



7 Strategies to Increase Your FICO Score in 2011

There's probably nothing you can do in 2011 that will positively affect your finances more than improving your FICO score, or the "number" that lenders use to determine your creditworthiness. Your score indicates your place on a credit scale (from 300-850) developed by the Fair Isaac Corporation, and is used by credit card issuers, banks, insurance companies, mortgage lenders, landlords, department stores, car dealerships, and even some employers to determine what type of credit risk you are.

The problem for consumers lies in the continually changing credit rules. The activities we've used in the past to increase our scores may now cause them to go down. Further complicating matters is the fact that an excellent score has, until recently, been commonly known as 720 or higher, but with current economic conditions and recent rule changes, this ideal target number has gradually climbed as high as 750. These numbers may seem unattainable to some, but now is an ideal time to look at your score, then forget what assumptions you've made or what you've heard in the past and follow these seven positive strategies to increase your FICO score in the coming year.

- 1) **Review the point structure** — FICO has now revealed how many points your score might go down through specific financial actions, so avoiding these actions is essential to improving your score. Here are the activities and the number of points each could reduce your score: (1) **Bankruptcy**: -130 to -240 points; (2) **Foreclosure**: -85 to -160 points; (3) **Debt Settlement**: -45 to -125 points; (4) **Late payments**: -60 to -110 points; (5) **Using too much of your available balance**: -10 to -45 points.
- 2) **Use old cards** — We were told for years to cut up or cancel old credit cards. Now, you want to periodically dust off those old credit cards sitting in a drawer and use them for small charges. Pay off the balance within a month to avoid interest. The key is to show activity on the card since 15% of your score is based on your credit history. The longer your credit history, the higher your score will be.
- 3) **Increase available credit** — The old 50/50 rule we used in the past is long gone. Today, creditors want to see that you are using no more than 20% of your available credit; less than 10% is even better. Lenders may not authorize it, but with the credit market easing slightly in 2011, ask for a higher credit limit...and then don't use it! Since 30% of your FICO score is based on the percentage you owe divided by the total amount available, keeping your spending under 20% is a great way to increase your credit score. **Caution:** Credit card companies may also lower your available credit, especially if you aren't using a card or, in some cases, for no reason at all. If this happens, it could *immediately* reduce your score. For example, if you owe \$100 on a card with a \$500 limit, you are only using 20% of your credit limit. If the card company reduces your available credit line to \$200, and you still owe \$100, you are now using 50% of your available credit. If this happens, contact the lender immediately, ask for a supervisor, and request that they increase your credit limit to the original amount (or higher). It doesn't always work, but persistence can pay off.
- 4) **Pay on time** — Sounds pretty obvious, but unfortunately, many people think paying a day or two late is no big deal. 35% of your FICO is based on credit history, so paying on time is crucial. As noted above, making one late payment can reduce your score as much as 110 points!
- 5) **Avoid co-signing for others** — This will show up on *your* credit report and could negatively affect *your* score if the individual goes over 20% of the credit limit or fails to make a payment on time. Just one incident could reduce an "Excellent" rating down to a "Poor" rating, and increase the interest *you* pay on loans and insurance. **Caution:** While the new credit card rules require a co-signer for minors under 21 who apply for a credit card, many companies are not adhering to the new rules. Be sure to warn the young adults in your life of the hazards of applying for and misusing credit cards during their early years. A couple of mistakes may prevent them from finding a place to live, purchasing a car, buying insurance at a reasonable rate, or even obtaining a job.
- 6) **Limit applications for loans or credit cards** — Since 10% of your score is determined by the number of new applications, inquiries, or credit you apply for, if you don't need additional credit this year, avoid signing up for new cards or giving approval to anyone to look at your credit score. Just sit tight and gradually watch your score increase. **Money-Saving Tip:** It's a misconception that checking your own score frequently will negatively hurt your credit; your score is not affected when *you* check it. You can obtain a free credit report (your history, not your score) once a year at no cost from each of the three credit reporting agencies ([Experian](#), [Equifax](#), and [TransUnion](#)) by using [AnnualCreditReport.com](#). However, since the FICO number is so important for consumers today, you may want to consider subscribing to a service that gives you *unlimited* access throughout the year to both your credit history *and* your credit score with all three agencies. This should cost no more than \$12-\$15/month. **New:** A federal regulation took effect January 1 that requires credit card issuers and other lenders to give you one-time access to your credit score at no cost if you've been turned down for a loan or they've raised your interest rate due to a lower credit score. Be sure to take advantage of this new benefit!
- 7) **Avoid disputes** — This little-known trap is hurting a lot of consumers today. If you haven't paid a parking ticket, a medical bill, an old library charge, or a utility statement because of a dispute, these charges could end up in your credit report and negatively affect your credit score. Resolve all disputes and settle all payments as quickly as possible or work out terms to pay them.



We hope these strategies help you increase that all-important FICO score in 2011.

"Credit is like a looking-glass, which when once sullied by a breath, may be wiped clear again; but if once cracked can never be repaired."

— Sir Walter Scott