DOLLARS AND SENSE

By Brian Ross, OST Director of Financial Education

Thinking of Canceling a Credit Card? Consider This

Many consumers struggle to stay on top of debt payments from time to time. The number one culprit contributing to the problem is credit card debt. The relative ease of obtaining a new credit card, high interest and the temptation to just pay the minimum all contribute to the compounding effect of credit card debt.

So once we reach the point where we can finally bring a credit card balance to zero the first thing we might like to do is get those scissors, cut the card into a million pieces and call issuing company to triumphantly announce your decision to close that account.

According to Experian, "It's a common fallacy that closing credit cards will always help your credit rating." They suggest focusing more on the amount of available credit being utilized, making sure you are not over extending your debt beyond levels you can manage. "Closing good accounts could actually hurt your credit rating," according to the credit bureau.

"Closing a credit card affects two factors used to calculate credit score -- length of credit history, which accounts for 15 percent of your score, and balances -- also known as debt to available credit ratio -- which accounts for 30 percent," says John Janney, past president of the National Financial Awareness Network.

One additional reason to consider keeping the account open is you never know when emergency expenses might exceed your current emergency fund. Having the "extra" credit may keep you from resorting to predatory lenders.

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