

Financial Awareness Survey Report
Massachusetts Office of Consumer Affairs and Business Regulation

Introduction

Understanding and managing one's personal finances are important, particularly during a time of high unemployment, rampant internet fraud, and rising debt. The need for greater personal financial awareness and related educational efforts ever increases. The Massachusetts Office of Consumer Affairs and Business Regulation ("Office"), in its mission to protect and educate consumers about their rights, continuously organizes outreach efforts on consumer issues such as identity theft, managing credit and debt, shopping rights, low-cost banking options, foreclosures, and more.

In an effort to better understand financial awareness in the Commonwealth, the Office conducted a survey in April 2012. The survey's primary purpose was to collect data on the awareness among Massachusetts residents of various financial and consumer protection issues. These issues include how residents perceive they manage their finances, how often they review their credit reports, their awareness of laws and concepts on banking and reverse mortgages, and their vigilance in protecting their personal information. The survey was conducted in English and Spanish among a representative sample of approximately 500 Massachusetts residents aged 18 and older through calls made to cell phones and landline phones. The results were weighted to match known demographic parameters (age, education level, and income ranges) with a 4.4% margin of sampling error at the 95% confidence level for the entire sample.

The results of the survey were informative in a number of ways: The results show Massachusetts residents' awareness of various financial issues and also provide insight into trends regarding financial awareness within the measured demographics. The Office will use the analysis of this survey to improve its programs and continue to find new and creative ways to increase outreach and awareness of the critical issues addressed in this report.

Banking

Low-Cost Banking Options for Teens and Seniors

Massachusetts residents aged 65 and older and young people aged 18 and under, as mandated by Massachusetts law, have access to low-cost banking products at state-chartered banks. This includes an 18-65 account, a checking account that does not impose a fee or an associated minimum balance requirement.

Older Massachusetts residents are more likely to know that residents 65 years old and above can get a no-fee checking account at state-chartered banks. About 60% of those aged 60 and over know about 18-65 accounts, compared with about 50% of Massachusetts residents overall. This may be because, as residents get older, they learn about options available to them as seniors in the Commonwealth. Although it is commendable that 60% of those eligible or soon-to-be

eligible for these accounts are aware of them, the Office continues its work at getting this information to the four out of ten seniors who are unaware of this option.

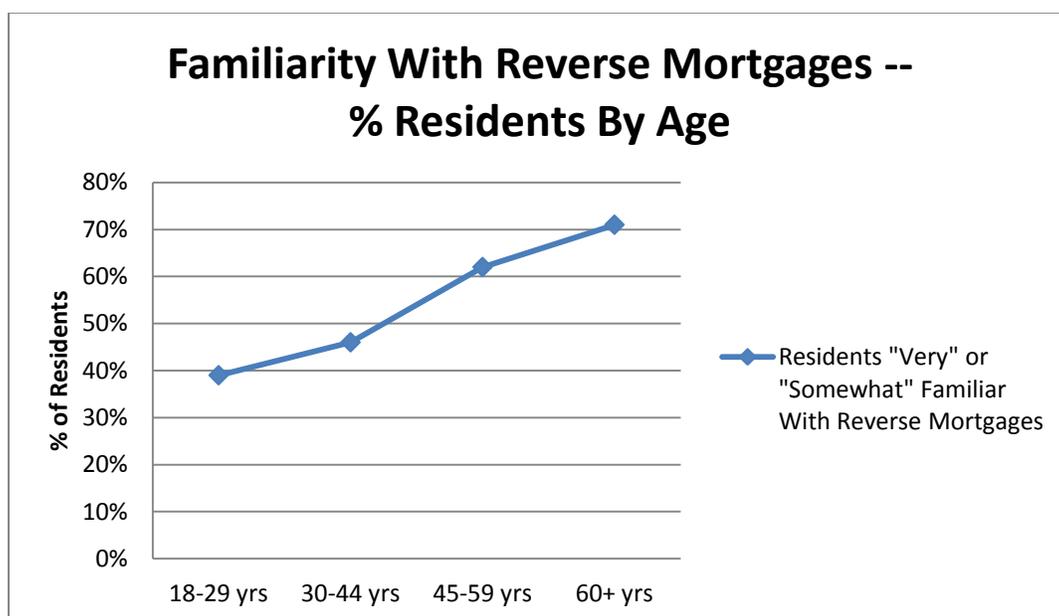
As Americans get older, certain financial matters become particularly important, including how and when to access their retirement plans, social security benefits, living expenses and related budgets, Medicare/health care and medication costs, and banking options. Low-cost banking accounts mandated by the 18-65 law are a good option for seniors and young people with limited funds or a fixed income.

Reverse Mortgages

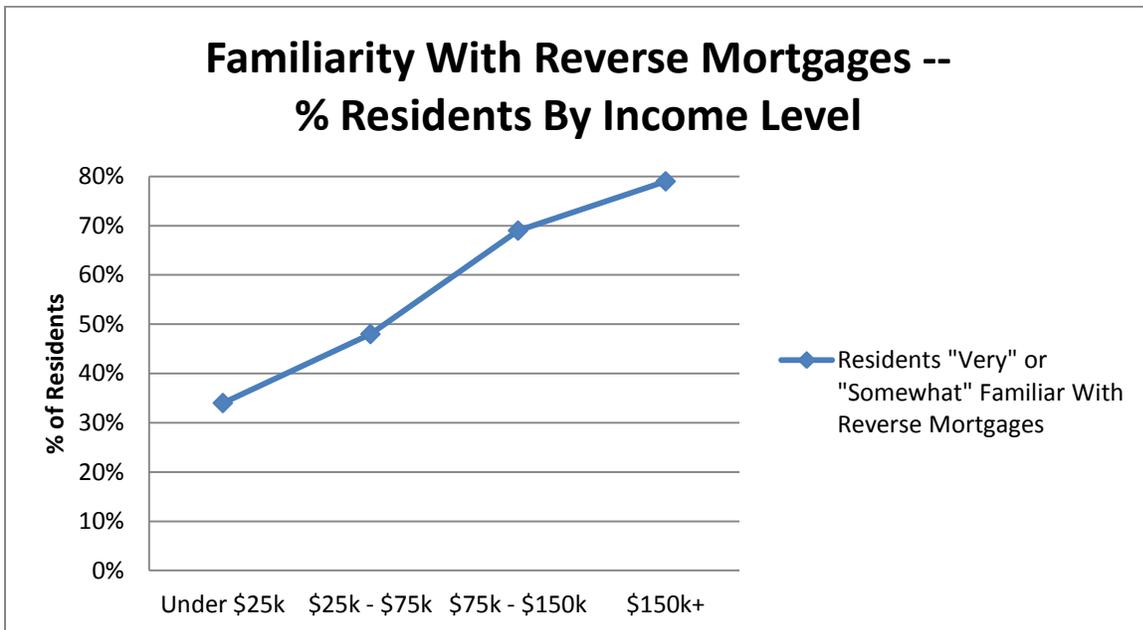
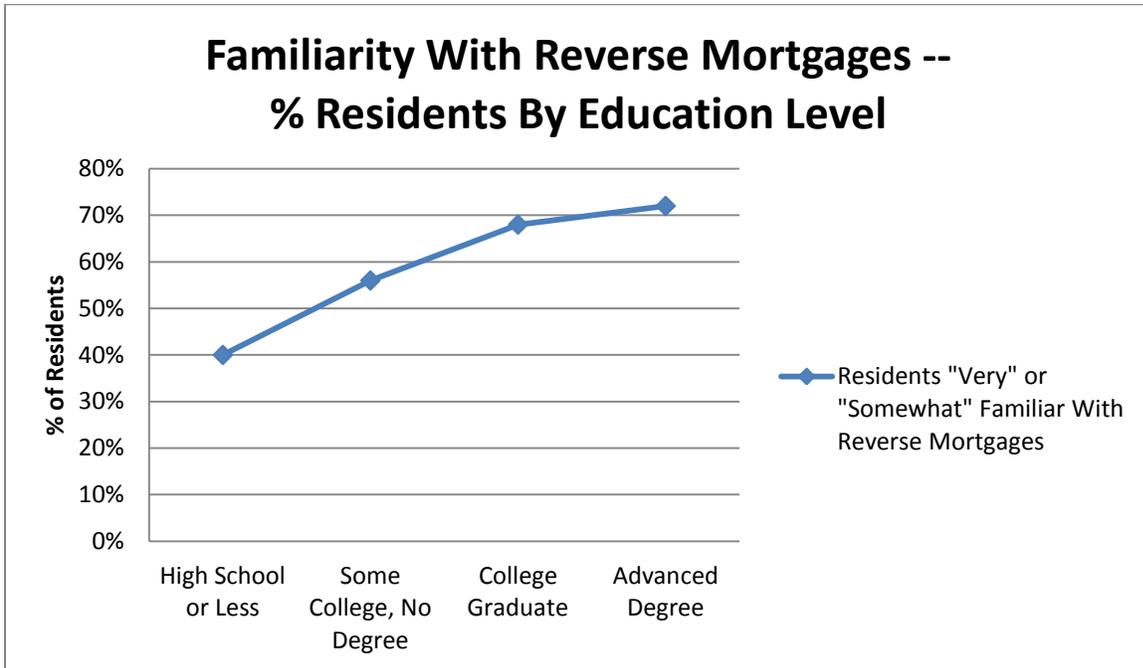
Aging Americans often have new financial decisions to make, but they also have new options available to them (see above 18-65 Bank Accounts discussion). Americans aged 62 or older can obtain a type of mortgage called a reverse mortgage. Consumers should do their homework to determine if reverse mortgages are right for them.

Reverse mortgages allow those aged 62 and older to trade accumulated equity in their home for the monetary value of that equity, though the borrower retains title to the home. The loan must be repaid if the borrower no longer uses the home as a principal residence, sells it, or when the last surviving borrower dies. There are other features of these types of mortgages that must be carefully considered before making the purchase, such as high origination fees and interest rates. Because borrowers retain title, borrowers—and not lending institutions—are responsible for taxes, home upkeep, and other expenses. Borrowers should also consider that the resulting diminishing equity may affect what remains for the borrower’s heirs.

As with 18-65 accounts, the survey results show that age seems to indicate the likelihood of familiarity with these products. About 71% of Massachusetts residents aged 60 and over are “very” or “somewhat” familiar with reverse mortgages, compared with 62% of those aged 45-59, 46% of those aged 30-44, and 39% of those aged 18-29.



Other trends from the survey results show that the higher the level of education or income, the more likely the resident will be “very” or “somewhat” familiar with reverse mortgages. Only 40% of individuals with a high school degree or less reported that they were “very” or “somewhat familiar” with a reverse mortgage whereas 72% of individuals with an advanced degree reported the same. And only 34% of residents in the lowest income range (under \$25k) reported that they were “very” or “somewhat” familiar with reverse mortgages whereas 79% of residents in the highest income range (more than \$150k) reported the same.



Because of the unique features of reverse mortgages, federal law requires that people seeking to obtain a reverse mortgage must first receive reverse mortgage counseling. Massachusetts law requires *in person* reverse mortgage counseling, though at the publication of this document, there is proposed legislation to extend the effective date for that requirement. These counseling sessions provide an important means for consumers to truly understand a reverse mortgage before signing up for one.

The data comparing familiarity of reverse mortgages with education and income levels present a disturbing contrast. Many seniors who opt for a reverse mortgage do so because they are strapped for cash and may fall into lower-income categories. Understanding reverse mortgages, like understanding personal finances, is something that is important across all education, socio-economic, and age categories. The higher percentages of awareness in correspondingly higher-aged populations are encouraging, but as far as informational and educational efforts, there is still more work to be done.

Debit Cards: Liability on Fraudulent Purchases

Almost three quarters (about 71%) of Massachusetts residents believe that they either owe nothing or do not know what they owe if they notify their bank after two days following discovery of a fraudulent purchase on their debit card account, but before 60 days have passed after receipt of their bank statement containing the fraudulent charge. Just over a quarter of Massachusetts residents believe they are at least liable for some of it. Under federal regulations, an account holder could be liable for up to \$500 in that circumstance. The federal regulation, however, can be superseded by state law if the state law provides less liability. In Massachusetts, consumers are only liable for fraudulent purchases up to \$50. The following chart provides a break-down of the consumer’s liability, based on the federal regulation, on fraudulent charges made on a debit card account.

Federal Consumer Liability for Fraudulent Purchases on the Consumer’s Debit Card Account	
<i>When the Consumer Notifies the Bank of Fraudulent Purchase</i>	<i>The Consumer’s Potential Liability</i>
Before the fraudulent purchase	\$0
Within 2 days of discovery	Up to \$50
After 2 days following discovery, but before 60 days following the receipt of statement	Up to \$500

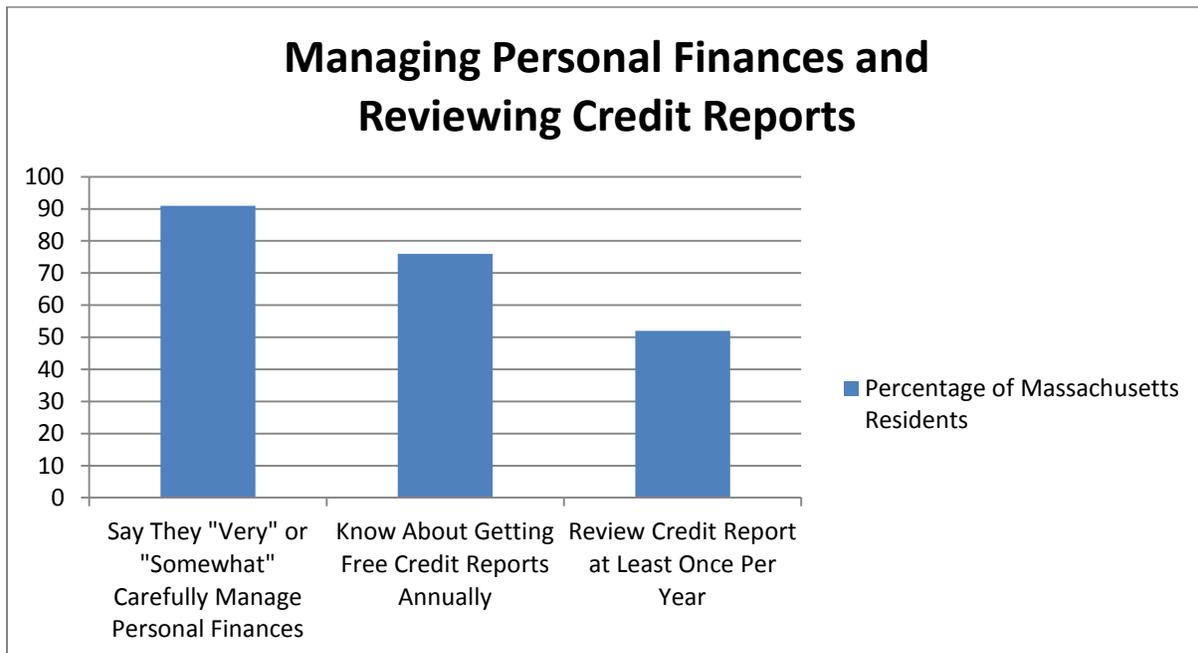
The Office stresses the importance of checking bank statements regularly. Banks are required to send a statement to each customer at least once per month, and many banks offer their customers the opportunity to sign up for online banking, which often includes a way to view recent transactions days after they occur. Consumers should check these statements and keep track of transactions regularly, not only because it may affect monetary liability on fraudulent purchases, but because it is an important step in guarding against identity theft.

Credit Reports

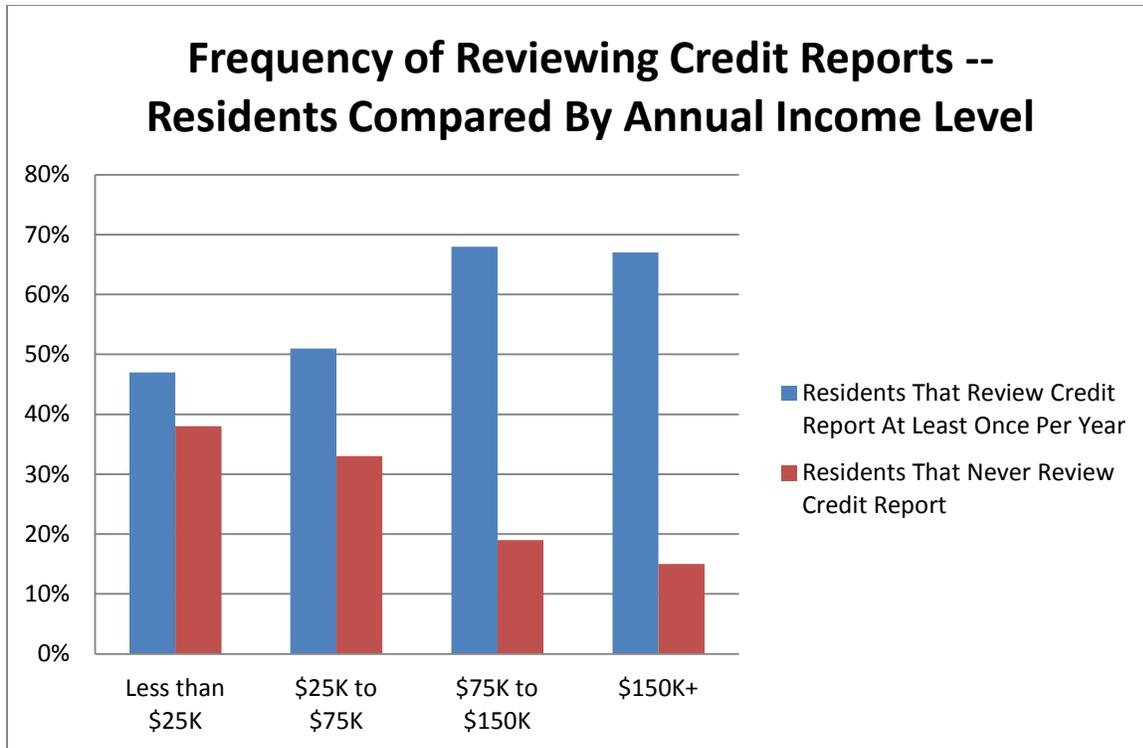
Importance of Reviewing Credit Reports; Obtain Your Credit Report for Free Annually

Reviewing a credit report provides valuable information about credit history that can be used to understand and monitor personal finances. Credit reports also affect how creditors view the credit-worthiness of consumers and gauge the consumer's risk as a debtor for many major purchases, such as home and automobile loans. Credit reports may also affect consumers when they apply for credit cards and are used to determine credit limits.

Many who claim to closely manage their personal finances do not always understand the importance of credit reports and reviewing them on a regular basis: Although 91% of residents say they manage their personal finances "very" or "somewhat" carefully, only about 52% of Massachusetts residents review their credit report at least once per year. Additionally, 76% of residents know they can obtain their credit report at least once per year for free. Unfortunately, not all of those who know this take advantage of it.



Lower-income consumers seem less likely to review their credit report at least once per year. About 47% of individuals in the lowest income range (under \$25k) claimed to review their credit report at least once per year, whereas 67% of individuals in the highest income range (more than \$150k) reported the same result. Additionally, 38% of individuals in the lowest income range claimed to never have reviewed their credit reports, whereas only 15% reported the same in the highest income range.



Consumers can obtain their credit report free annually at annualcreditreport.com, or by contacting the credit reporting companies directly. The consumer must provide limited identifying information to obtain the credit report such as name, social security number, and address, but no billing information is required. The credit report consists of account names, creditor names, account status, account balance, monthly payment amount, and payment history. The consumer should review all of this information for accuracy. If the information is not accurate, the consumer has a right to request the information be corrected by contacting the credit reporting company in writing.

Another reason consumers should review their credit report annually is that such a review can help the consumer spot instances of identity theft. An identity thief can use a consumer's credit card information to make fraudulent purchases and can steal a consumer's social security number and other personal information to open up entirely new lines of credit in the consumer's name. In either case, the consumer should dispute the fraudulent action with the credit reporting companies so that it will not negatively affect their credit.

Most Negative Information Stays on Credit Reports for Seven Years

About 40% of Massachusetts residents know that negative information generally remains on credit reports for seven years. This seven year period generally begins at the time of late payment. About 22% of respondents believe this time period to be between one and six years, while 13% of respondents believe it to be between 8 and 14 years or forever. About 23% of respondents did not know the answer or refused to respond. Below are some examples of the types of negative information that may stay on your credit report and the corresponding duration.

Length of Time Negative Information Remains on Credit Reports	
<i>Type of Negative Information</i>	<i>Length of Time It Remains on Credit Report</i>
Default on credit obligations (such as credit cards)	7 years
Default on student and other loans	7 years
Judgment against consumer in a civil suit	7 years
Paid tax liens	7 years
Discharge of debt in bankruptcy	7 years
Bankruptcy judgment	10 years
Child support/alimony nonpayment	Indefinitely
Unpaid tax liens	Indefinitely
Criminal conviction	Indefinitely

If the consumer disputes the negative information, the consumer may send a written and signed correspondence to explain the reasons for the negative information to future creditors. Consumers should not only make sure to correct inaccuracies in their credit report, but should also work toward improving their credit if they find accurate negative information on their credit report. The best way to improve credit is to cure defaults with creditors and continue to make at least the minimum payment on time. Creditors often work with consumers on repayment plans, so consumers should reach out to their creditors to see if there is a way to work something out. Consumers can also open secured lines of credit, which require the consumer to front money to secure the line of credit. Repairing credit may take a significant amount of time, but doing so is important for consumers who wish to make big purchases, take out loans, sign leases, and more.

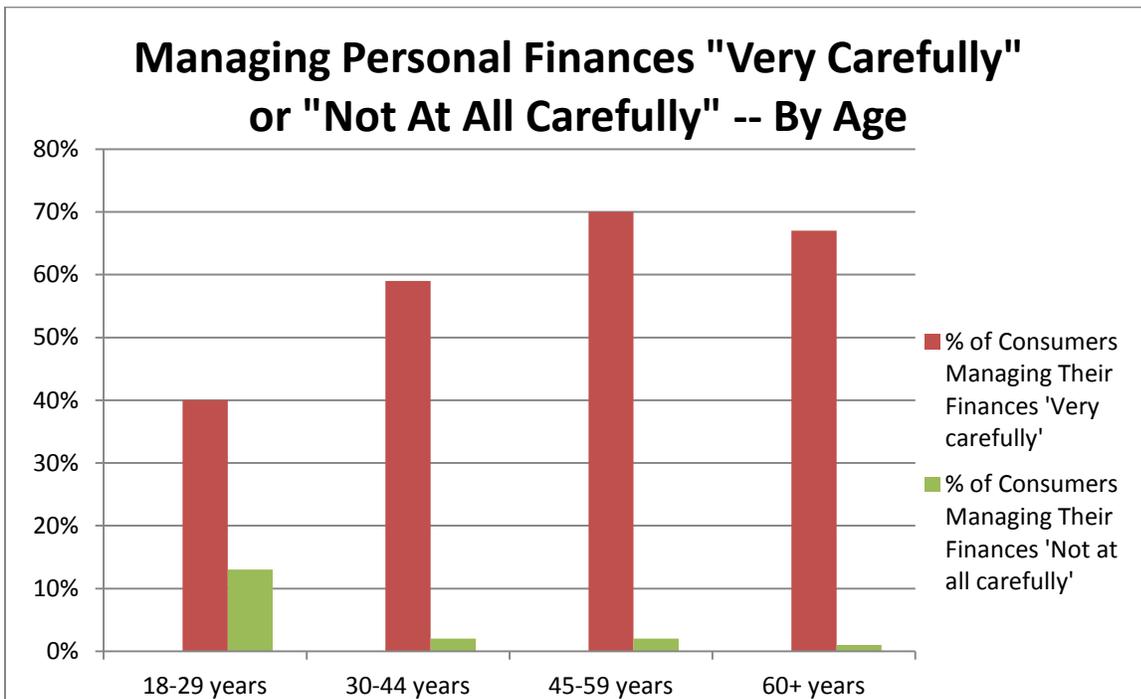
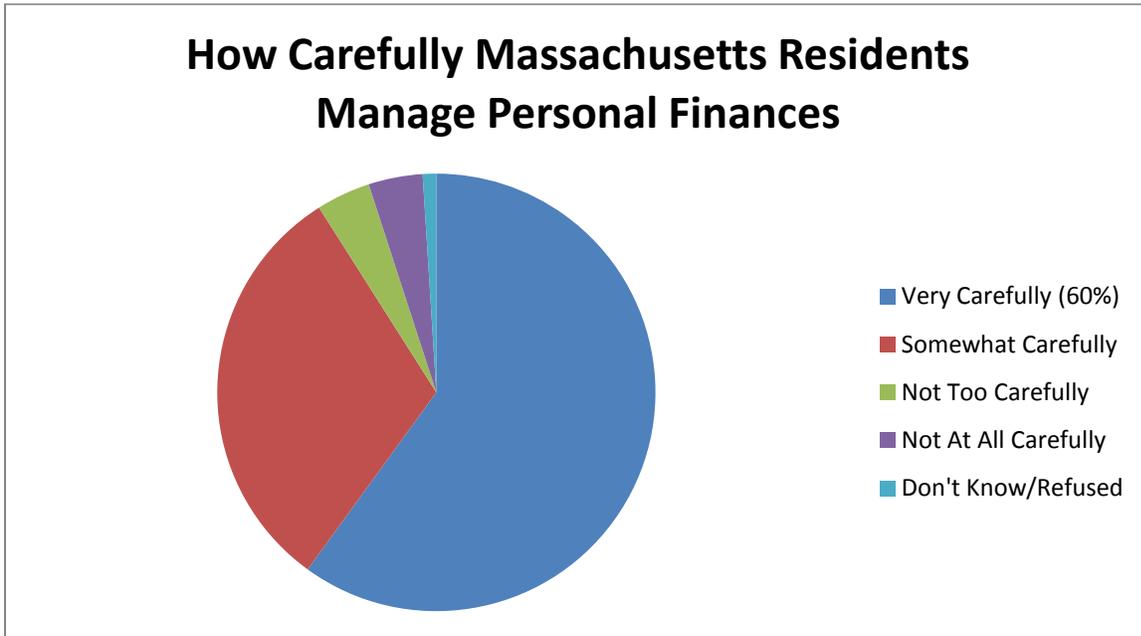
Identity Theft

Properly Managing Personal Finances May Help Prevent Identity Theft

Identity theft affects many Americans nationwide each year, including Massachusetts residents. The 2011 Data Breach Notifications Report, released by the Office in April 2012, found that just fewer than 3.2 million Massachusetts residents have been affected by a data breach since November 2007 when the Data Breach Notification law came into effect. This often means that some personal identifying information, such as names, social security numbers, and credit card numbers, were lost, misplaced, or stolen from businesses that hold this information, such as financial services institutions or restaurants. Fortunately, not all of those residents were victims of identity theft, but the potential is ever-present.

Carefully managing personal finances is one of the best ways to prevent being a victim of identity theft, or at least to mitigate its harmful effects on credit and savings. Consumers can carefully manage their personal finances to prevent identity theft by reviewing bank and credit card statements, reviewing credit reports, and shredding old bills and documents containing personal information. Consumers should add these practices to regular personal financial management, including monitoring retirement plans and other like benefits, budgeting for necessary household items, and keeping on top of paying bills.

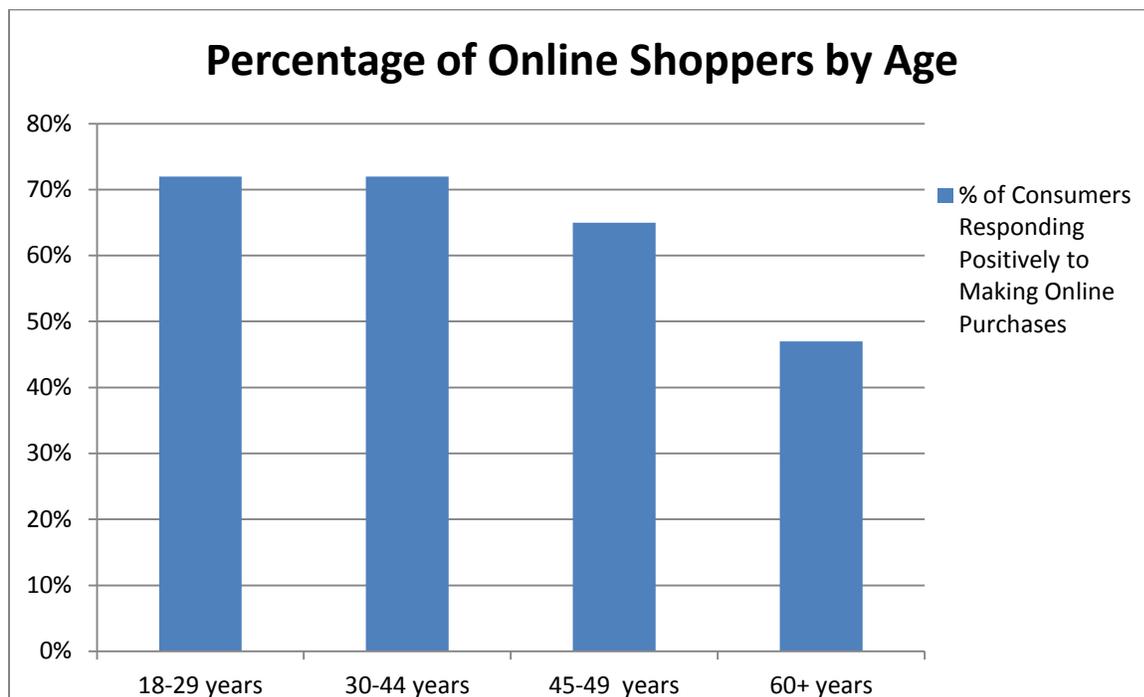
Most Massachusetts residents, about 60%, say that they “very carefully” manage their personal finances. About 31% state they manage their personal finances “somewhat carefully.” Those that believe they manage their personal finances “not too carefully” and “not carefully at all” are both low at about 4% each. This data shows that Massachusetts residents are confident in their ability to manage their personal finances. Also, the older the resident up to age 59, the more likely the resident believes he or she manages personal finances “very carefully.”



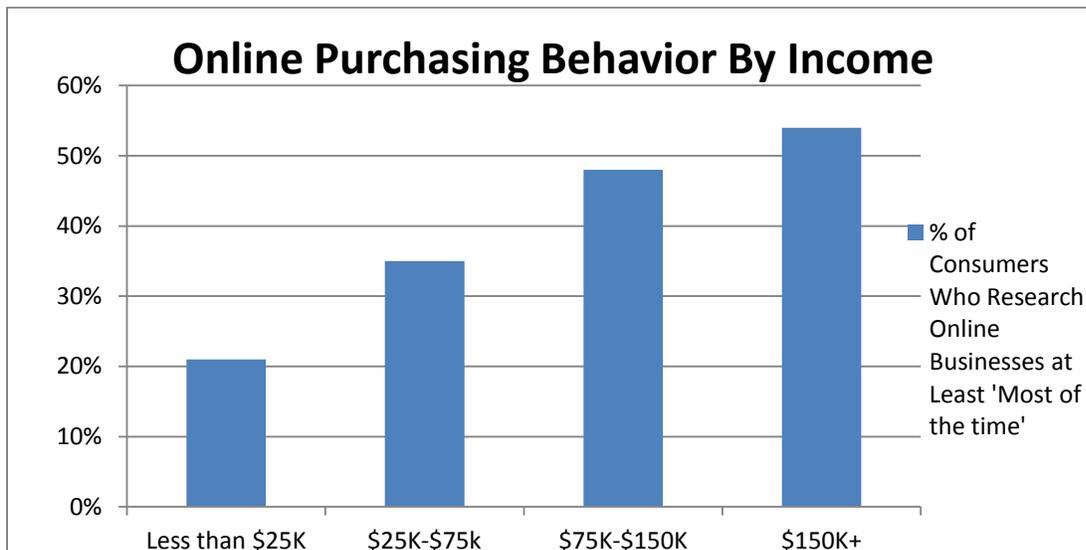
Consumers Should Be Vigilant to Protect Themselves against Internet Fraud

Online shopping is an easy activity that makes consumers' financial information available to numerous unreliable sources. By shopping online at unfamiliar businesses that have not been adequately researched, Massachusetts consumers open themselves up to the danger of fraudulent charges that are often difficult or impossible to reverse. About 64% of residents make purchases on the internet. Among these residents, about 36% said they research unfamiliar businesses at least "most of the time" while 19% said "sometimes" or "rarely." About 5% of respondents said they never research unfamiliar online businesses. Overall, a significant number of individuals shop online but do not perform adequate research to protect their personal information.

Additionally, the survey indicates that younger consumers do more shopping online. About 72% of individuals in the age groups of 18-29 and 30-44 make online purchases, compared with 65% of those aged 45-59 and 47% of those aged 60 and over. There is a similar age-related trend for those that research unfamiliar online businesses, with 46% of those 18-29 researching unfamiliar online businesses at least most of the time, 40% for those aged 30-44, 37% for those aged 45-59, and 25% for those aged 60 and over.



When comparing the same responses by income, the survey shows that higher income consumers are more likely to research an unfamiliar business than lower income consumers. About 31% of consumers making less than \$75k said they at least research an unfamiliar business online before making purchases "most of the time," whereas 49% making over \$75k said the same. Consumers with different education levels also showed varying likelihoods of researching unfamiliar online businesses. About 49% of individuals with advanced degrees said they research a business online before making a purchase at least "sometimes," whereas only 18% of individuals with high school degrees or less said the same.



While these responses show disparities among various categories such as age, income, and education level regarding online consumer habits, all consumers should understand the dangers associated with online shopping and take necessary precautions before shopping online.

Consumer Resources

Implied Warranty of Merchantability

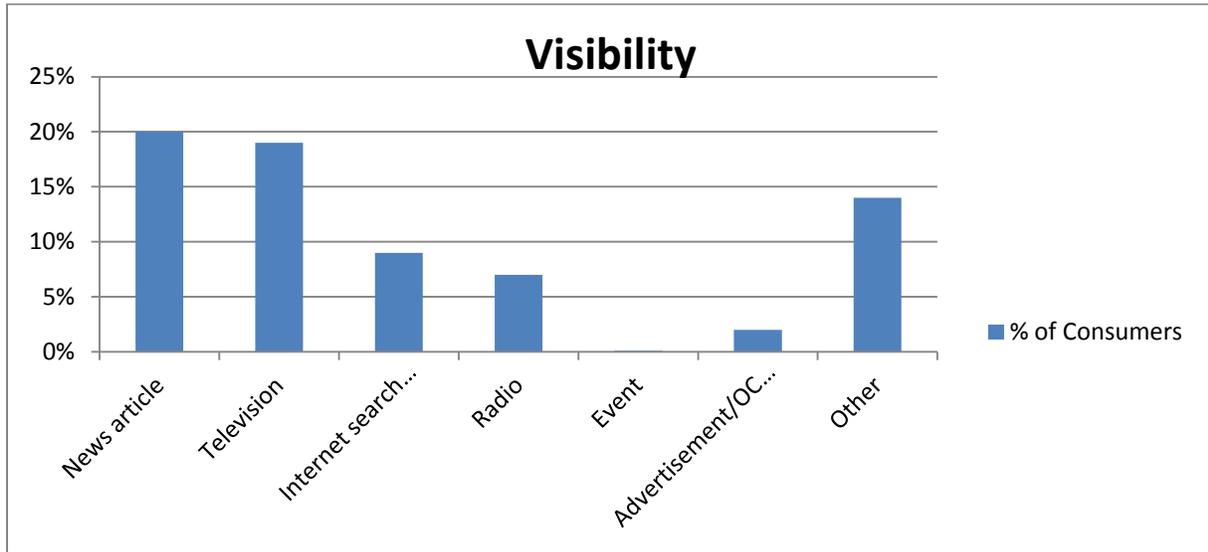
This survey captures not only data regarding behavior that directly reflects one's financial awareness, such as managing one's finances or reviewing one's credit report, but also consumers' understanding of their rights. Consumers who are unaware of such rights may often believe that they wasted money as a result of their consumer activities. For example, consumers have a right called the implied warranty of merchantability, which allows them to have their money refunded for a defective good or return the defective good for one that functions properly.

Many Massachusetts residents are aware of the implied warranty of merchantability law associated with defective goods. When asked under which condition a defective good may be returned, 61% of consumers answered correctly that a good may be returned within the reasonable life cycle of the product. Individuals who responded incorrectly had responses that were about evenly distributed between believing that a defective product may be returned at any time (16%) and that a defective good cannot be returned without an express warranty (14%). About 7% of consumers stated that they did not know or else failed to respond.

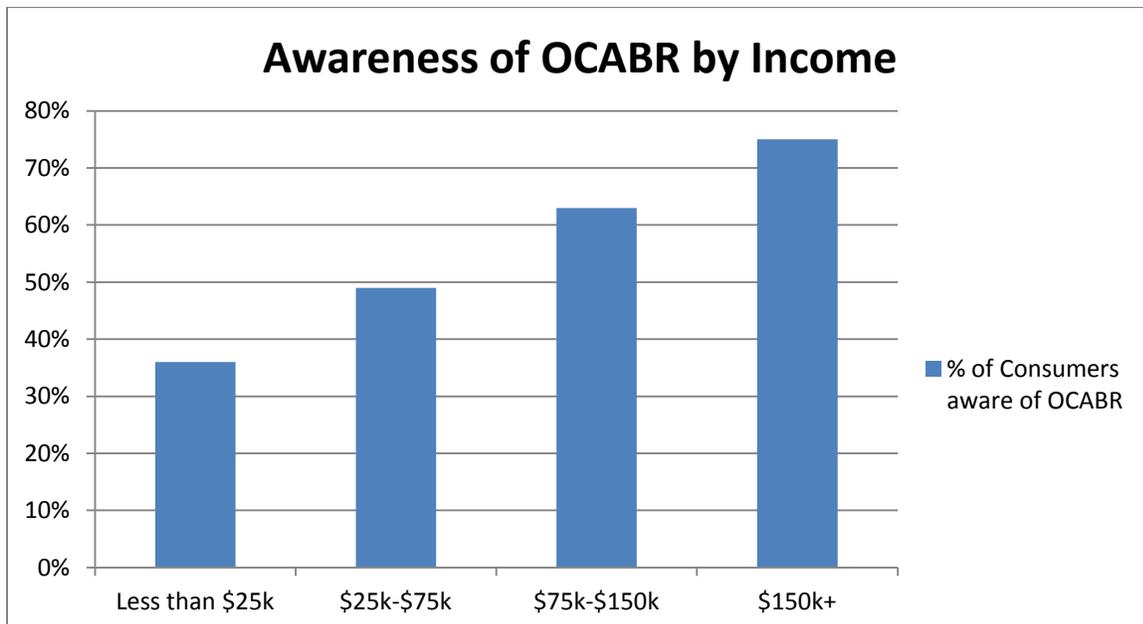
Consumers should know about protections such as the implied warranty of merchantability beforehand so that they may remedy their situations while still possible. Timing is also important when exercising consumer rights regarding fraudulent charges on one's debit card (discussed above). The Office continues to increase awareness of such laws and rights.

OCABR Visibility

While the office continues to engage in activities and outreach to increase its visibility, the survey found that about half of Massachusetts residents (52%) are aware of the Office. Responses indicated that the majority of this awareness was from television (19%) and news articles (20%). About 14% of individuals chose “other.”



Additionally, older residents were more likely to have heard of us than younger residents. About 67% of respondents above the age of 60 stated that they knew of our office. Residents in higher income ranges were also more aware of our office (65%) than individuals in lower income ranges (45%). One major goal of the Office’s programming is to continually increase consumer awareness through community outreach and consumer education.



Broader Conclusions of the Financial Awareness Survey

Understanding personal finances helps protect against identity theft, allows consumers to be better prepared when applying for loans and other lines of credit, makes consumers more savvy when making major purchases, allows consumers to properly identify issues and determine where and how to seek help or find resources to reach a resolution, and generally makes smarter consumers. This financial awareness survey of Massachusetts residents helps describe the state of personal financial awareness in Massachusetts, which the Office will use to revise and target educational programs for consumers.

- 1) **Most Massachusetts consumers believe that they carefully manage their personal finances, though they do not seem to understand the importance of reviewing their credit reports.** About 91% of Massachusetts consumers think they “very” or “somewhat” carefully manage their personal finances, but only 52% review their credit reports at least once per year.
- 2) **Many Massachusetts consumers do not take steps to protect themselves from identity theft.** Only about 52% of consumers overall review their credit reports annually, but higher income individuals are more likely to review it annually, with almost 70% of consumers making between \$75k and \$150k annually that review the credit report at least once per year, while only 48% of consumers making under \$25k annually that do the same. While 64% of Massachusetts consumers make purchases on the internet, only 36% research unfamiliar online businesses at least most of the time. Higher income consumers are more likely to do so: About 52% of those making \$150k per year compared with 21% of those making under \$25k. And about 71% of Massachusetts consumers either think they do not owe anything or just do not know how much they owe when they may owe money to their bank after a fraudulent purchase on their debit card.
- 3) **Massachusetts consumers are only moderately familiar with reverse mortgages.** In general, about 55% of Massachusetts residents are “very” or “somewhat” familiar with reverse mortgages. Older residents are more likely to be familiar, with 70% of residents aged 60 and over “very” or “somewhat” familiar with them, but only 39% of residents aged between 18 and 29 are the same.
- 4) **Massachusetts consumers do not take advantage of available consumer resources.** This may be because of lack of awareness, but for whatever the reason, consumers should be diligent about researching their options. About 50% of residents know about low-cost banking for kids and seniors (18-65 accounts); about 75% of residents know they can obtain a credit report free annually, but only 52% do so; and about 61% of residents know they can return a defective product within the reasonable lifecycle of the product (in exchange for a refund or replacement).
- 5) **About half of Massachusetts consumers are aware of the Office of Consumer Affairs and Business Regulation.** About 52% of consumers overall are aware of the Office, but higher income individuals are significantly more likely to know about the office than lower income individuals. About 75% of consumers making over \$150,000 are aware of the Office but only 36% of Massachusetts consumers making under \$25,000 a year are aware. The most common ways that Massachusetts consumers are aware of the Office include: news article (20% of consumers), television (19% of consumers), and “other,” mostly consisting of word of mouth (14% of consumers).