

Are Shrinking Credit Markets Affecting Your Credit Score?

by Alicia Betancourt, University of Florida - Monroe County Extension Services

With the credit market becoming increasingly restrictive, and banks worried about what is happening with borrowers, some credit card users may suddenly find themselves “over their limit.”

One of things that many people don't realize is that credit limit is something that banks can change at will. Your credit card limit can be reduced with very little notice should the bank become worried about your ability to pay or need to reduce their risk. Many people with great credit are also finding that their available credit has been reduced.

Your credit limit is one of the main ingredients of your credit score, a three-digit number developed by credit reporting agencies. As you probably know, credit scores are used to determine borrowers' credit-worthiness for loans. If your available credit limit goes down, so does your credit score along with your ability to qualify for a loan.

Here are a few things you can do in order to reduce the chances that your credit limit will be cut:

- Make all payments on time.
- Pay more than the minimum each time.
- Avoid maxing out your credit cards.
- Don't shop around for a great deal on other credit cards.

When was the last time you took a detailed and unhurried look at your credit card statement? Do you understand every printed detail that appears on your credit card? Your monthly credit card statement is the best document that will help you understand your monthly spending. Reading and understanding the fine print of your statement will help you in practicing proper credit card management. It will also help you learn how your credit card works.

As the market continues to be unstable, banks are tightening up credit limits. And this could lead to a credit crunch, especially for those with less-than-sterling credit scores.

Keeping balances well under your limit shows lenders that you have discipline and helps build your score. To maintain a good score, banks recommend that consumers use only 10 percent of their available credit. For example, someone with a credit limit of \$100,000 should never carry a balance over \$10,000. But in today's climate, however, that \$100,000 limit could be cut to \$50,000, meaning that the \$10,000 balance now represents 20 percent of your credit limit, and thus your credit score is dinged. Your score could go down even if you regularly pay off your minimum balance and your loans.

You may not notice until you apply for an auto loan, mortgage or a new credit card. Not only will your score be lower, but lenders are requiring a higher score for approval.

Having a lower credit score can save you thousands of dollars on interest payments. (To crunch the numbers, try using the financial tools at FairIsaac's consumer site, myfico.com.)

Credit repair is also harder than it was in the past. Banks are not likely to be as flexible, which means that you as a consumer are responsible for paying your debt.. However, some fundamentals remain. Don't excessively shop for credit. Stay away from store cards. Pay off balances and keep them low or - even better - at zero. Check your credit report at annualcreditreport.com for errors. (Remember, it's ANNUALcreditreport you want and ***not*** at Free Credit Report.Com.)

For more information, check out "Credit Reports and Scores" by Mary Harrison at <http://edis.ifas.ufl.edu/FM131> or "Credit Repair Scams" by Josephine Turner at <http://edis.ifas.ufl.edu/FM118>. You can also look under the UF Extension state Web site <http://solutionsforyourlife.ifas.ufl.edu>.

Additional information on family and community development is available from the UF/IFAS/Monroe County Extension Services, 1100 Simonton Street, #2-260, Key West, FL 33040; phone 305-853-7385; e-mail Monroe@ifas.ufl.edu; or visit our Web site at <http://monroe.ifas.ufl.edu>. Our services are free and available to all without regard to race, color, sex, or national origin.