



The Savage Truth on Money - by Terry Savage

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Closing Credit Accounts Safely

Q: I've had my credit card for many years and always paid on time. Now they've notified me that they'll start charging an annual fee. I'm angry — but afraid to cancel the card because it will hurt my credit score. What should I do?

A: Your concern is understandable, since it seems the credit card companies have all the power these days, in spite of the benefits of the new Card Act, which took effect last Monday. If you make the decision to close your credit card account, assuming your credit is in good standing, it might have a small impact on your credit score. But that might not be enough of an impact to cause you to hang on to the card and pay an annual fee.

There could be two consequences of closing an account. Part of your credit score is based on your length of credit. So if you've had that card for many years, closing it could ding your score about 20 to 30 points, depending on whether you have other long-held cards. Even so, your score is likely to rebound within months.

One way to protect yourself, if you are the one closing the card (instead of the issuer), is to send a registered letter to the issuer when closing the account. Then keep a copy of that letter so that if your credit score declines, you have proof you were the one who closed the account.

Another factor in your score is your debt-to-available-credit percentage. When you close an account, you lose that potential available credit line. So if you're carrying balances on other cards, the percentage of credit use could rise.

In that case, advises Bill Hardekopf of www.LowCards.com, you might want to apply for a different, better card before you cancel the other card. That will keep your percentage figure low.

All of this advice assumes you can easily pay off the balance and close the account. For those who are trapped by big balances, there is another option. Under the Card Act, you can "opt out" of any interest rate increase and continue to pay off your balance at the current rate for up to five years. But you can't charge anything more on that card.

While most people have heard of credit scores, relatively few have bothered to get theirs.

The best-known score is the FICO score, developed and patented by Fair Isaac Co. It is used by a vast majority of lenders, and based on the facts on file at each of the three credit bureaus. The bureaus themselves have created their proprietary Vantage score, with a different formula and scale.

You're entitled to a free credit report each year from each of the three major credit bureaus. To get that free report, go to www.annualcreditreport.com, the only site that links you directly to the three main credit bureaus so you can access your totally free report. (Don't be fooled by other addresses, or by offers to purchase credit monitoring services.)

However, the FICO and Vantage credit scores are proprietary, and you'll pay for them. Go to www.myFICO.com, and a single credit score will cost \$15.95, although you can also buy it as part of a credit monitoring service offered on its site.

Consumer advocate Gerri Detweiler of Credit.com noted that if you have a FICO score of more than 760, you're in line for the best rates when you borrow. But if your score is between 700 and 759, you would pay a 0.3 percent higher rate on a 30-year fixed-rate mortgage loan. And a score below 720 and down to 690 could cost nearly 2 additional percentage points on a three-year auto loan.

At Credit.com, you can get a free "credit report card" that estimates your credit score. That will help you judge the impact of closing out one of your accounts.

Finally, keep in mind that if you're in the enviable position of being able to close out a credit card to express your annoyance, it probably means that you aren't carrying too much debt. And that may mean that you already have a pretty high credit score. If you're not planning to buy a house or need a car loan at any time in the next year, a few points of decline in your credit score won't matter much to your financial lifestyle.

So if you're angry at your card issuer, it may be well worth having a slightly lower credit score if it lowers your blood pressure at the same time! That's the Savage Truth.

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