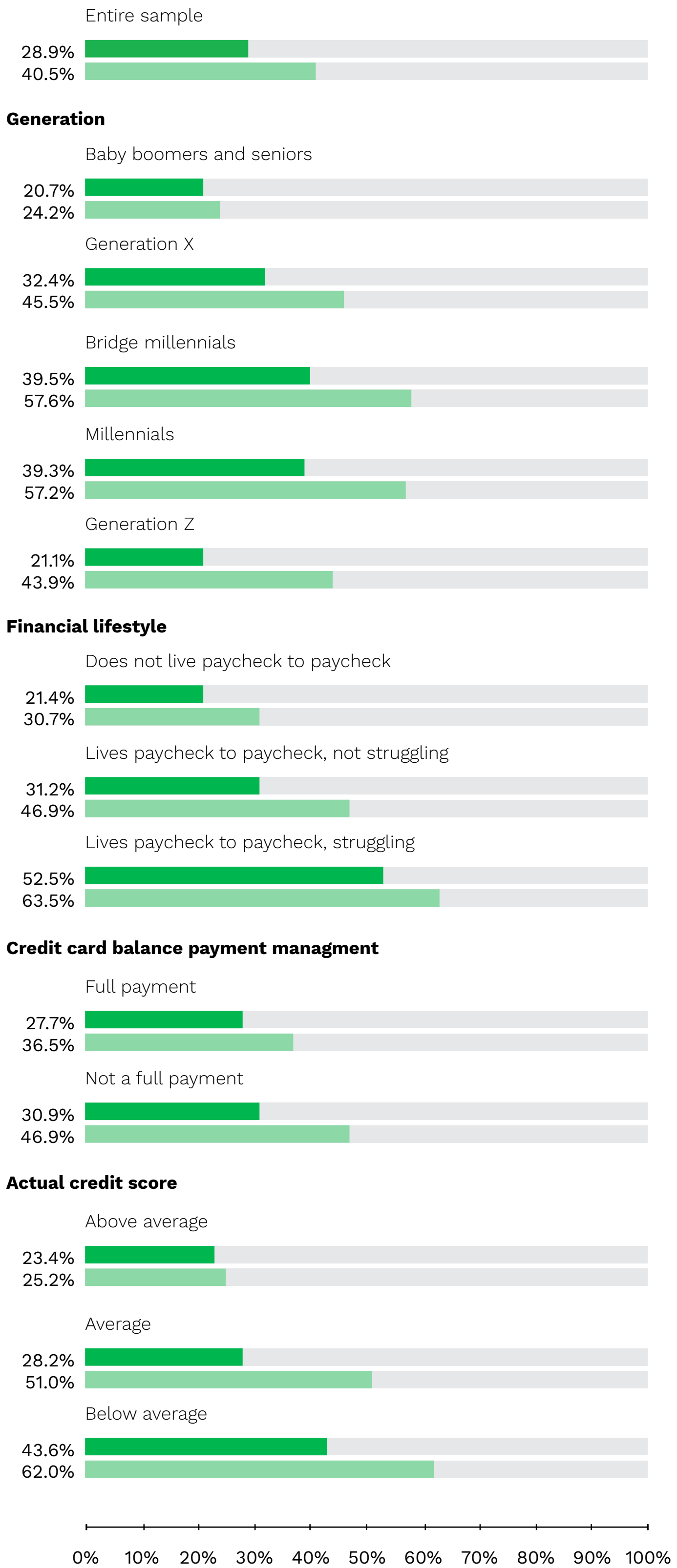
FIGURE 2:

INTEREST IN IMPROVING CREDIT SCORE
2A: Share of consumers interested in improving credit score, by level of concern



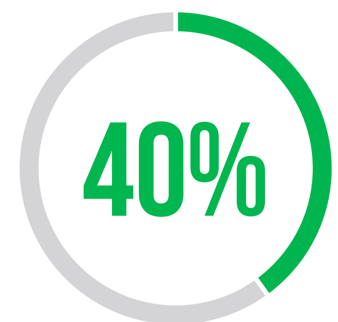
Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

2B: Share of consumers concerned about their credit score and share interested in improving it



Very or extremely concerned
Very or extremely interested in improving credit score

Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

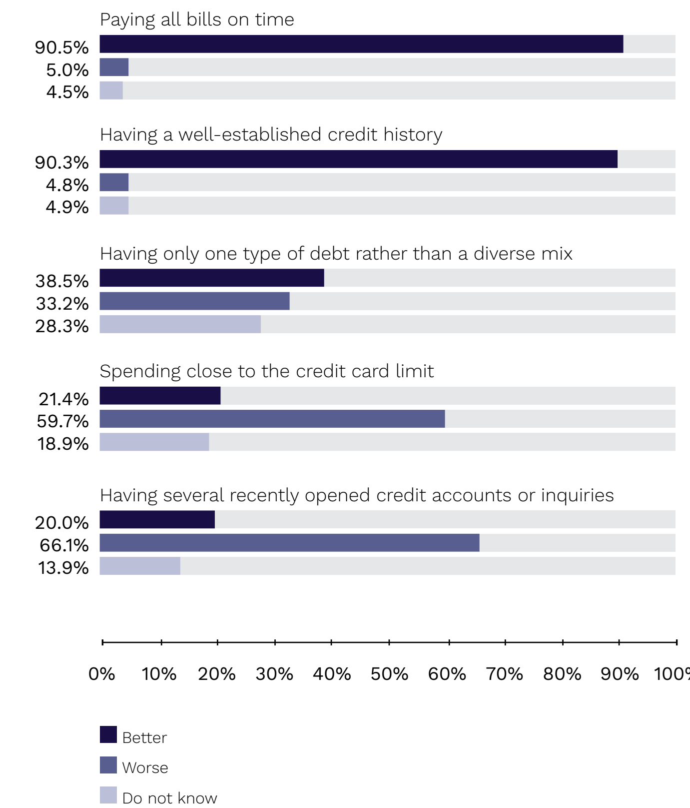


Forty percent of bridge millennials and millennials are "very" or "extremely" concerned about their credit score.

FIGURE 3:

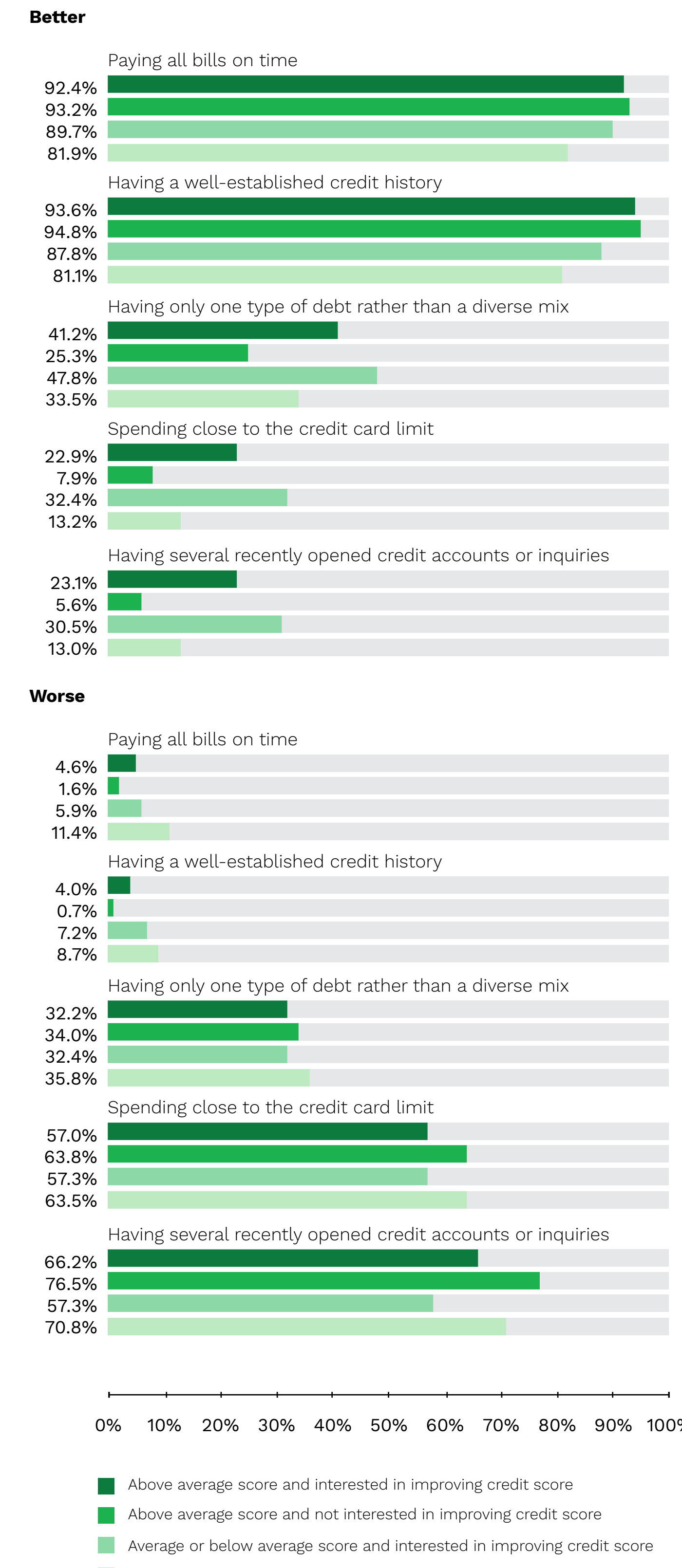
CERTAIN ACTIONS' PERCEIVED IMPACT ON CREDIT SCORE

3A: Share citing certain actions' select perceived impacts on credit score



Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

3B: Share citing certain actions' select perceived impacts on credit score, by persona



Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

PART III:

CONSUMERS WANT CREDIT MONITORING TO IMPROVE SCORES.

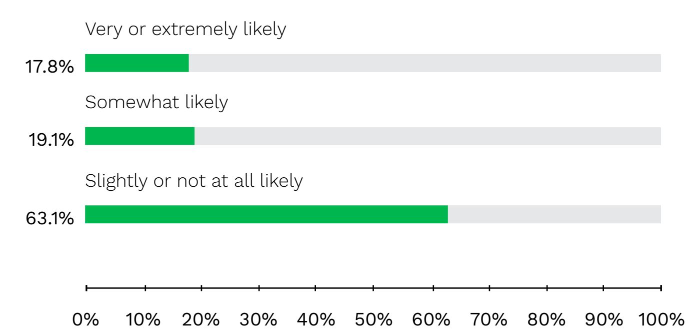
More than one-third of consumers would consider switching their current credit cards for those that offer tools to monitor and improve their credit scores.

Access to credit score tools can influence consumers' choice of credit cards. Thirty-seven percent of consumers would be at least "somewhat" likely to switch to cards that offer credit score improvement tools, and 18 percent would be "very" or "extremely" likely to do so. Fifty-six percent of consumers would consider tools to monitor or improve their credit scores to be "very" or "extremely" important when choosing among credit cards. Only interest rates and rewards are cited more often as motivators.

FIGURE 4:

LIKELIHOOD OF SWITCHING CREDIT CARDS FOR ONE THAT PROVIDES TOOLS TO IMPROVE CREDIT SCORE

Share of consumers citing likelihood of switching credit cards for one that provides tools to improve credit score

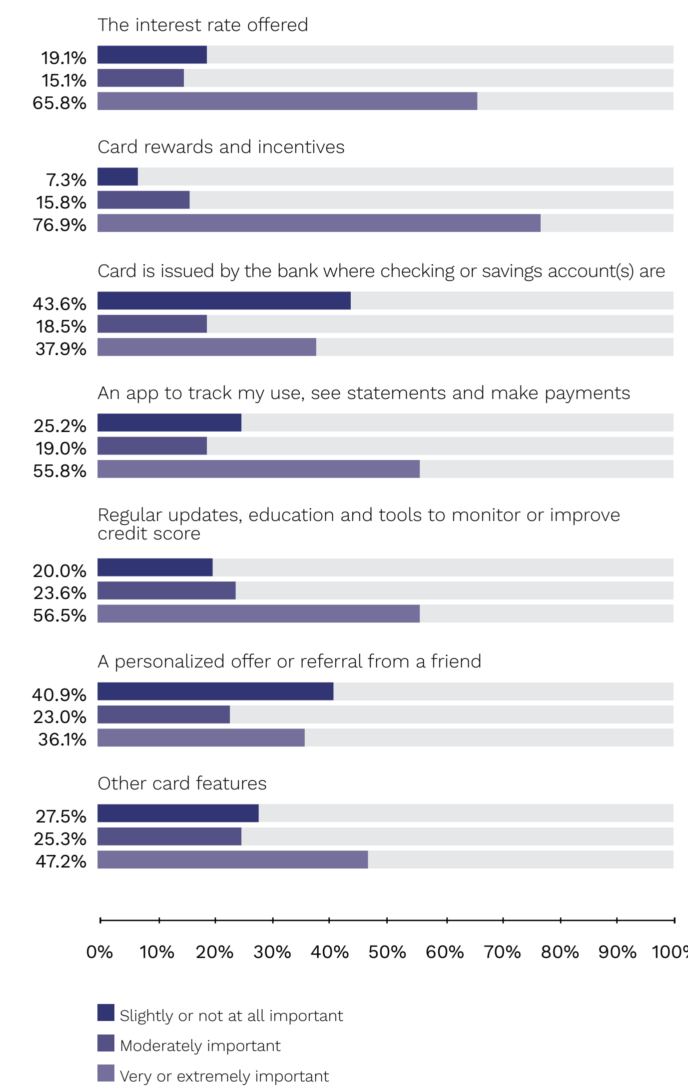


Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

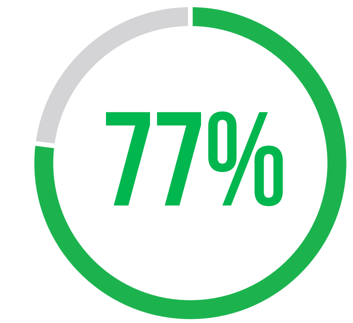
FIGURE 5:

IMPORTANCE OF FEATURES WHEN CHOOSING A CREDIT CARD, BY DEGREE OF IMPORTANCE

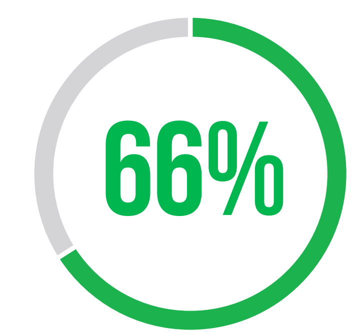
Share of consumers citing perceived importance of features when choosing a credit card



Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report



Seventy-seven percent of consumers feel cash rewards and incentives are "very" or "extremely" important when choosing a credit card.



Sixty-six percent of consumers feel the interest rate offered is "very" or "extremely" important when choosing a credit card.

PART IV:

MILLENNIALS AND CONSUMERS WITH SHAKIER FINANCES DESIRE CREDIT IMPROVEMENT TOOLS.

One-third of millennials and bridge millennials would be highly likely to switch to credit cards with credit score improvement tools.

This rate is almost twice the corresponding share of consumers overall. In contrast, only 14 percent of Generation Z report being likely to switch, which could be attributed to members of that generation being students or just starting their careers and paths to financial health and literacy. Examples of these tools include apps to track usage or regular updates, education and credit score monitoring tools. A notable 57 percent of all respondents say that credit education and score monitoring tools are "very" or "extremely" important when choosing a credit card.

Only 20 percent of Generation X and 5 percent of baby boomers and seniors say they are highly likely to switch to credit cards with tools designed to improve credit scores. Baby boomers typically have a longer and more established credit history, which could explain why they are relatively less interested in switching to cards with credit score management tools at this stage in their lives.

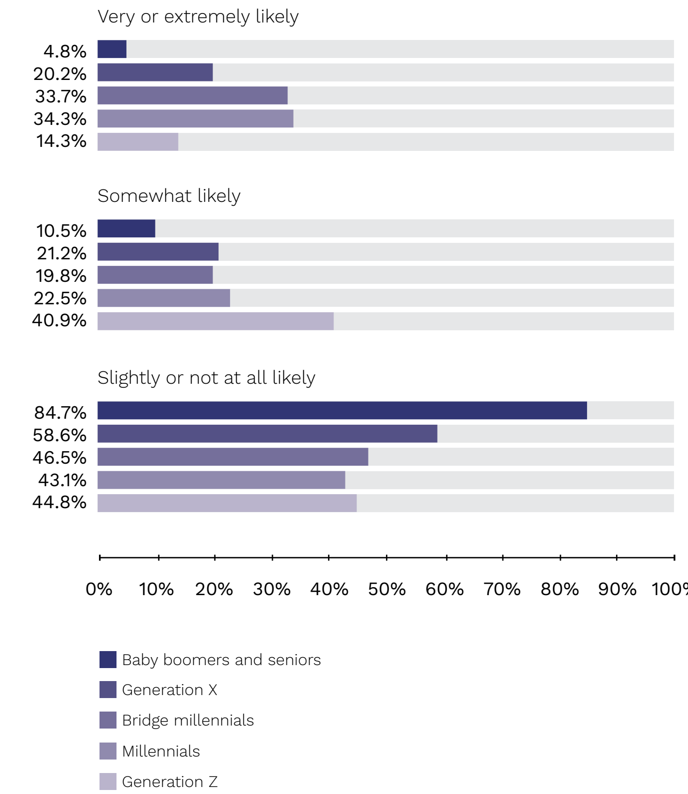
Not surprisingly, consumers struggling with their finances are very interested in credit card offerings with score improvement tools. Thirty percent of consumers with t average or below average credit scores and interested in improving their credit scores. Say they are very likely to switch to cards with these features, as would 43 percent of those living paycheck to paycheck and struggling to pay their bills, figures that contrast sharply with the corresponding share of all respondents, 18 percent. Just 10 percent of those who do not live paycheck to paycheck say they would be very likely to switch for this reason.

These services are just as compelling to consumers who pay their balances in full each month as they are to balance revolvers, with 18 percent of each group saying they would be highly likely to switch to cards with credit score management tools.

FIGURE 6:

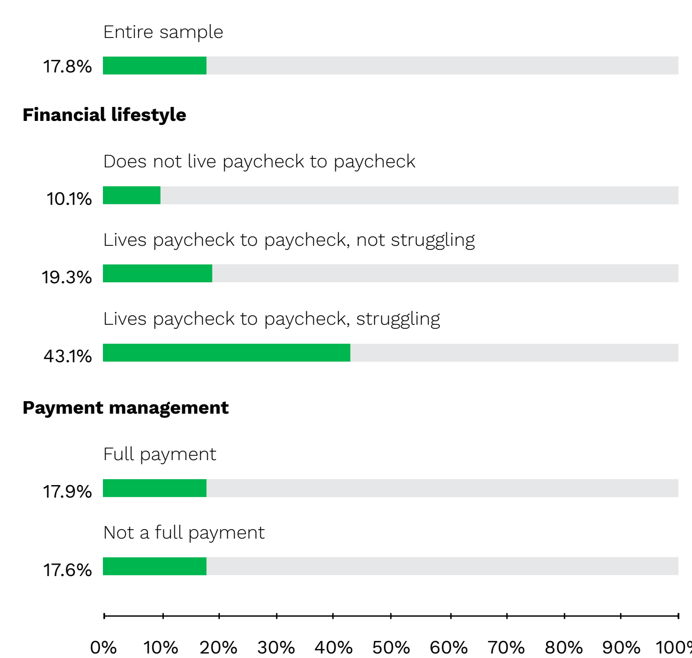
LIKELIHOOD OF SWITCHING CREDIT CARDS FOR ONE THAT PROVIDES TOOLS TO IMPROVE CREDIT SCORE

6A: Likelihood of switching credit cards for one that provides tools to improve credit score, by generation



Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

6B: Likelihood of switching credit cards for one that provides tools to improvecredit score, by financial style, payment management and persona



Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

6C: Likelihood of switching credit cards for one that provides tools to improvecredit score, by those "very" or "extremely" likely to switch

Source: PYMNTS | Elan Credit Score Literacy and Building Credit Report

CONCLUSION

PYMNTS' research finds that more than half of consumers want to improve their credit scores, and consumers say they need help in doing so. Even consumers with good credit scores lack clarity about the details behind better credit scores and are confused about what exactly can be done to improve them. The devil is in the details, because good financial hygiene and having strong habits that improve creditworthiness can give consumers better access to lower-cost credit to finance important purchases and save them significant amounts of money over time. Consumers have a strong appetite for credit score management tools that can help them make better, more informed decisions about their spending. Thirty-seven percent of consumers would be at least "somewhat" likely to switch to cards that offer credit score improvement tools, and 18 percent would be "very" or "extremely" likely. These tools can help banks and other card issuers empower their customers to improve their creditworthiness, strengthening the potential market for additional credit offerings and services.

METHODOLOGY

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ABOUT

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