

## STOP! DON'T CUT UP YOUR CREDIT CARDS



By: Dan Rafter - March 10, 2016

It's a dramatic statement: You've vowed to finally pay off your credit card debt. To prove your point, you grab those scissors and cut your plastic into tiny pieces.

That probably feels good, but it's really not a smart move. And going one step further and canceling those credit cards once you do pay off your debts is an even worse move. Why? If you never use your credit cards, the financial institutions behind them will eventually consider them inactive. They will then close those accounts. When banks close your credit card accounts, your FICO credit score will fall.

"We live in a world in which using credit cards is actually important," said Dolph Janis, founder and owner of Clear Income Strategies Group in Charlotte, North Carolina. "If someone has given you credit to use, you might not need it today. You might not need it tomorrow. But you might need it one day."

### Credit-Utilization Ratio

Lenders today rely on your FICO credit score to determine if you qualify for loans and to decide the interest rates you'll pay on them. A high credit score will result in lower interest rates, with a FICO score of 740 or higher yielding the best results.

Your score will fall if you pay certain bills late, miss certain payments, or run up too much credit card debt. But many consumers don't

know that their score will fall, too, if they or their banks close unused credit card accounts.

This is because of something called your credit-utilization ratio. Your credit score will be higher if you use less of your available credit. Say you have four credit cards with a total credit limit of \$10,000, and you have \$3,000 in credit card debt. If you close one of your accounts or your bank closes an inactive credit card with a credit limit of \$3,000, you will suddenly have that same \$3,000 worth of credit card debt on a total credit limit that has fallen to \$7,000.

This means you are using more of your available credit, and that your credit-utilization ratio is worse — all without you making a single new credit card charge.

### Keeping Your Cards Active

To prevent a closure of your card, Janis recommends that you use each of your credit cards at least once a month.

But don't carry a balance on these cards. Instead, charge items that you know you can pay off at the end of the month. Then pay your card balance in full by its due date. This way, you keep your credit cards active without suffering the pain of traditionally high credit card interest rates. Of course, you can't follow Janis' plan if you've already cut up your credit cards.

### Look at Your Spending Habits

There's another flaw with the cut-the-cards strategy. It doesn't really change your spending habits.

Sure, cutting up your credit cards might feel good. But if you don't determine why you've run up your debt, the odds are that this will only be a temporary solution. Once you get the urge to use your plastic again, you'll sim-

ply call your bank and ask for a replacement card.

A better approach is to figure out what causes you to overspend and then resolve whatever those issues might be.

If you are battling credit card debt, know that you are not alone. Many consumers struggle with credit card debt. The Federal Reserve Board in May of last year said that total credit card debt in the United States hit \$901 billion. That was up 3.19% from a year earlier. A study by NerdWallet found that as of July of last year, households with credit card debt carried an average of \$15,863 on their cards.

If you, too, have thousands of dollars of credit card debt, you'll have to do more than just cut those cards. You'll have to do the hard work of changing your spending habits and learning how to use your credit wisely. (See also: How to Pay Off Credit Card Debt with a Balance Transfer).



Randall "Dolph" Janis, founder and owner of Clear Income Strategies Group, has been in the retirement services industry for more than 11 years, building a strong network of satisfied clients in Charlotte, N.C. and surrounding areas. Dolph's goal is to provide fulfillment for the visions, hopes and dreams from baby boomers to seniors by providing common sense solutions for their retirement needs.

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