

Should I Close a Credit Card?

If you're thinking about closing a credit card, be aware of the advantages and disadvantages.

Advantages of Closing a Credit Card

- » Closing a card lowers your access to credit. By closing a card, you lower the risk that you will run up a high balance on a card. This can be especially problematic if you have multiple credit cards and are tempted to make impulse purchases. Closing an existing card can lower the chances of generating unintentional high credit balances.
- » Closing one credit card may eventually lead to an increase in credit on another card. After one card has been closed for a period of time, a card company may increase your credit limit on another existing card, assuming you have a good track record of financial responsibility with that card. Note that the time period when you may be granted a higher existing card limit can be months or even years.
- » Closing a card can simplify your financial life. One less card means one less set of monthly statements, one less bill to be paid each month, and potentially lower interest costs.
- » If the card is largely unused with a high annual fee, closing the card can save you money.
- » One less credit card is one less chance for fraudulent activity. Closing a card reduces the opportunity for identity thieves to use that card for fake purchases.

Disadvantages of Closing a Credit Card

- » Closing a credit card can impact your credit utilization ratio. This ratio is the amount of credit you are currently using divided by the total amount available to you. If you close a card, especially one with a high limit, your credit utilization ratio may increase because the total amount of credit is now reduced. A higher credit utilization ratio can negatively impact your credit score—you may suddenly seem to be using more credit, which may make your financial situation appear riskier to a lending institution.
- » Closing a credit card with a long history of use can hurt your credit score. By shortening your credit history, a lender has less overall time to judge how well (or not) you have used credit in the past. A long credit history works in your favor for credit scoring purposes.
- » If you have a financial emergency (and no emergency fund, for instance), having access to a credit card can help see you through the event.
- » If you have significant reward points built up on a card, you may lose them if you close the account. If the card provides other types of benefits, such as extended warranties, you may lose those benefits.

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