

# Racking Up Points On Your Credit Score

*As Lenders Tighten Standards, Potential Borrowers Focus  
On Ways to Raise Their Ratings; Joining the '700 Club'*

BY ELENOR LAISE

**P**EOPLE USED to obsess over frequent-flier miles. Now, with lending standards getting tighter, they're applying similar energy to improving their credit scores.

Jeffrey Sheldon, a 36-year-old Purcellville, Va., computer-systems administrator, has an enviable credit score of about 740. But he's planning to refinance his adjustable-rate mortgage in June and knows that lenders will be taking a particularly close look at his credit record.

So when Mr. Sheldon was shopping for an auto loan last fall, he first compared rates online. Then, he allowed only two lenders to pull his credit report because he knew that lots of inquiries could drag down his score. Now, he's making extra payments so he can pay off the five-year auto loan in 3 1/2 or four years. He figures the lower debt level will boost his score, which already is near the upper end of the 300-to-850 range of the FICO score, the widely used measure of consumer creditworthiness.

"It's a game you have to play," Mr. Sheldon says. Once every few months, he charges something on one of his lesser-used credit cards because he fears that issuers will close inactive accounts, reducing his total available credit and damaging his score.

The behavior of credit-score strivers can ap-

## Keeping Score

Ways to boost your credit score:

- Get a free copy of your report at [annualcreditreport.com](http://annualcreditreport.com) and **search for errors.**
- Make sure your card issuer **reports your credit limit**; otherwise, your highest balance may be treated as your limit.
- **Don't open lots of new accounts in quick succession** – a sign of risk.
- **Create a blend of revolving credit** – such as credit cards – and installment loans to help raise your score.

pear bizarre to the uninitiated. Many rejoice over joining the "700 club," feverishly apply for new credit cards they don't need, keep drawers full of old credit cards they barely use and fight for the removal of the smallest blemish on their credit reports.

Even consumers with good credit, like Mr. Sheldon, are pushing to improve their FICO scores and with good reason. Whereas just a year or so ago a score of roughly 680 to 720 would qualify for the best rates from many lenders, that bar has now been raised to 729 to 750, credit experts say.

Many lenders ate demanding higher scores because they've been burned

by rising delinquency rates. In the fourth quarter, consumer credit delinquencies hit their highest level since 1992, according to the American Bankers Association. "The rules have definitely changed," says John Ulzheimer, president of consumer education for Credit.com. "Back when they were giving money away to anyone who could fog a mirror, you didn't have to have those stratospherically high scores, unless you were going after something really high-end."

At the same time, new scoring systems may complicate consumers' efforts to monitor and improve their scores. Fair Isaac Corp., the developer of the FICO score, is introducing a scoring model, dubbed FICO 08, that the company says will do a

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better job predicting the likelihood of a borrower defaulting on a loan. These days, a clean credit record isn't just important if you're shopping for a loan: It could even affect your career. Potential employers, landlords and insurers routinely examine credit reports. "Having a good, credit score is far more important now than it ever has been," says Ken McEldowney, executive director of Consumer Action, an education and advocacy group based in San Francisco.

Yet many consumers battling to improve their credit score have found the fight frustrating, costly and even futile. Some pay hundreds of dollars to credit-repair services or adopt strict credit regimens, only to find that their scores won't budge. That doesn't discourage people like Simon Hernandez, who spends hours each quarter studying his credit report as part of his quest for a score of 750. The 34-year-old Denver respiratory therapist plans to buy a house sometime next year and fears his score in the mid-600s won't get him the best rates. He has two credit cards that he uses for gas and groceries and has sworn off applying for any other type of credit. Despite his diligence, he occasionally sees his score drop for no apparent reason. "I've spent hours looking to see if I'm missing something on my report," he says.

The basic steps to build and maintain a good credit score haven't changed: Pay your bills on time and don't max out your available credit. Payment history accounts for about 35% of the FICO score, while the amounts you owe – including the number of accounts with balances and the fraction of available credit used on credit cards

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## *Consumers shopping for a loan can protect their credit score by moving fast.*

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– accounts for another 30%. Other factors include the length of credit history and the types of credit used. Another key step: Get a copy of your credit report. At [annualcreditreport.com](http://annualcreditreport.com), you can get a free report from Equifax Inc., Experian Group Ltd. and TransUnion, LLC, the main credit-reporting companies that provide records to lenders. (Consumers generally must pay to get their actual FICO scores.) Search reports for mistakes—more than a quarter of reports contain errors, according to a survey by the U.S. Public Interest Research Group, a Washington-based advocacy group. Dispute errors with the credit bureau as well as the lender. If the lender can't verify the infor-

mation within 30 days, it will typically be removed from the report.

Also note whether credit card issuers are reporting a credit limit for your account. Issuers don't always report these limits, and that omission may cause your highest balance on the card to be treated as your limit.

That can make it appear as if you're using most, of your available credit, dragging down your score.

Consumers shopping for a loan can protect their credit score by moving fast. The FICO system, aiming to distinguish between a search for lots of new credit and comparison shopping for a single loan, ignores all mortgage and auto-loan inquiries made in the 30 days before scoring. If you find a loan within that period, the inquiries' won't drag down your score while you're rate shopping.

Some popular strategies to boost credit ratings can actually backfire. While some consumers assume that applying for new credit will raise their available credit and boost their score, "You don't want to increase your limits in a short period of time because that can be a great sign of risk," says Rod Griffin, senior manager of public education at Experian. And though it may seem prudent to close old credit card accounts that you're not using, that can also sink your score.

# FINANCE

## edit Score

New credit-scoring models, meanwhile, are putting new wrinkles into the credit-repair game. Fair Isaac's new FICO 08 scoring model, for example, disregards "authorized user" records when calculating scores. Bottom line: People's credit scores will be affected by cards on which they're named as account holders, not authorized users. Experian and TransUnion plan to offer lenders the new scores in coming months.

Fair Isaac took this action after concerns were raised about credit-repair companies charging consumers to be listed as an authorized user on a credit card of a stranger. The new FICO model means people who have little credit history aside from their authorized-user status should apply for their own cards or get listed as a joint account holder.

Relative to older versions of FICO, the new model also generally places more emphasis on having a variety of credit types, such as installment loans and revolving accounts like credit cards, while increasingly penalizing people who use a big chunk of their available credit. Since the credit bureaus have developed their own scores to compete with FICO, consumers should know which one they are getting when they order their credit score. FICO scores from the three main credit-reporting companies are available at [myfico.com](http://myfico.com).

Some consumers are discovering that all their tinkering is having

### Fixing the Score

A pristine credit record is particularly valuable when financial institutions are tightening lending standards. Below, some tips on boosting your FICO score, the widely used measure of consumer creditworthiness:

#### What to Do

- Order your credit report and search for errors. You can get free reports from [annualcreditreport.com](http://annualcreditreport.com). Dispute mistakes.
- Pay your bills on time. Your payment track record accounts for about 35% of your FICO score.
- Be patient. Negative information like late payments will generally drop off your credit report after seven years.
- Maintain a healthy mix of credit. A blend of revolving credit, such as credit cards, and installment loans can help boost your score. This is even more important under FICO 08, a new scoring model.
- Consider applying for your own credit cards or becoming a joint account holder if you're listed as only an 'authorized user' on a card.

#### What Not to Do

- Don't max out your available credit. Keep credit-card balances low relative to your credit limit. This is even more important under FICO 08.
- Don't dawdle when shopping for the best rate on a loan. Confine loan shopping to a few weeks so that credit inquiries won't weigh 0 your score.
- Don't open up a bunch of credit-card accounts you don't need, thinking the higher level of available credit will boost your score. Your FICO score will generally drop a few points with each new account.
- Don't close old credit-card account in an attempt to improve your score. You'll lower your total available credit, which could damage your score.

Sources: Fair Isaac, WSJ research

little effect. Darrell Booker, 30, a database administrator in Richmond, Va., has tried all sorts of strategies to boost his score. Over the past year or so, he has tried to get some late payments removed from his credit report, disputed paid account that showed up on his credit report as unpaid and paid hundreds of dollars to a company that promised to help him clean up his credit. But the only real boost to his score came when he focused on paying off his

credit cards.

"Let me focus on things I know I can totally control," he says, "and that's reducing my debt."

#### QUESTION OF THE DAY:

When is the last time you checked your credit score? Weigh in, at [WSJ.com/Question](http://WSJ.com/Question).