

WHAT TO DO WHEN YOUR CREDIT LIMIT INCREASES



By: Heather Taylor - March 08, 2022

What does it mean when you receive an increase to your credit limit? First, let's quickly define what a credit limit is and the best practices for utilizing credit.

A credit limit is the maximum debt position a creditor allows you to assume on a revolving credit facility, like a credit card or a line of credit, said Thomas J. Brock, CFA, CPA and expert contributor at Annuity.org.

A credit limit is also a key aspect of your personal credit score. How you use this limit has a bigger impact than you might think. "The extent to which you utilize your credit limit can have a serious impact on your rating," Brock said. "It is estimated to account for 30% of your credit score."

The best approach when your credit limit increases is to consistently utilize less than one-third of your credit. Credit users who do so are viewed as fiscally prudent. Those who utilize a greater proportion, on the other hand, are seen as overextended and less creditworthy.

From not increasing spending habits to determining if you may be eligible for a decrease in your interest rate, follow these best money moves for when your credit limit increases.

Don't Increase Spending

What's one of the best money moves you can make when your credit limit increases? Don't use the increase as an excuse to start spending more money.

If you don't change your spending habits, Brock said over time you will benefit from the positive impact the increased limit will have on your credit score.

Not spending is also good news for your credit score. Marcus P. Miller, CFP and financial advisor at Mainstay Capital, said an increased credit limit with a stable or decreasing balance will ultimately help your credit score.

"If you already have credit card debt, the increased credit line will lower your utilization rate," said Lauren Anastasio, director of financial advice and CFP at Stash. "If you don't have any credit card debt then you

simply have peace of mind that the credit is available to you if you need it, but your limit increasing does not need any action from you."

Earn More Rewards Through Recurring Payments

If you do decide to spend, there are a few spending approaches to consider when your credit limit increases.

One approach is to pay for big purchases using your credit card. Abhinov Balagoni, CEO of Pax Credit, a Techstars company, said that this can help you rack up rewards through purchases.

Some credit card purchases also have consumer protections.

"A few variants of Visa and Mastercard credit cards come with perks including extended device warranties, price protection for months and coverage for damaged or stolen items," Balagoni said. "The bigger the purchase, the bigger the savings."

The other approach to earning rewards, if you'd rather not make a big purchase, is to put recurring payments on a credit card. Consider recurring, everyday expenses like paying for your smartphone bill. Balagoni said making recurring payments with your credit card will help you earn more rewards. These rewards will reduce your lifestyle expenses and help you pay for travel, accommodations and dining out.

Consider Removing Other Credit Cards From Your Report

If you have old, secured credit cards you haven't used in years, you may want to consider removing other credit cards no longer in use from your report.

Miller uses the example of an old, secured credit card. You haven't used this card in years. It has no benefits, but it does charge an annual fee. Miller said you can call the credit card company and close the account.

"Make sure you are not cutting up your only established line of credit as this may harm your score overall," Miller said. One of the key "don'ts" when your credit limit increases is eliminating other credit lines. This is especially true for long-established lines of credit.

Remember that credit scores reflect individual and aggregate credit line information. Exercise caution in the credit card you choose to remove. Removing too many credit cards too quickly can adversely impact

your credit score.

Determine If You Are Eligible for a Interest Rate Decrease

Adrienne Taylor-Wells, accredited financial counselor at Tailored WealthSaver, said to call credit card companies and see if you are eligible for a decrease in the interest rate. It is possible that you may be eligible to receive it.

"If your rate is already low or if you're approved for a lower interest rate, leverage the increase in credit for something that will help you build wealth," said Taylor-Wells. (Keep reading to find out more on how to leverage debt in a smart way.)

Check Your Credit Score

Gary Grewal, CFP and author of "Financial Fives," said now is a good time to check your credit score. Your score should go up!

Consider using this as a chance to ask for higher limits on other credit cards. Grewal said you may also ask about lower APRs or opportunities to refinance your house or car, if needed, to save on interest charges.

Do not, however, ask for an additional increase to the credit line that just received an increase. Asking for another increase may result in a 'hard pull' of your credit profile and a downgrade to your credit score.

Leverage the Debt in a Smart Way

Grewal said a credit limit increase is a good opportunity to do something with that money in a smart way. Grewal uses the example of paying off any high-interest debt. Paying off debt, along with reducing credit utilization, will help boost your credit score.

Peter Casciotta, owner of Asset Management & Advisory Services, said it's a smart money move to leverage an increase in your credit limit.

"When a good opportunity arises, it provides you the resources to participate when you may not have had the resources to participate prior," Casciotta said.

Although you may decide not to leverage or borrow against the credit increase at all — and that's OK too.

"The peace of mind knowing you have 'quick access' to funds in case of emergency is of immense value," Casciotta said.

Peter Casciotta is the owner of Asset Management & Advisory Services of Lee County in Cape Coral, FL. Peter follows sound financial planning processes that address the key areas of your financial life while taking into account your future desired lifestyle.

To contact Peter, visit www.assetadvisoryservice.com or call 239-356-1515.

Securities sold through CoreCap Investments, LLC. Advisory services offered by CoreCap Advisors, LLC. Asset Management & Advisory Services of Lee County, CoreCap Investments, and CoreCap Advisors are separate and unaffiliated entities. Investment involves risk and investors may incur a profit or loss. The information provided here is not investment or professional advice. You should consult with a licensed professional for advice concerning your specific situation.

