And now I’d like to ask Paulette Lewis, the Women's Bureau Regional Administrator in Atlanta, to introduce our second speaker. Paulette? Paulette, are you with us? She’s not with us, so I will introduce our second speaker. Thomas Pritchett is the senior partner of Allen, Pritchett & Bassett, LLP, a CPA firm which he joined in 1975. He is also the managing partner of APB WealthCare Advisors, LLP, a Registered Investment Advisor and financial planning practice.

Licensed by the Georgia State Board of Accountancy to practice in Georgia and by the Financial Industry Regulatory Authority to practice in several states, Mr. Pritchett is a member of the American Institute of Certified Public Accountants, Georgia Society of CPAs, Financial Planning Association, American Society of Pension Professionals and Actuaries, and the Tenancy in Common Association.

He is a spokesperson for the AICPA Financial Literacy Commission. The AICPA offers free interactive tools, calculators, and articles addressing every aspect of money management and financial planning at www.360financialliteracy.org. And before you start, Tom, I just want to mention to our listeners that because the call got started later -- there were some telephone glitches -- we are going to extend the time of the call to at least 3:15. Tom?


Jane Walstedt: Yes.
Thomas Pritchett: I'm pleased to be participating in today’s conference call concerning a financial subject that affects all of us in one way or another. The subtopic that I'm going to cover today is understanding and managing your credit score. These credit scores essentially are an analytical attempt to define who we are in a credit sense. So that they impact us in many ways, which we’ll cover today.

First of all, let me - to get an idea of what you know about credit scores--let me see a show of hands first of all. Tell me if the… raise your hand if you know what your personal credit score is. And then if you know how it affects you. And if you know how your credit score is determined. I can see that very few of you still have your hand raised, which is not an unusual situation, because most people really don't know those things. By the way, those of you who did raise your hands, we know who you are.

First of all let me talk about what a credit score is. I'm sure some of you are familiar with it or have heard these commercials talking about credit scores and whatever. But a credit score is basically a calculation that’s designed to give the credit issuers an instant picture of how credit worthy an individual is. Consumers with high scores are considered to be better credit risks and therefore more likely to be offered more favorable terms on a loan or a credit card agreement.

The credit score preference for most credit issuers is called the FICO score – F, I, C, O -- which is determined by a company called Fair Isaacs Corporation, thus the name FICO. The score - FICO score - most lenders use it to determine the credit risk associated with someone applying for a credit card, a car loan, or a mortgage.

And each person has essentially three FICO scores -- which are computed for each of the three credit bureaus. Those credit bureaus are Experian,
TransUnion and Equifax. And each one of those credit bureaus submit the information that they have on hand for you, which may be different between the three credit bureaus, and Fair Isaacs computes the FICO score for that credit bureau. And then as you have… as the information changes, as different things in your credit score history change, then that FICO score will tend to change.

The FICO score ranges from a low of 300 to a high of 850. Those scores are used to… as… they're really your initial introduction to someone you're looking to [to] issue you credit for a credit card, a car loan, mortgage or whatever. The… to give you an example of how those credit scores affect you on a--this is based on a mortgage rages at… on November 16 of this year.

If you have a credit score in the higher range, which is in the 760 to 850 range currently - or on November 16--the APR for a 30-year mortgage was… the national average was 5.799%. That would generate a monthly payment of $1,760 on a $300,000 mortgage. With a credit score of 500 to 579 on that same $300,000 30-year mortgage, the APR is… goes from 5.799% to 10.443%, and your monthly payment [goes to] $2,731. So you can see there how … what a dramatic effect a credit score can have on your expenditures and your finances. So it's very important to know what your credit score is and maintain it and monitor it.

The credit score not only affects whether you qualify for a loan and what [interest] rate you will pay. It also affects such things as being able to rent an apartment, being able to get a job, and it also affects the premiums that you pay on car insurance. All of those different entities use credit scores again as an introduction to who you are and how you take care of your credit situations.
The scores - if you don't know what your credit score is -- and many people don't -- it can… you can be a… you can obtain that from a couple of different sources. The… each of the… under current legislation -- I think it passed in 2001 -- you’re entitled to a free credit report once a year. And you can get that from a particular website that’s called www.annualcreditreport.com, which you can log into. And annually they are required to give you a credit report from [each] of the three credit bureaus.

Now when you get that credit report, the credit report itself does not have your FICO credit score on there, so you have to pay $6 to $8 additional to get your FICO credit score. But that’s one way to get your FICO credit score.

Now one thing you have to be careful about in doing that, of the three entities -- Equifax, Experian and TransUnion -- only Equifax sells the FICO scores. The other two agencies sell a credit score called the VantageScore, but the FICO score is the one that’s kept or used by most credit issuers. So if you go that route, then you need to get the Equifax report and pay the additional $6 or $8 to get your FICO score.

Another route to do that is there is a website that Fair Isaacs has that’s called my – m, y -- FICO – F, I, C, O. com (www.myfico.com) where you can go to that site and request a credit report and your FICO score. Just in preparation for this session I had a general knowledge of what my credit score was, but I went to myFICO and took a look at what my credit score was and ran a report. And it was interesting in that I found out some things about my credit score that I really didn't realize.

I, you know, of course found out the exact number on it, but on the site they also tell you the factors that affect your credit score and the things that are positively and negatively impacting your credit score. And one thing that I found was that on my credit score I still had 25 or so different credit accounts
open that I had not used in five or ten years that were affecting my credit
score, because they were showing I had that many outstanding accounts.

So one thing that I did from that is I sent a letter in to the credit bureau and
asked them to remove those from my records. And hopefully that’ll help my
credit score a little bit.

In… the credit score itself is computed by this Fair Isaacs Corporation, and
they have a patented formula to go to in which they do that. But the basics of
the credit score is that there are several components. One, the first component
--and the one that’s weighted the most heavily--is your payment history.
Thirty-five percent of your credit score is based on your payment history--
Basically when… if you pay your bills on time.

Your recent payment history has a greater impact on your credit score than
your say three or four years ago credit history. But those older credit histories
still - payment histories--do impact the score. The next factor is the.. your
outstanding debt -- the amount that you owe. And that computes [accounts
for] 30% of your credit score.

That is looked at in terms of how much you owe relative to the credit limits
that you have available to you. So for instance if you have two credit cards
and you have them maxed out to 60, 70, 80, 100%, then that negatively affects
your credit score. So they’re looking for - again looking for--how well you
manage your credit.

The third factor is credit history length. That affects your score by 15%. That
is looking at the length of your credits history. The longer your credit history,
the higher your score will be. So that old adage about getting a credit card or
something of that nature when you’re… [when you] get out of college and
making the payments on it on a regular basis to establish credit would apply
somewhat in that situation to establish a credit history. Whereas someone who has never had credit, it really sort of counts against you in that part of the score.

The fourth component is called a new credit applications component. And that’s basically… they look at the most… how long has it been since you’ve applied for credit. And what they’re looking for there is if you’re frequently applying for credit, it shows a tendency to have an eagerness to acquire debt, and it can negatively impact your credit score.

And the last component, which affects 10% of your score, is your credit mix. That’s basically the mix of your overall credit between revolving credit, which is credit cards, and installment credit, which is such things as auto loans or mortgages. And there again they’re looking for someone that tends to have more credit card debt as opposed to more mortgage debt or, as far as percentage of their overall debt, tends to score as being a risk to your creditor. So that’s basically how the score is computed.

Jane Walstedt: Are you through, Tom?

Thomas Pritchett: Yes. The only other thing I was going to say is that it is very important not only to know what your credit score is, but to monitor it on a regular basis, because you might find--like I did--that there are things that are negatively impacting your credit score that are an error. So that’s all I have.

Jane Walstedt: Well thank you very much, Tom. It was very enlightening for all of us.