

Loan paid credit card debt, but score rose

Dear Penny

BY LISA ROWAN

The Penny Hoarder

Dear Penny, I recently got a loan to pay off my credit card debt. When I paid off the credit card, my credit score went up considerably — about 60 points.

Now I'd like to see if I can get a lower interest rate than what I'm currently paying on my loan, but I'm not sure what shopping around so soon will do to my credit score.

I checked the terms of my loan, and there's no penalty for paying it off early.

Is it a smart financial move to look for a lower-interest loan and use that to pay off the higher interest loan?

-J.

Dear J., People who are working to pay off debt have two experiences over and over: They second-guess their actions up to this point, wondering if they've done the right things. Then, they have a nagging feeling that they should be doing much more to improve their finances.

You're feeling both of these at the same time, and they're eclipsing the fact that you did something very right: You consolidated your debt under a lower interest rate and made a plan to pay it off for good. But seeing the impact of your good choices can be difficult when it comes to the ever-fluctuating world of credit scores.

Let me give you an example from my own life to show you why I think slow and steady wins this race.

A few months ago, I took out a personal loan to consolidate some credit card debt that had ridiculously high interest rates.

My first credit card got marked "paid off" by the credit bureaus, my credit score increased by 17 points. When the second credit card showed it was "paid" a few weeks later, my credit score went up another 12 points.

Then, more than a month after I opened that personal loan to take on the balance, it showed up on my credit

once I pay down a significant portion of my personal loan? Sure. Does everyone hate seeing a score they know could be higher? Totally.

Those credit score fluctuations have the potential to control your mood. And thanks to the online tools that have made it increasingly easy to see and understand our credit score on a regular basis, it's tempting to fixate on our scores. Instead of focusing on our payment history and overall credit health, we're panicking about that magic number.

A better plan for you: Stay the course with your current loan and strive to pay it off early.

Instead of constantly trying to rearrange your debt, focus on tackling the balance and getting it out of your life. Doing so will have the greatest long-term impact on your credit score and your financial health.

You're already well on your way.

Worrying about being in debt?

Write to Dear Penny at www.thepennyhoarder.com.

thepennyhoarder.com/dear-penny Lisa Rowan is a personal finance expert and senior writer at the Penny Hoarder, and the voice behind Dear Penny. For more practical money tips, visit www.thepennyhoarder.com.

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report... and my score dropped 18 points. I ended up right where I started.



Will I regain those points