

How Lower Credit Limits Affect Your Credit Score Due To The Pandemic - Personal Finance

Millions of Americans are having their credit scores adversely affected by the pandemic, as banks and finance companies modify the extension of credit. As consumers struggle to retain a fragile balance between joblessness, lower wages, and household expenses, lenders are cutting credit limits, lines of credit, and credit card charge limits. The result has been a reduction in scores for millions of Americans even though many continue to manage their credit and payments successfully.

Lenders have been reducing their risk of exposure since March by reducing credit limits on consumer accounts. Since many of these credit accounts carry a balance, the credit utilization ratio rises as a credit limit is reduced. This ratio is a critical component used by the three major credit reporting firms in determining a consumer's credit score. As ratios rise because of a credit limit reduction, credit scores tend to drop. It is assumed that the higher the ratio, the greater the risk for lenders.

Consumers have been surprised by lower credit scores, since lenders are not obligated to warn customers about a pending credit limit reduction, but only do so after it has been done.

In order to try to curtail the effects of a higher utilization ratio, it is suggested that consumers contact their credit lenders directly and request a reinstatement of their prior credit limit. It is also suggested that simply paying down an existing balance may help in alleviating the threat of a credit score drop.

Sources: Federal Reserve

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