

# Can opening a new credit card cost you over \$100,000?

12:35 AM, Jul 21, 2012

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For *The Journal News*



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**Q:** I would like to apply for a new credit card. I travel a lot for business and feel my current credit cards really don't offer any benefit on travel expenditure. How will this affect my credit and where can I shop for the right card?

**A:** Most consumers do not realize that just applying for a credit card can hurt credit scores.

Every time a creditor analyzes and underwrites your credit card application, a copy of your credit report is reviewed, causing a hard inquiry which can drop scores 2-5 points.

If many, or a series of credit card applications are made, it can be viewed as extreme inquiry activity and scores can drop even more.

Once the application is approved, the mere opening of the account can reduce scores over 50 points, depending on the actual credit profile, score and age of credit.

Since old credit adds to the credit score once new accounts are opened, the average age of credit reduces.

Therefore making an educated choice and having a strategy before applying can cost less in damage to credit while filling more needs for the consumer.

Consideration of your credit score, credit card needs, and timing of short/long term goals is essential before taking any action.

For example:

Janet has three credit cards with a total balance of \$20,000. During the year there are many months she can run balances of up to \$50,000, due to business expenses. Since she has a substantial amount of travel charges, she felt it would be beneficial to have a high bonus and reward card so she can gain more from her spending. On the surface it sounds like a good idea but let's look a little deeper at Janet's situation.

Her current average interest rate on her credit card balances is 18%. Janet's current Fico scores ([www.myfico.com](http://www.myfico.com)) are 750 which is excellent credit and will afford her some of the best deals. Janet plans to apply for a mortgage within 12 months.

Between the cost of a credit review (2-5 point drop) and the possibility of her score dropping another 50-60 points (cost of opening the new account) her credit score would place well below a 740.

The threshold for the best mortgage rates is 740 and above; therefore anything below could mean a big difference in interest costs on the mortgage loan.

If Janet was applying for a \$500,000 loan with the 750 score, she may be able to get a 3.5% interest rate. If her score was lower than a 740 that rate might go up 1 percent or more. The difference in cost over thirty years on the loan could be an extra \$103,762 more. Opening that credit card would be a costly decision.

If Janet was not applying for a loan anytime soon she might be better served finding a credit card with good travel rewards and benefits as well as a zero percent interest rate on transferred balances. Transferring over the \$20,000 at 18% could save her \$1600 if she paid the balance off over the course of the year. Even if the card had a 3% transfer fee she would have a substantial savings in interest.

To find varied credit cards based on credit score, type, and ratings visit [www.credit.com](http://www.credit.com), [www.creditcards.com](http://www.creditcards.com), and [www.creditcardguide.com](http://www.creditcardguide.com).