

The Downside to Paying Off Your Credit Cards

There couldn't possibly be a downside to paying off your credit card accounts, could there? Only if you close the accounts! If you've participated in our Credit Scores: Insider Secrets from an Expert teleseminar series, you know that capacity accounts for a full 30% of your Credit Score. What does Capacity mean? Here's an example: Let's say you have 3 credit cards with a total credit limit of \$18,000. If your outstanding balance on each of those credit cards is 50% or less of the available credit limit, you're in pretty good shape. Example 1: Card# Credit Limit Balance Capacity 1 \$ 2,000 \$800 40% 2 10,000 4,800 48% 3 6,000 3,000 50% In this example, the capacity reached, or outstanding balance, for each individual card is less than 50%. This means that for the purpose of calculating your credit score, you're in good shape with regard to capacity. Now, take a look at the second example: Example 2: Card Credit Limit Balance Capacity 1 \$ 2,000 \$ 800 40% 2 10,000 3,800 38% 3 6,000 4,000 67% Here's the deal: You are in pretty good shape in Example #1 because your capacity reached does not exceed 50% of any of your available credit limits. However, in Example #2, you would be penalized on your credit score, even though your outstanding balance and total available credit limit has not changed. Why? Because you exceeded 50% of your capacity on the third card. Looks a little crazy, doesn't it? It gets even worse. Let's say in the second example that you paid off Credit Card #2 and closed the account. That should greatly help your credit score, right? No! Just the opposite, in fact, because now, your picture looks like this: Example 3: Card Credit Limit O/S Balance Capacity 1 \$ 2,000 \$ 800 40% 3 6,000 4,000 67% Yes, you owe less in total, but you have actually hurt your score by paying off the \$3,800 balance on your \$10,000 card. Why? Because your capacity reached on Card #3 is still over 50%, and by closing the account for credit card #2, you've reduced your available credit, or total capacity. So what is the solution here? Pay off the credit card with a capacity reached of over 50% first. This is just one example of what goes into calculating your credit score you may not know. The Universal Default rules can be even more damaging to your personal prosperity picture. Knowledge is Power. Take charge of your personal prosperity today.

About the Author

Melinda Day-Harper is the founder and CEO of T-Zone Consulting, Inc., a financial literacy and prosperity company located in the beautiful Texas Hill Country. Melinda is also a CPA, an award-winning speaker, author, entrepreneur and money coach. <http://www.TZoneConsulting.com>

Source: <http://www.eternlive.com/>