Here’s Why Your Credit Limit is So Low

Description

Have you recently acquired a credit card, only disappointed to discover just how low your credit limit is? Or maybe you’ve already racked up a little bit of spending mileage on your card and worked diligently to pay off any outstanding balance.

And still, your credit limit won’t budge.

A credit limit refers to the amount of money you’re allowed to spend using your credit card before needing to pay a portion of the balance. Each credit card issuer has its criteria for establishing just how much credit to extend to borrowers. As such, credit limits vary from person to person.

Read on to learn why your meagre credit limit persists, its impact on your finances, and what you can do to raise it.

Reasons for a low credit limit

There are two common reasons for a low credit limit:

A low credit score. When you apply for a credit card, the lender will pull your credit report to assess the risk of lending to you. Suppose you possessed a low credit score at the time of your application. In that case, it signals to the lender that you have a history of failing to make timely payments and struggle to manage credit properly. Not surprisingly, they’ll place more onerous restrictions on your spending ability than on someone with a high credit score.

Generally, lenders view any score below 660 as a red flag. If this describes you, don’t expect much generosity from them when it comes to your credit limit.

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A lack of credit history. Your payment history is a critical factor credit card issuers scrutinize when determining the amount of credit to offer you. Without a track record that showcases your ability to service debt payments, they have few details to gauge your creditworthiness accurately. Not surprisingly, they'll be more hesitant to set you up with a high credit limit.

The length of your credit history is one factor that credit bureaus like Equifax and TransUnion assess when they assign your credit score. Another critical factor is the quality of your payment history, which details whether you've made late payments or defaulted on debt. Together these two factors have a weighting of 15% and 35%, respectively, of your total credit score, which is substantial. As a result, having little or no credit history to your name will drag your credit score down and impede your effort to secure a high credit limit.

Does a low credit limit matter?

A low credit limit isn't necessarily a cause for concern – it's more of an inconvenience since you can't freely spend as much as you'd like. Also, with less credit at your disposal, you're limited in your ability to collect travel rewards, cashback, or other valuable credit card rewards points.

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Perhaps the most notable impact of a low credit limit is how it affects your credit utilization ratio. This financial metric measures the amount of credit you use relative to your available credit limit. If you have a low credit limit and your spending is on the high end, you'll end up with a high ratio, which can negatively impact your credit score. Typically, lenders want to see borrowers with a credit utilization ratio under 30%. To reduce your credit utilization ratio, you'll either have to taper your spending or increase your credit limit.

How to increase your credit limit

Looking to give your credit limit a boost?

The easiest way to do so is by practicing good credit management habits, like paying off your balance on time without fail. Eventually, you'll be the proud owner of an impressive credit score, and lenders will be more willing to raise your credit limit.

Once your credit standing is in good shape, contact your card issuer and request an increase. Alternatively, you can apply for a new credit card. Just be aware that both options usually entail a hard credit check, which may temporarily reduce your credit score.

If you manage your debt wisely, your credit limit will rise naturally over time, too. Automatic rate hikes typically kick in every six-to-12 months — have a peek at your contract for details.

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