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Credit Card Limits Often Unreported

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It is a well-kept little secret of the credit card industry -- and it can be exceptionally costly to home buyers and mortgage applicants.

The secret is this: Your credit card company may be depressing your credit scores by not reporting your credit limit to the three national credit bureaus. Lower credit scores, in turn, push you into higher interest rates when you apply for a mortgage, and can add thousands of dollars of needless extra costs for you as a homeowner.

If you carry a Capital One credit card, you can be 100 percent certain that your credit limit is never reported because Capital One confirmed to me that its corporate policy is to withhold limits, whether it depresses some customers' scores or not.

If you have other cards in your wallet, you will need to check your credit files to determine whether your limits are reported. Though most major bank card issuers say their policy is to report customers' credit limits monthly, researchers say that limits frequently are missing in the bureaus' files. A recent Federal Reserve Board study that analyzed 301,000 consumer credit files found that 46 percent of all consumers in the sample were missing at least one credit limit on their national reports.

The problem of nonreported credit limits is most severe, according to credit industry experts, for younger home buyers, newcomers to the banking and credit arenas, and others with relatively thin credit histories.

"There is no doubt that [nonreporting of limits] has a major negative impact on consumers with thin files," said Terry W. Clemans, executive director of the National Credit Reporting Association.

The reason, Clemans said, is that the most widely used scoring system in the mortgage field -- the FICO score developed by Fair Isaac Corp. -- assigns 30 percent of a person's score to what is known as "utilization" of available credit. Utilization boils down to this: If you have a card with a $1,000 limit and you are carrying a $950 balance, you have a 95 percent utilization rate. FICO's scoring system subtracts points for such high ratios.

On the other hand, if you are revolving a $250 balance on the same card, you are rewarded with points because of your seeming moderate, responsible use of your available credit.

What happens if your credit card company withholds or fails to report your credit limit? The scoring system typically substitutes your highest reported balance on the card for your missing limit. That, in turn, will often depress your score by raising your utilization rate.

For example: Your card has a $5,000 limit but the highest balance you have ever racked up was $1,000. That should add points to your score, as befits a modest 20 percent utilization ratio. But if your card company hasn't reported your limit, the scoring system will treat your high balance of $1,000 as a proxy for your actual limit.

But what if you regularly carry an $800 or $900 balance on that card? Suddenly your utilization looks scarily high, and your score plunges -- especially if that card is one of the few big credit accounts in your national bureau files. Depending upon your overall credit profile, you could lose 20 to 50 points, or even more, because of that missing credit limit.

What does a 20-point to 50-point drop in your FICO score do to you when you apply for a home loan? According to Fair Isaac's Web site, www.MyFico.com, in mid-December an applicant for a $150,000 30-year fixed-rate mortgage with a 700 FICO score would be quoted a 5.79 percent interest rate, costing $880 a month in principal and interest. An applicant with a FICO score of 660, just 40 points lower, would be quoted a 7.48 percent rate, with monthly principal and interest payments of $1,047. That $167 extra a month would raise loan costs $2,004 a year, and would be a needless, unfair expense to the home buyer if it were caused by a card company's failure to report a customer's credit limit.

Why would a card issuer do such a thing? McLean-based Capital One Financial Corp., one of the largest issuers in the country, heavily markets its cards to young consumers and individuals with imperfect or thin credit histories. It says it does not report any customers' limits because "we consider [limits] proprietary" information, and "because we do not think it would be appropriate to impact the individual's Fair Isaac score -- positively or negatively -- by reporting them."

Fair Isaac itself, by contrast, supports full reporting of account information. Cheri St. John, Fair Isaac's vice president of scoring and consumer solutions, says "the more data, the better" -- positive or negative -- when it comes to fairness in credit scoring.

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