

**UNDER EMBARGO UNTIL 00:01 ON 7<sup>th</sup> MARCH 2014**

## **YOUNG PEOPLE'S KNOWLEDGE GAP ON CREDIT RATINGS CAUSING FINANCIAL PROBLEMS**

- ***New research shows 22% of 18-25 year olds 'know nothing' about credit ratings;***
- ***A fifth say their poor credit rating has caused financial problems, impacting their work and home life;***
- ***New credit rating campaign begins in support and celebration of Global Money Week (10<sup>th</sup> to 17<sup>th</sup> March)***

New research\* among 18-25 year olds released by the **Money Advice Service** for [Global Money Week](#) (10-17<sup>th</sup> March) reveals a worrying lack of knowledge about credit ratings among young adults, and highlights how it's causing them financial problems. More than one in five (22%) admit that they 'know nothing' about credit ratings – rising to as much as 29% in some areas of the UK.

Two in five (42%) young adults admitted they don't know what affects credit ratings, while a third (33%) do not know why firms search credit ratings in the first place. Many 18-25 year olds wrongly believe credit ratings are checked to prove someone's identity (19%), and to see if someone has a criminal record (12%).

Over half (57%) admit they don't know how a credit rating could be improved, and less than two in five (38%) have checked their credit rating in the past five years. Many (40%) either are not, or do not know if they are, on the Electoral Register – one of the most important factors affecting someone's credit rating.

One in five (20%) said they had missed or been late paying a bill in the last 12 months alone – another key factor affecting credit ratings. A third (32%) of this group said larger than expected bills were the main reason, while 30% reported that it was due to unexpected bills; and almost 1 in 5 (18%) admitted that they had simply forgotten to pay.

However poor credit ratings were not always down to missed payments; 25% of 18-25 year olds who have previously checked their credit rating reported that they found errors in their report.

### **Problems due to poor credit ratings**

The widespread lack of understanding is causing knock-on problems for many young adults with a fifth (20%) saying that their credit rating has caused them financial problems. For example, half in this group (51%) reported trouble getting access to credit; almost a third (30%) said they had problems getting a phone contract; 18% reported that they had trouble getting a job and 22% said they had trouble getting a mortgage.

### **Worrying alternatives**

Overall, 22% of respondents said they had previously been rejected for credit – in many causes causing them to turn to worrying alternatives. Over a quarter in this group (26%) said they instead turned to unauthorised overdrafts when denied credit. One in six in this group (17%) said they used a credit card with a higher interest rate; 19% say they borrowed from friends or family; while 12% in the group borrowed from a payday lender.

## Gender differences

Young women were found to have slightly less knowledge of credit ratings compared to young men with 23% admitting they 'know nothing' compared to 20% of young men. Young women were also more likely to have been rejected for credit – 24% vs. 20% for men.

There was shown to be a considerable difference between young men and women when it came to understanding *how to obtain* a credit rating. Amongst those who had not checked their credit rating in the past five years, 27% of women aged 18-25 said they didn't know how to, compared to 18% of men.

## Variations among 18-25 year olds across the UK

Young adults in the North West **know the least about credit ratings** – a third (29%) admitted they 'know nothing'. This compares to 14% in the East of England and East Midlands where 18-25 year olds have the highest knowledge.

Those in the South West are **most likely to have been rejected for credit** (28%) while those in the West Midlands are least likely (17%).

Young adults in the North East have the **most knowledge regarding improving their credit ratings** – over half (52%) say they know how to. This compares to 38% in Scotland, the lowest in the UK.

Many are putting their credit rating in jeopardy by missing bill payments – nearly a third of 18-25 year olds in Scotland (31%) have missed a bill payment in the last 12 months, whilst in Wales only 13% say that they have.

## ***The wider picture\*\****

It's not just young adults with knowledge gaps about credit ratings. Nearly two-thirds (61) of all UK adults admit they haven't checked their credit ratings in the past five years; whilst the vast majority (74%) were unaware that they could obtain a report for just £2. One in five adults in the UK (21%) who had checked their credit report said they found errors.

Responding to the findings, **Caroline Rookes, CEO of the Money Advice Service**, says:

*"It's worrying to find so many young adults misunderstand credit ratings - not just how they work, but misconceptions about what they are, and their purpose in the long-run. It's especially concerning, given many are actively making - or on the verge of - serious financial decisions – such as borrowing credit or buying a home.*

*"A poor financial decision today - such as missing bill payments – will impact your future financial life; and as this research shows many young people face financial difficulties due to their credit ratings. So as well as understanding how your credit rating is used, you should also check it, to see what lenders and creditors see. If it's not accurate get errors corrected – because these can negatively your credit rating. It's never too late to get your finances in shape. Take steps to improve it today and you will reap the benefits in the future."*

In order to help engender a change in money-habits amongst young people, the Money Advice Service is a key supporter of [Global Money Week](#) – a celebration held every year during the 2nd week of March. Last year's event involved 1 million children, young people and their families, 403 international organizations in 81 countries.

Caroline Rookes added:

*“The Money Advice Service is committed to equipping young people with the skills, attitudes and behaviours they need to manage their money, and we are delighted to be working with Child and Youth Finance International (CYFI) to celebrate Global Money Week in the UK. We're proud to be supporting this international movement, which will involve millions of young people and their families right across the globe.”*

## TOP TIPS TO GET TO GRIPS WITH YOUR CREDIT RATING

- 1. Get your credit report** - before you put in any big applications - e.g. mortgages, loans – check it to help minimise the chance of rejection and put yourself in the best position to improve your rating. Get a copy from any of the main credit agencies: *Experian, Equifax, Callcredit*. You have the legal right to see a copy of your credit report. Always check for free trials too.
- 2. Challenge mistakes** – errors on your credit report will affect your ability to borrow and if you don't get them corrected you may find it harder to get credit. Speak to the credit agency to discuss your report and get errors corrected.
- 3. Improve your credit rating** – if your report shows your credit history isn't in the best shape, there are some easy things you can do to boost your rating. Making sure you're on the *Electoral Register* is a key way, so visit [aboutmyvote.co.uk](http://aboutmyvote.co.uk) to get yourself on it today.
- 4. Pay your bills on time** - Having a good history of paying your bills on time is one of the best ways to improve your rating. Manage your bills efficiently using Direct Debit and speak to your lender about other tools it might offer such as text message reminders.

**ENDS**

### NOTES TO EDITORS

- \*Research conducted among 1,007 UK adults aged 18-25 by The Nursery Research and Planning for Money Advice Service in Feb 2014.
- \*\* Research conducted among 2,039 UK adults by The Nursery Research and Planning for Money Advice Service in Feb 2014.
- Child and Youth Finance International leads Global Money Week – more details: [www.globalmoneyweek.org](http://www.globalmoneyweek.org)

### About the Money Advice Service

The Money Advice Service is an independent organisation. It gives free, unbiased money advice online at [moneyadvice.org.uk](http://moneyadvice.org.uk), over the phone on 0300 500 5000, and face-to-face right across the UK. Set up by Government. It's paid for by a statutory levy on the financial services industry, raised via the Financial Conduct Authority. Its statutory objectives are to enhance the understanding and knowledge of members of the public about financial matters; and to enhance the ability of members of the public to manage their own financial affairs.

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