

Questions to ask about credit card limits

PHOENIX – While millions of people may know their credit card limits, they may never have stopped to ask some critical questions about how those spending limits can affect their financial lives.

“Part of using credit responsibly is understanding that a credit limit is more than just the number that dictates how much you can spend on a credit card,” said Michael Sullivan, a personal financial consultant with Take Charge America, a national nonprofit credit and debt management agency. “Without knowing the full details of how credit limits work, consumers run the risk of making costly mistakes as they try to build and maintain good credit.”

Sullivan answers four credit limit questions for consumers:

•**What determines my credit limit?**
Lenders consider numerous factors when determining credit limits including income, credit score, credit history and limits on other cards. Generally, the higher your income, the higher your credit limit is likely to be.

•**What happens if I go over my limit?**
Most cards don’t allow charges above the limit. Some may allow a transaction that puts a card over its limit to go through, but you’ll likely face over-limit fees as long as the balance remains above the limit.

Additionally, your card could go over the limit with interest charges on a balance near

the maximum. If this happens, you’ll want to pay down the card quickly to avoid over-limit fees. Federal law limits such fees to no higher than the amount by which you exceeded your limit, though generally they run between \$25 and \$35.

•**How do credit limits affect my credit score?**
Your credit limits impact your credit utilization ratio, which is a key factor in calculating your credit score. Ideally, you want to keep your credit utilization, or how much of your available credit you have in use, at 30% or less. If you continually charge near your limit, it could cause your credit score to drop. If you have several cards at or near their limits, focus on paying down those balances to lower your credit utilization, which will likely boost your credit score.

•**How can I raise my credit limit?**
If you’re looking to lower your credit utilization ratio, a higher credit limit may make sense. But be cautious and honest: If a higher limit is likely to lead to more spending, then it’s not worth pursuing. That said, you can request a credit limit increase, but there is no guarantee it will be approved. Your issuer may also raise your limit after a period of time, but only if you regularly use your card, stay below your limit and make on-time payments.

Consumers who are struggling with debt may find guidance with a free online credit counseling session.

