



## Credit Card Churning Is Perfectly Legal. Here's How It Could Come Back to Haunt You

### Description

In case you haven't noticed, the Canadian credit card market is hot right now. Not only are [cash back](#) and [rewards credit cards](#) more numerous, but the earn rates and welcome bonuses have perhaps never been more lucrative. These days you can snag a heap of complimentary points or cash back simply by opening a new account—yes, that's free money with no strings attached.

This has inevitably led to the rise of credit card churning. Churning is a credit card strategy that involves opening new credit card accounts *only* for the welcome bonuses. Churners will meet the requirements—spending the necessary amount in the specific timeframe—to earn their bonus. Once they've spent the points or cash back, they'll lay the card aside, or close it permanently.

Churning is perfectly legal. And, when used wisely, it can result in a hefty sum of free money.

All that said, churning comes with its own risks, too. And, if you're not careful, those welcome bonuses can come back to haunt you. As you're churning credit cards, here are four risks to watch out for.

### You could hurt your credit score

Perhaps the greatest risk of credit card churning is damaging your [credit score](#).

When you open a new credit card account, the [credit card provider](#) will do a hard credit inquiry. Hard inquiries can knock your credit score by more than a few points, and they continue to impact your score for up to 12 months. Even after 12 months, they stay on your report for up to three years.

Aside from hard inquiries, you could hurt your credit score by diluting your average credit card age. A significant portion of your credit score (15%) is based on the average age of your accounts, along with the age of your oldest account. When you open numerous new accounts, the average age appears younger to [credit bureaus](#), which could hurt your score as a result.

## You could be tempted to spend more

Along with hurting your credit score, welcome bonuses might encourage you to spend more than you normally would.

Most credit card providers require you to spend a certain amount of money within a specific period of time to get your welcome bonus. Others will give you a higher bonus rate (say 6%) for a limited period of time. For example, your card might earn 10% on all purchases for the first three months, up to \$2,000 spent. In order to maximize that earn rate, you'll want to spend the full \$2,000. If spending \$2,000 forces you to stretch your budget, you might dispose of more income than you actually earn.

Overspending on a credit card has other consequences, too. You could overburden your [credit limits](#), which will then negatively affect your credit score. Or worse—go into debt.

To avoid overspending, be sure the welcome bonus requirements match your disposable income. In this way, you're already going to spend the money: charging it to a credit card (and paying it off) will have no effect on your budget.

## Your could anger credit card providers

Credit card providers aren't stupid. They know people try to game the system. For this reason, credit card providers could easily blacklist you as a "credit card churning," effectively banning you from earning a welcome bonus from them and possibly other credit card companies.

When a credit card provider blacklists you, the consequences can be severe. For one, you'll definitely lose your welcome bonus. You could also lose *all* your cash back and rewards, not just those earned on the bonus.

As long as you don't go nuts on the credit card bonuses—opening accounts in your spouse's and adult kids' names—you likely won't get blacklisted. Just be careful: you don't want to lose what you're earned simply because you've become too greedy.

## Should you credit card churn?

If you can avoid the risks above, then, yes, credit card churning can result in some hefty gains. Take a look at some of [Canada's top rewards and cash back credit cards](#) to get an idea of how much you could earn by earning welcome bonuses.

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