

Consider your FICO score before closing credit card accounts

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Karin Price Mueller/The Star-Ledger



Guido Krzikowski/Bloomberg News

Q. I'm really angry with my three credit cards, all from different banks. They've all lowered my available credit and one added a new annual fee. I have great credit and I'm thinking about canceling these cards and starting new with some of the offers I've received. Suggestions?

Credit concerned

A. There are lots of changes for credit cards these days, and while many consumer protections are absolutely an improvement, lots of cardholders are faced with new choices.

President Obama signed the Credit CARD act of 2009 into law on May 22, 2009. The end result of this new federal credit card law is ultimately increased transparency and more user-friendly terms, but at a higher up-front initial cost for many consumers.

"Unfortunately, the law is leading to the return of annual fees, fewer reward cards and sometimes a disappearance of the 'grace period' we have gotten used to," said Marnie Aznar, a certified financial planner with Aznar Financial Advisors in Morris Plains.

She said banks and other card issuers have been aggressively implementing new fees or raising existing ones in an effort to make up for any potential lost revenue they expect to experience as a result of the new act.

To your specific question, Aznar said if you have a long credit history with any of these three cards, you should not close the accounts.

“Doing so could actually have a negative impact on your credit score,” she said. “When you close the account, your history for that credit card is gone and will no longer be included in the calculation of your FICO score. ”

If you have received good alternative offers in the mail, you may want to consider opening another card, but be very wary of fine print and promotional offers that may expire in a short period of time.

Before you make a move, call the cards to make sure there is no erroneous data affecting your credit, said Michael Gibney, a certified financial planner with Highland Financial Advisors in Riverdale.

He finds it odd that three companies would simultaneously lower your credit limit if there is nothing to justify the reduction.

Not only could you lose points on your credit score by closing cards with a long history, but you could also affect your credit utilization ratio. This is the amount of credit that’s available to you compared to the credit you’re actually using (your balances) and is expressed as a percentage. Lower is always better.

“If you were to close three accounts and open a new one, there is a good chance that your available credit will be much lower than the current three cards,” Gibney said. “If this is the case and you begin to use your new card, you will increase your credit utilization ratio much faster because of the lower credit limit”

If you do decide to cancel any of the three cards, Gibney said you should consider canceling the one that added the new annual fee and keep the one with the longest history.

E-mail your questions to askbiz@starledger.com.