Will a balance transfer affect your credit score?

Thinking of transferring a credit card balance? Balance transfers are a money-management strategy that can lead to big savings. By searching for cards with a low APR (annual percentage rate) and a balance transfer option, you may be able to consolidate your credit card balances and reduce what you have to pay in interest.

Before transferring a balance, though, it's important to get the full picture of how your credit signals change when a balance transfer occurs. Part of that is understanding the effect that balance transfers have on your credit score.

How a balance transfer affects your credit score

A balance transfer can affect your credit score, depending on 1) if you open a new card to transfer a balance and 2) what you do once your balances have been transferred.

If you simply move your balances around on your existing cards, your credit score likely won't be impacted.

You may see a positive impact on your credit score if you transfer your balance to a single new card and take action to reduce your debt balances.

But if you constantly open new credit cards and transfer balances, your credit score can actually drop.

Because the effects of a balance transfer may be hard to predict, it's important to arm yourself with as much information as possible before you move any open balances.

No credit score impact: balance transfers to one or more existing cards

Perhaps you have several credit cards open and are carrying a large balance on one of your cards with a high interest rate. If you move this balance to one or more of your other cards with a lower interest rate, your credit score won't be affected.

By keeping your existing cards and not opening any new ones, you won't post any so-called hard inquiries on your credit report. Transferring balances between existing cards also keeps both your available credit and your credit utilization ratio (the percentage of your available credit that you are using) unchanged. All of these elements impact your credit score, but as long as you maintain your current card portfolio and make regular payments as scheduled, your credit score should stay the same.

Positive credit score impact: balance transfers to one new card and paying down the balance

Balance transfers can have positive credit score effects if you open a single new card with a low APR and make an effort to reduce your debt.

When you open a new card for the purpose of transferring a balance, you will increase the amount of credit you have available and thus lower your credit utilization ratio. Credit utilization is a major factor in both the VantageScore® and FICO® credit scoring models.

Opening a new card could cause a hard inquiry or credit check on your credit report, which could have a negative impact against your credit score. However, opening a new line of credit could improve your utilization rate by increasing your available credit limits.

How to raise your credit score with a balance transfer:

Apply for just one card.

Limit the negative effects on your credit score of hard inquiries or credit checks and new credit by applying for just a single card. Do your research first and pick one card suitable for a balance transfer, preferably one that also offers a low introductory APR.

Keep your existing cards open.

Average account age and credit mix both factor into your credit score. By not canceling any of your cards (even when you have paid off the balance entirely through a balance transfer), you will keep these elements of your score intact.

Take advantage of a lower APR and introductory rates to make a dent in your debt.

You could move your credit score in the right direction if you proactively use a balance transfer to pay down debt. Transferring a balance to a card with a low introductory rate allows you to “pause" interest accruals so you can get a handle on your balance. Reducing your debt by paying off more than the minimum payments will drive your credit score higher by on-time payments and improving your credit utilization ratio.

Negative credit score impact: repeatedly opening cards and transferring balances

Balance transfers will hurt your credit score if you make a habit of opening new credit cards and repeatedly transferring balances between them.

This approach seems enticing: why not just avoid paying interest for as long as you can by transferring your balances again and again?

But cycling through new cards is bad for your long-term financial health. Constantly opening new credit cards results in many hard inquiries and reduces your average account age—and could hurt your credit.

If you continue to roll your balances into new cards, your credit score could eventually be lowered to the point that you won't qualify for any new credit (or loans). Not only that, your balance transfer fees could add up over time, minimizing the savings you get by reducing your interest rates.

Will I need a certain credit score to be eligible for a balance transfer?

Any new credit card will look at your credit score to determine your eligibility for approval. However, not every credit card offers a balance transfer. Before you open a new card, look at your existing cards for the lower APRs that also offer balance transfers: you may be able to reduce interest payments before opening up new lines of credit — and going this route won't require lenders to check your credit score.

With a good credit score, you will likely qualify for new credit cards and even some that offer an introductory 0% APR. Transferring your balances to a low-introductory-rate card lets you "pause" new interest while you work to pay down your balance and accrued interest. But while these kinds of cards typically offer no or very low interest for 12 to 18 months, they will likely require a good credit score.

How balance transfers affect your credit score

Balance transfers can lead to big savings in interest, but opening new cards for the purpose of transferring a balance can affect your credit score either positively or negatively: so take care to know the advantages and disadvantages of balance transfers before you move your open balance. Find out what your credit score is today to establish a baseline, and be responsible when applying for new credit to keep your score headed in the right direction.