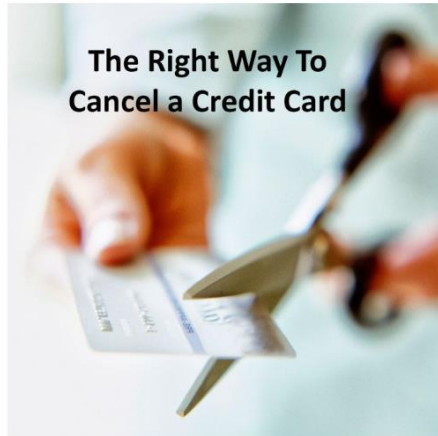


Will it Hurt Your FICO Score if You Cancel a Credit card?

August 19, 2019 Erik J. Martin Credit Cards, Personal Loans



Looked through your wallet or purse lately? Chances are you've got a lot of plastic in there — the kind produced by VISA, MasterCard, Discover, and various big box retail stores. Having all those charge cards in your pocket can create a lot of temptation to use them. That begs a question: Should you cancel a credit card or two?

Before you close a credit card, it's important to weigh the pros and cons. When used responsibly, credit cards are convenient and flexible. But there are potentially serious downsides.

[Want a credit card alternative? See personal loans and lines of credit](#)

Credit card advantages

Let's face it — credit cards make spending easy. With a high enough limit, you can spend thousands of dollars instantly — online or in-person. That's quite a user-friendly perk. It makes it easier to shop for big-ticket items without the risk of carrying cash. Or bouncing checks.

You may be able to actually *make* money by using credit cards with miles, cash back or other rewards. Just understand that these cards come with higher interest rates. If you carry a balance, the extra charges will probably offset the value of the rewards.

And a high line of credit can serve as an emergency fund if your emergency savings account isn't yet in place. That card could be a lifeline in pinch if you need to make a sudden major or emergency purchase.

Using credit cards and paying off the entire balance monthly on time can help you build good credit history. This helps when you want to apply for a loan or credit account with another issuer.

Consumers with higher credit scores get more and better offers from lenders. So you'll pay less for credit when you finance a house or car.

Finally, having a lot of available credit, but not actually using it — can increase your credit score. That's because your utilization ratio (how much credit you use divided by how much you have) makes up 30% of your FICO score.

[Related: Create "Emergency Savings" With a Personal Loan](#)

Why you might want to keep your credit cards

Closing a credit card may decrease your credit score. If you have cards with limits totaling \$10,000, and you owe \$1,000, your utilization ratio is just 10%. That's considered very good and helps your FICO score. But if you cancel an unused card with an \$8,000 limit, you now have just \$2,000 in available credit. And you're using 50% of it. That can lower your score quickly.

You don't want to ditch all of your credit cards because they do offer convenience — shopping online, renting hotels and renting cars is just much easier if you can provide a credit card number. They also offer more protection when traveling than cash or even debit cards.

If you are responsible with debt, not prone to carrying balances and adept at working the rewards offers without taking on debt you don't need, keep at least some cards. You know which ones — the ones with the best rewards and lowest fees. If you pay on time but tend to carry balances, look for cards with the lowest interest rates and plan to pay them off over time.

[Related: Credit Cards vs Personal Loans](#)

Why cancel a credit card?

Having a lot of available credit can boost your FICO score if you don't use it — the utilization ratio comprises 30% of your score. But too many accounts, or owing too much on credit cards has the opposite effect. And too much debt can tank your score.

Carrying more credit cards could mean taking on more debt. You may not intend to. But a recent survey from the [Consumer Financial Protection Bureau \(CFPB\)](#) found that *two-thirds* of "actively-used" credit cards carried balances from month-to-month. *Having* more credit may lead to *using* more credit.

This is apparently a pattern that's hard to break out of. "Overall, revolvers are likely to continue borrowing on their card," says the CFPB. If you habitually carry balances on credit cards, paying them off and canceling them may be your best way out of a costly situation.

The cost of credit

That means you can rack up major interest charges if you don't pay off your balance in full and on time every month. Consider that the average card APR is over 17% as of this writing. That's a good reason to cancel a credit card, particularly if you can't keep your spending under control or pay off your monthly balance.

Many credit cards charge annual fees. These can be \$100 or more yearly. If you don't use your card often or get any points or other benefits from it, it's probably smart to close that card.

Potential security breaches

Here's another good reason to nix that credit card: It can be lost or stolen. A bad actor can use that pilfered card to steal your identity, open new lines of credit in your name, and ruin your credit. So, if you have an old card gathering dust in a drawer or that you barely use in your wallet, your best bet may be to cancel that account.

Yes, closing a credit card may lower your credit score. But the good news is that cancelled accounts with positive usage information can remain on your credit report for up to a decade.

[**Related: Personal Loan for Debt Consolidation \(Wipe Credit Card Debt Clean\)**](#)

Choose the card(s) to cancel

Don't just pull out your plastic and snip it in half with a pair of scissors. Cancel your card(s) the right way to save money and preserve (or even improve) your credit rating.

Select the best card to or cards to cancel. You may be canceling for one of many different reasons:

- The annual fee is too high
- Your credit score is lower because of "too many accounts" according to FICO
- You don't use it and don't want the risk of an open account
- You're trying to simplify your life
- You're transferring the balance to a card with a lower interest rate
- You must pay off the card as part of a debt management plan
- You're paying off the card as part of a debt consolidation arrangement

The impact cancellation has on your FICO may be of little concern if you don't use much credit. If, after canceling the card, your utilization ratio would be under 30%, you can probably cancel any card with little damage to your FICO score.

If you are paying off and closing accounts to get your debt under control, your FICO score should not be your primary concern. The FICO score serves as an *indication* of your financial health. But your debts, income and savings *are* your actual financial health. Get your debts paid and close the accounts if that's what it takes to stop spending. Your score will recover.

If you carry balances, you probably want to keep open the accounts with lower interest rates. But if you don't, rewards or lower fees might be most important. And if you're trying to decide between two cards, keep the older account open. Closing newer accounts can increase the average age of your accounts, which can help your score.

How to cancel a credit card the right way

Be sure you've redeemed any points or rewards remaining on the card. You don't want to close the account before receiving any perks you're eligible for.

Second, pay off your complete balance. If you think that might take a bit longer than expected, consider contacting the credit card company (using the phone number on the back of the card). Ask them to freeze the card until your balance is paid. This is a smart safeguard in case your card is stolen or you're tempted to use it again before canceling it.

Once you've paid off the card, call the issuer again and request that your account be cancelled. Remember — it's your right to terminate the card and the account, so don't back down if they try to talk you out of it.

Later, check your credit reports to ensure that the account has been closed without any complications. It's best to wait until a few weeks after you cancel the card before destroying the card. Once a year, you can access a no-charge copy of your credit reports from each of the big three credit bureaus by visiting [AnnualCreditReport.com](https://www.annualcreditreport.com).

Protect your identity and credit score

Finally, it's time to terminate the actual card. You want to make sure no bit of vulnerable information on that credit card remains intact for thieves to exploit. So it's best to use a heavy-duty paper shredder that's equipped to destroy credit cards.

Or, you can cut it up finely with a strong pair of scissors; just make sure you trim away all the sensitive numbers and cut through the EMV chip. If the card is too thick or made of metal, arrange to send it to the issuer. Later, they can confirm that the card has been properly destroyed.

The moral to the story? Think carefully before you choose to cancel a credit card. Understand how this move can impact your credit score and credit report. And be sure the card is properly destroyed.