

# How to make the most of a low-limit credit card

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by Allie Johnson



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You felt like celebrating when you got approved for a card. But when you saw the credit limit you realized you lack the spending power to pay for car repairs, spring for a new couch or book a vacation.

A low credit limit might make you feel like you're not (credit) worthy, but don't despair. If you use your starter card strategically, it can provide the boost you need to build credit, progress to a higher limit and eventually get a better card.

Follow these eight tips to get to the next level in the world of plastic:

1. **Look at your credit big picture.** Pull your credit reports to see where you stand now, says Martin Lynch, a counselor instructor for the [Financial Counseling Association of America](#). Figure out exactly why you can't get a higher-limit card now and what to do in conjunction with using your low-limit card responsibly.

For example, if your credit file is thin, a [credit-builder loan](#) could help round it out, says Tracy Becker, a credit expert and president of [North Shore Advisory](#) in New York. If you have another card that's maxed out, work on paying down the balance, Lynch says. Also consider becoming an [authorized user](#) on the card of a trusted family member with good credit, Becker says. Try to get added to a card that has been open for 10 to 20 years or longer because that will increase your average age of credit and give you a boost with most issuers, she says.

"Having a nice variety of credit really helps to show you can manage multiple accounts," Becker says.

2. **Charge the small stuff.** Use your card regularly to pay for low-dollar purchases to prove you can spend and pay what you owe responsibly. You might designate a type of item to purchase regularly with the card, such as your weekly chai latte at the coffee shop. Or put a small recurring bill with a set cost, like Hulu, Netflix or a gym membership, on the card.

"Using it regularly shows it's an active card," Becker says.

Not only is keeping a card active good for your score, but it prevents your card from getting cancelled by the issuer for inactivity. Whatever you do, don't let that low-limit card languish in your wallet.

3. **Pay your bill like clockwork.** Once you're using your card, pay your bill on time every time. Use the credit card tools at your disposal such as automatic payments and free alerts to make sure your good intentions don't go awry, resulting in a missed payment, a late fee and an issuer that will now be reluctant to extend you more credit. To avoid forgetting, set up an automatic payment to pay only the minimum as a safeguard. You can then go online and manually pay the rest. Of course, if you do that, make sure you'll have the money in your bank account when the automatic payment hits.
4. **Keep your balance small.** One way to show you can use credit responsibly and to improve your score is to keep your credit utilization ratio, the amount of available credit you're using, low. Your utilization accounts for 30 percent of your FICO score, and the general rule is that keeping it below 30 percent shows lenders you're not a risky borrower. To be on the safe side, shoot for keeping yours below 25 percent, Lynch recommends. So, if your credit limit is \$500, don't let your balance creep above \$125.

Whatever you do, don't max out your card, Becker warns. "If you're maxed out, that can drop your score dramatically," she says.

5. **Pay down a big balance right away.** But what if you want or need to put a bigger ticket item on your card? Maybe you're buying a new phone and you want the [consumer protections](#) credit cards offer. Or you need to buy a plane ticket to visit a sick relative. If your purchase eats up a large chunk of your available credit, your score will take a temporary hit if you can't pay it off immediately, Lynch says. But you can minimize the damage by putting a plan in place to pay off the balance as quickly as possible, he says.

"Your score will recover," he says.

However, if you plan to apply for other credit like an auto loan, keep in mind that it will take a few months for that to happen, he says.

6. **Build financial stability.** Ideally, you want to avoid getting into a jam where you use your card in an emergency and then can't pay it off quickly. That's why you need an [emergency fund](#). Consider opening an online savings account and automatically transferring a small amount, even as little as \$10 or \$20 a week, into the account, personal finance blogger Glen Craig of [Free from Broke](#) recommends. The goal would be to build up at least the amount of your credit limit in the account. That way, if you're forced to pull out your card for new tires or some other unexpected expense, you can pay the balance immediately instead of running up your small credit line.
7. **Ask your issuer for a raise.** Many card issuers will automatically bump up the credit limits of cardholders in good standing but there's no need to wait for that to happen. After you've been using your card responsibly for six months to a year, call your card issuer to ask for a credit limit increase, Becker says. However, keep in mind that your salary will factor into the decision.

"If you're making \$5,000 a year, you're not going to get a higher limit," she says.

However, if your financial picture has changed for the better with a new job or a raise, by all means let your issuer know, Lynch says.

8. **Apply for a shiny new card.** Down the road, after you've received a credit line increase once or twice, consider applying for a better card with more benefits, possibly a rewards card. One caveat: Don't do it if you're planning to get a car loan or mortgage soon because the inquiry and the decrease in your average age of credit will temporarily ding your score, Becker says.

Once you've got your new plastic, be cautious about closing your first low-limit card, unless it has a prohibitively high annual fee. Keeping it open boosts your average age of credit as long as it remains on your credit reports.

That low-limit card you once thought was useless will now hold an important place in your credit history. "It may be your oldest account," Becker says.