

Wi\$e Up Teleconference Call
February 28, 2006
“Becoming Credit Smart”
Speaker 1 – Amy Perry

Jane Walstedt: Now, let me turn the program over to Jacqueline Cooke, Women’s Bureau Regional Administrator in Boston, to introduce our first speaker. Jackie?

Jacqueline Cooke: Thank you, Jane.

Amy Perry is a Consumer Finance Educator with the Consumer Credit Counseling Service of Southern New England, a division of Money Management International.

Ms. Perry conducts workshops on credit and budgeting concepts. She speaks conversational Spanish, and has conducted workshops utilizing her Spanish both locally and internationally.

Amy holds a [Bachelor’s] degree in business administration from Bryant University and has six years of corporate finance experience.

It is my pleasure to introduce you to her now.

Amy?

Amy Perry: Thank you, Jackie.

Well, today I’m going to start the call off by talking about credit reports -- what’s in your credit report and how to improve that information.

There are three main credit bureaus – Equifax [www.equifax.com, (800) 685-1111], TransUnion [www.transunion.com, (800) 888-4213], and Experian [www.experian.com, (888) 397-3742] -- that collect personal information about you. They share this information with people who pay to see it. It includes such things as where you live, how you pay your bills, and whether you have been sued, arrested, or filed for bankruptcy.

This information about you is sold to creditors, insurers, employers, and other businesses that use it to evaluate your application or your worthiness.

Now, this information is about you. Don't you think you should know what it says? I'm going to go over what types of information are on your credit report in more detail and who provides that information. This personal information about you [is] provided by you, usually when you fill out credit applications. This information is current addresses, even past addresses, your name, your Social Security number, your date of birth, and where you live - excuse me, where you work.

The other part is credit information. Creditors report account activity usually on a monthly basis. A creditor may belong to one or more bureaus, so that's why your information may vary from credit report to credit report.

When I talk about creditor, it also includes student loan lender. And this information includes the date the account was opened, credit - your credit limit, and the highest balance you've had, who's authorized to use the account, payment history, and your account status.

There's also public records that are included on your report, and these are gathered from local, state, and federal court systems. Such examples are property liens, monetary adjustments, bankruptcies, wage garnishments, and sometimes child support.

Now, all these things will remain on your credit report for seven years, except bankruptcy, [which] remain[s] on your credit report for up to ten years.

Inquiry is a hot topic. This is another thing on your credit report. And this is -- any time you give permission for someone to look up or pull your report, an inquiry is made.

There are two types of inquiry, and they vary. They're very different.

The first is hard inquiries, and these impact your score. An example would be you applied for a new credit card or for mortgage and a new creditor is going into your credit reports to see what kind of rate to give you. Or you just wanted to get that \$25 gift card from Best Buy that comes with a new card.

There's also soft inquiries. Now these don't impact your score. An example would be an existing lender monitoring your account.

Potential lenders – actually, new lenders look at your account to offer you pre-approved lines of credit. Now, this - if you want to stop these pre-approved offers from coming in the mail, you can do so under the Fair Credit Reporting Act. You have the right to opt out for five years or permanently.

Now, I'm going to give you a number for that and a Web site. The toll free number is 1-888-5-OPTOUT [1-888-567-8688], or www.optoutprescreen.com. Now, these are your rights, and you have the right to not get those pre-approved letters in the mail. It also reduces your junk mail.

Now who can see your credit report?

I mentioned in the beginning some people that are looking at your credit report.

They're potential employers. In 2005, 35% of US employers pulled credit reports for new hires.

Insurance companies. They're using them to underwrite insurance. It depends on what state you live [in], but actuaries have found a correlation between a person's credit history or their financial performance and the likelihood of filing a future claim.

Landlords also ask permission from you; they need your permission as [do] the other people. Landlords are looking at your credit report. They want to see if you're moving around, if you're paying your bills on time.

And the good old IRS. If you missed your April 15 deadline, the IRS will be looking and see if you have any other assets if you don't have the money to pay your bills.

Now, how do you get a copy of your credit report? Now this is how you get a copy of your credit report.

Entitled - we're all entitled to a free credit report from each major bureau one time per year. Now I said there were three bureaus. So you're entitled to one from each of them.

There's a strategy. You can pull all three credit bureaus' reports at once, or you can pull one report every four months to monitor your account. Now no one is watching this for you, and it's recommended that you pull your credit report at least one time per year. You need to think of it as another thing to do during tax time.

Now, the Web site. This is -- the only Web site [where] you can get your credit report for free -- it's free for everyone, and it's annualcreditreport.com, www.annualcreditreport.com. If you go to that Web site, there's also a number [1-877-322-8228] and a snail mail address [Annual Credit Report Request Service, P.O. Box 105281, Atlanta, GA 30348-5281] that you can use to call or get your credit report in writing.

Now, other situations you might be eligible for a free report are if you've been denied credit or insurance or employment based on the information in your report -- or you're on welfare, you're unemployed and looking for a new job within 60 days, or if your report is inaccurate because of fraud or identity theft. But you really - it's up to us to get our credit reports and monitor those.

Now, what's in a credit score? We talked about the credit reports. Now, is a credit score the same thing?

Well, a credit score is a numerical forecast that predicts the likelihood you will repay your loans and on time. It's your financial GPA.

Now, your score may affect not only the type or amount of credit offered to you, but at what interest rate you are getting that loan.

A credit score is not part of your credit report. So when you get your free credit report, it does not include your score. You can get your score for an additional cost. I would recommend this as something you might want to look into.

Now, because the information is being provided to the credit bureaus on an ongoing basis, your credit score is calculated at a particular moment in time. It's good to note that when you do get your credit report, if you look at them annually, your credit score will be changing, year over year.

Now the most widely used scoring system is FICO. You may have heard of FICO score. Now this is the Fair Isaac and Company. And within FICO, the scores range from 300 to 850. The higher, the better for you. If you have a score of 850, you're not going to get denied for anything.

Now, FICO is a mathematical weighing of five components. And Jane mentioned this in the beginning. It's important that you know what the components are so you can get that score as high as possible.

Thirty five percent of the score is your payment history. Do you pay your bills on time?

Thirty percent is the amount owed to all creditors. So what is your outstanding debt?

Know that 65% of your total FICO score is paying your bill on time and paying down your debt.

The remainder, 15%, is the length of credit history. An insufficient credit history may have an effect on your score. Now, how that affects us Generation Xers is we opened credit card accounts when we were in college. Maybe you didn't – credit [cards] – they weren't very competitive at that time with points or frequent flyer miles.

So if you're canceling those old accounts out to get new, more competitive types of points or luxuries on the card, you're canceling out some important history for yourself. Now you do not want to do that.

Another 10% is the amount of new credit. Have you applied for new credit recently? Now, this is where inquiries fall.

Now, there is something I didn't mention about inquiries that's really important. If you're shopping around for a good rate for an auto or a car loan or a mortgage, it can actually hurt your credit score.

Now if you do all this shopping within a 14-day period, it counts as one inquiry. So you just want to know how the system works and how to stay on the positive side of it. Shop all around within 14 days for your rate.

The final is 10% - the final 10% of your FICO score is the types of credit in use. The FICO score favors the use of different types of credit obligations -- so a good mix of credit cards from banks, retail store accounts, mortgage, and car loan would be good there.

Now, it's not rocket science how to improve your score, but the fastest way is to know what your score is and to ensure that all the data is correct. And because it's mathematical in nature, the scoring model that is, paying your bills on time doesn't equal perfect credit. That's a big misconception.

Now, the final thing I want to mention is why you should get your credit report. Besides the fact that your employer, your landlord, your local car dealership, and your insurance company are looking at your information, 25% of people find inaccuracies on their reports. That's one out of four people.

Your credit report comes with a dispute form. If you find an error, you need to pull all three credit reports and contact the credit bureau via mail -- that's certified mail with a return receipt. The credit bureau will contact the creditor who has thirty days to respond. The creditor must certify that that information is correct. If they can't or they fail to get back in time, information must be removed from your credit report. And the creditor will contact all three credit bureaus.

If they do find that the information is correct, you need to contact the creditor directly.

The last and final option you have is the 100 word statement that's attached to your credit report anytime anyone pulls your credit report.

That's all I have to say. Thank you for your attention.

Jane Walstedt: Thank you very much, Amy, for that useful information.

