

CREDIT CARD CHURNING

Consumers are turning to credit card churning to accumulate rewards quickly. Is the practice right for you?



CREDIT CARD REWARDS CAN OFFER COMPELLING REASONS TO CHARGE. WITH THE PROSPECT OF FREE TRAVEL, FREE ELECTRONICS, FREE SIGN-ON BONUSES, AND...WELL...FREE STUFF, IT'S LITTLE WONDER THAT THE FEATURE HAS LED TO A PRACTICE CALLED CREDIT CARD CHURNING.

So, what is credit card churning, and is it a legit and prudent way to collect free stuff? Below is our overview of the practice. We'll let you decide.

Credit card churning can take many forms. One method involves applying for the same type of credit card multiple times in order to receive a sign-on bonus. Typically, this requires the user to charge a certain amount within the first few months of card issuance, after which the bonus is earned. At that point, the user cancels the card before the next annual fee is due and then repeats the process with a new and similar card.

Another method involves applying for multiple cards simultaneously — a quicker way to obtain the rewards and sign-on bonuses. In some instances, the user applies for several cards on the same day. Once those are earned, the user cancels the cards and repeats the process with new cards.

There is nothing fraudulent about credit card churning, and as long as you keep track of the cards, fee structures, and cancellation terms, it may provide you with the returns that you seek. However, banks look down on the process, as their best customers are those who carry over a balance each month and incur interest fees. As a result, some banks have instituted policies that prevent credit card churning and will not approve an applicant if that person is found to be implementing either of the above methods.

For instance, American Express will not allow more than one welcome bonus for an applicant in their lifetime for a particular card, and Citi will not allow an applicant to get a new card if they have opened or closed a credit card in their family of cards within the past two years.

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Keep in mind that even if you have successfully churned multiple credit cards and accumulated travel rewards miles, the bank technically owns your miles and points and can revoke them if they determine that you have violated their card rules.

There are several important caveats if you decide to pursue credit card churning. First, it can damage your credit.

How? Opening multiple cards and spending on them regularly can negatively impact your credit score — and even more

so if you fail to pay off your balance each month. If you're planning to purchase a new home, lenders look down on applicants who have several opened and closed credit card accounts.

Second, the practice is coming under increased scrutiny and you stand a greater chance of being denied new cards.

And finally, if you aren't careful when canceling your cards, you can incur steep annual fees.

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