

Banks quicker to lower customers' credit ceilings despite excellent track record

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Betts/Bloomberg

Gary Goldstein is the kind of customer that credit card companies dream about.

He was always obsessive about paying his bills on time and had grown used to seeing his credit score rise.

That was until about six months ago, when - after just one late payment - his longtime credit card company slashed his debt limit to \$2,700 from \$18,000.

"I felt completely disgusted and betrayed," said Goldstein, 56, an editor at [Kensington Publishing in Manhattan](#).

Following the recent lending crisis, banks have become quick to lower customers' credit ceilings - even those with clean credit track records.

Despite the [Credit Card Accountability, Responsibility and Disclosure Act](#) - which in 2009 imposed new notification rules on companies and banned unfair fees and rate hikes - card companies are still allowed to chop credit limits without notice.

Banks have backed off a bit since the depths of the recession, but in January 2011, 11% of them still reported cutting customers' credit card limits in the prior three months, according to a survey by the [Federal Reserve](#).

Lower caps give consumers less access to extra cash when they most need it, said [Carrie Coghill](#), director of consumer education for online consumer credit website [FreeScore.com](#). Some consumers "just use credit to manage cash flow during an emergency, so this can really leave them out in the cold."

For those who carry a balance, it can hurt their credit score, since their debt versus their available credit is a key factor in determining that number.

That puts them at risk of having higher interest rates imposed on everything from other credit cards to mortgages.

Lenders are just trying to protect themselves against default after decades of easy credit and delinquent borrowers, said [Scott Talbott](#) of the [Financial Services Roundtable](#), a [Washington](#)-based industry group that represents all the major banks.

"The bulk of these changes have been a direct result of an action or inaction by the consumer, as well as a generalized risk that was spread out across the economy," he said.

While a credit-limit cut may seem arbitrary, there are things consumers can do to stay in their card company's good graces and bolster their credit score, said [Tracy Becker](#), president of credit education and restoration firm North Shore Advisory.

"It's almost never just for no reason that people are getting their credit reduced," she said.

She recommends keeping balances under half of the limit and using all of your credit cards at least two months out of the year.

Don't close or open any accounts arbitrarily, and avoid late payments, which can raise red flags, she said.

If your limit does get lowered, don't immediately cancel your card, because it can make matters worse, she added.