

Assessment needed before canceling a credit card

By Karin Price Mueller/The Star-Ledger

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Q. Due to the changes in the laws, credit card companies are charging higher interest rates and other costs for not using the card. If I cancel my credit cards, will my credit score change? What's the best way to cancel -- sending a certified letter?

— Susan Maurer

A. You need to check with each of your credit cards to see about fees and penalties.

The Credit Card act of 2009 was meant to help protect consumers. Some of the changes include that issuers need to give more advance notice of rate hikes and are only able to raise rates if the variable index rate increased, a promotional rate

expired or you paid late by 60 days or more, said Margaret O'Meara, a certified financial planner with O'Meara Financial Group in Red Bank.

O'Meara said most companies will allow you to cancel the card over the phone, but check with the card to see its specific requirements.

O'Meara said canceling a card is a Catch-22.

"If you cancel your card you will reduce your fees, but it can adversely affect your credit score," she said. "If you close the card, this will be a credit limit reduction and will affect your credit utilization measure. About one third of your credit score is based on how much credit you are actually using."

You've got to know when to hold 'em, and when to fold 'em, said Stephanie Sherman, a certified financial planner with Family Wealth Management Group in East Hanover.

"A credit card with positive information can remain on your credit report for up to 10 years even if you cancel the card," she said. "The same goes for any red marks associated with your accounts, such as late payments and overspending. Most negative entries will come off of your report after seven years."

Because part of your credit score is determined by how long you've been borrowing, cancelling certain credit cards could result in credit cards with positive credit history ultimately dropping off of your credit report, Sherman said.

Before you close an account, Sherman said, ask the following: What is the ratio between your account balances and total available credit? (You should try to keep your debt at less than 30 percent of your total available credit.) What are you being charged to maintain the account? How healthy is your overall credit report?

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