

Biz Brain: Decreasing Credit Card Limits

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ASK THE BIZ BRAIN

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Q. One of my credit card issuers says it is decreasing my credit line, but my available credit is still higher than I am likely to use or need. I have excellent credit with scores of 791, 801 and 793. Will this decrease in my credit line impact my credit scores?

-- Mrs. B

A. Welcome to 2009 and the aftershocks of the economic and credit debacle.

Credit card issuers began a large-scale reduction in credit limits in mid-2008 as a risk reduction measure, worried that consumers had access to credit they potentially could no longer afford.

"Initially, credit limit reductions impacted the most debt-laden, at-risk consumers," said Michael Pirrello, a certified financial planner with Mill Ridge Wealth Management in Chester. But since the fourth quarter of 2008, credit issuers have been reducing limits on even their most credit-worthy customers."

Pirrello says a credit limit reduction will impact your credit utilization measure and ultimately, your credit scores. Approximately one-third of your credit score is based on how much of your available credit you are actually using. This is called your credit utilization, Pirrello says. For example, if you have \$15,000 in total available credit and carry a \$5,000 balance, your credit utilization measure is 33 percent. If your credit limit is then cut in half, to \$7,500, that \$5,000 balance now represents a 67 percent credit utilization score.

The higher the utilization rate you have and the closer you are to maxing out your credit lines, the more your score will be hurt, says certified financial planner Margaret O'Meara with O'Meara Financial Group in Red Bank.

"The good news is that even with a decrease, you should still have a good score," she said.

Credit card issuers are required to notify customers of limit reductions, so pay attention to the mail and check your credit scores once a year.