



Ask the Biz Brain

Thursday, August 26, 2004

You have repeatedly stressed canceling credit cards, particularly ones of long standing, can negatively impact your credit score. Will canceling a 26-year-old American Express card hurt my credit score? Also, 15 or so years ago, I went into my bank for an auto loan. The bank asked why I wanted a loan when I had a other credit available. The answer was simple: The other credit had higher interest rates. The bank made me cancel the other credit before granting me the auto loan. They were concerned I would have too much credit available. Make sense?

-- Robert

Credit is a funny business, and what makes sense to you doesn't always make sense to a lender.

Mark Swingle, a certified financial planner with Benefit Service Company in Westfield, says your credit score is key when a lender underwrites a loan.

"This kind of 'Credit IQ Test' works well from the lender's point of view; however, from a borrower's point of view, it is impersonal, capricious and sometimes ridiculous in its result," he says.

Swingle says yes, canceling any kind of available credit prior to application for new credit can reduce your credit score. But traditional American Express cards that are paid in full each month are not credit cards, so Swingle says canceling one shouldn't change your score.

Swingle says lenders are concerned if people have too much credit and it's not unusual for them to insist you close out excess credit when they lend you money. However, having a lot of credit and managing it successfully is what lenders like to see, he says. The fact that you had those other lines of credit open and paid them when due was probably a large part of the reason the bank extended the new loan on favorable terms.

Marnie Aznar, a CFP with Aznar Financial Advisors in Morris Plains, says to keep on top of your creditworthiness, you should request a copy of your credit report annually from the three major credit bureaus, and carefully review it for any mistakes. Under the law, she says, New Jersey residents may obtain one copy annually, free of charge, from each of the major credit reporting bureaus.

To learn more about your credit score, check out the FICO Score simulator at www.myfico.com. To contact the credit bureaus, visit their Web sites at www.experian.com, www.transunion.com and www.equifax.com.

-- Karin Price Mueller

Copyright 2004 NJ.com. All Rights Reserved.