CONSUMER FINANCIAL PROTECTION BUREAU | JUNE 2022

CONSUMER CREDIT TRENDS

Credit Card Line Decreases

This is part of a series of reports of consumer credit trends produced by the Consumer Financial Protection Bureau using a longitudinal sample of approximately five million de-identified credit records from one of the three nationwide consumer reporting agencies. This report was prepared by:[1]

- Logan Herman
- Aarthi Kannan
- Jonah Kaplan
- Austin Mueller

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INTRODUCTION

Credit cards are one of the most commonly held and widely used financial products for consumers. Today, there are some 537 million credit card accounts held by U.S. consumers with $841 billion in outstanding balances.[2] Over 181 million consumers have at least one card.[3] Credit cards also play a critical role in many consumers' finances, not only as a routine spending mechanism, but also as a source of flexibility during financial hardship.[4]

Yet a consumer's available credit can disappear, sometimes without warning or subsequent explanation.[5] Credit line decreases (CLDs) are an industry practice where a credit card issuer reduces a consumer's credit limit amount on their existing open account.[6] As credit cards are a fundamental component of consumer credit access and financial resilience, understanding the impact of CLDs on consumers can help inform policymakers and market participants on the importance of these credit limit account management decisions.[7]

This report examines the prevalence of CLDs and attendant changes in consumers' credit availability, utilization, and credit scores using the Consumer Financial Protection Bureau's (CFPB) Consumer Credit Panel (CCP). In this report, we first examine the prevalence of CLDs on a consumer's highest balance general purpose credit card account. Next, we observe the typically significant reduction in available credit on the affected card following a CLD. We show

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[2] Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit 2022:Q1* (May 2022), https://www.newyorkfed.org/medialibrary/interactives/householdcredit/data/pdf/HHDC_2022Q1.

[3] Bureau of Consumer Financial Protection, *The Consumer Credit Card Market* (Sep. 2021), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2021.pdf.

[4] Consumers indicate their most common approach to confront major unexpected expenses is to "use a credit card and then carry a balance." *See* Board of Governors of the Federal Reserve System, *Report on the Economic Well-Being of U.S. Households in 2021 – May 2022* (May 2022), https://www.federalreserve.gov/publications/files/2021-report-economic-well-being-us-households-202205.pdf.

[5] While there are limited situations where issuers may initiate line decreases without providing consumers explanation, "under the Equal Credit Opportunity Act (ECOA) and the Fair Credit Reporting Act (FCRA), applicants for credit are generally entitled to receive the reasons why creditors take adverse action on their applications and, when creditors use a credit score, the key factors adversely affecting that score" (Consumer Financial Protection Bureau, *Tech Sprint on Electronic Disclosures of Adverse Action Notices* (Oct. 2020), https://www.consumerfinance.gov/rules-policy/innovation/cfpb-tech-sprints/electronic-disclosures-tech-sprint/). Doing so provides transparency, for example, by enabling borrowers to take steps to improve their credit standing, and/or to dispute with the creditor and consumer reporting companies if the borrower believes that the information used about them is incorrect. For more information, see also Consumer Financial Protection Bureau, *CFPB Issues Advisory Opinion on Coverage of Fair Lending Laws* (May 2022), https://www.consumerfinance.gov/about-us/newsroom/cfpb-issues-advisory-opinion-on-coverage-of-fair-lending-laws/.

[6] Consumers may request a reduction in their credit line, but this is less common than institution-initiated CLDs.

[7] Scott L. Fulford, "How important is variability in consumer credit limits?" *Journal of Monetary Economics*, 2015, 72: 42-63, https://doi.org/10.1016/j.jmoneco.2015.01.002.

that median utilization rates on the affected card reach over 90 percent for prime-and-below-scored consumers and examine changes in consumer balances after a CLD. For these consumers, the CLD effectively removed most available credit on that credit card and significantly reduced total available card credit. Finally, we describe changes in consumer credit scores and consider the implications of CLDs on future credit opportunities.

Credit card account management strategies can vary significantly by issuer. In the event of a broad economic downturn issuers might reduce credit limits to prevent incurring losses from consumers they believe will be unable to repay. For example, CLD activity increased during the COVID-19 pandemic and the Great Recession.[8] A line decrease can also be used to limit exposure on accounts perceived as a higher credit risk compared to other accounts, as well as to reallocate credit from less active or profitable accounts. Issuers continuously monitor changes in consumer credit reporting data to spot changes in individuals' financial health, such as decreases in credit scores, increased delinquencies or utilization, or rising balances.[9]

While CLDs might prevent consumers from taking on more credit than they can afford, CLDs can also have significant negative repercussions on consumers. First, consumers can experience a sudden decline in their access to credit, which may compound existing financial pressures and reduce resilience.[10] For example, Visa noted that past across-the-board CLDs during the Great Recession "led to accelerated spending by at-risk customers as they saw their 'life line' quickly disappearing."[11] CFPB market monitoring indicates that one reason issuers might choose not to notify consumers in advance about a CLD is to prevent them from taking countervailing action,

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[8] Credit card limits on existing accounts were cut during the pandemic, particularly for high credit score borrowers. *See* Corinne Candilis & Ryan Sandler, *Credit card limits are rising for most groups after stagnating during the pandemic*, Consumer Financial Protection Bureau, https://www.consumerfinance.gov/about-us/blog/credit-card-limits-rising-for-most-groups-after-stagnating-during-pandemic/. For more information regarding CLD trends during the Great Recession, *see* Figure 1: herein.

[9] Market monitoring indicates that some issuers used "trigger" solutions from consumer reporting companies to help identify consumers for CLD actions to reduce future losses. These triggers can include a variety of information such as changes in delinquencies or consumer balances. For example, *see* Equifax, *Account Management Triggers*, https://www.equifax.com/business/product/account-management-triggers/; TransUnion, *Risk Triggers*, https://www.transunion.com/product/triggers; Experian, *Customer Management*, https://www.experian.com/consumer-information/customer-management. Credit reports do not currently distinguish between lender-based and consumer risk CLD drivers.

[10] Account line management programs do not generally reduce line amounts below outstanding balances. *See, e.g.*, Office of the Comptroller of the Currency, *Comptroller's Handbook – Credit Card Lending* (Apr. 2021), https://www.occ.treas.gov/publications-and-resources/publications/comptrollers-handbook/files/credit-card-lending/pub-ch-credit-card.pdf.

[11] The report also noted that CLDs "irritated those customers who were unaffected by the downturn." *See* Visa, *Assigning and Managing Credit Lines – Risk and the COVID-19 pandemic* (2020), https://usa.visa.com/dam/VCOM/global/partner-with-us/documents/visa-covid-19-clm-paper-eng-vf.pdf.

such as running up their credit line. Business practices related to providing transparency and reasons for the CLD to consumers also appear to vary by issuer.

Second, a reduction in the available line on a credit card will drive up the utilization rate for that card, even if the consumer maintains an identical balance. Since utilization is a key input for many credit scoring formulas, absent other changes, a higher utilization rate typically leads to a decrease in credit scores.[12] A lower credit score can result in higher prices for credit or a higher likelihood of being denied when consumers apply for credit.[13] Score decreases can also have other knock-on effects, such as triggering CLDs on credit cards issued by other lenders.[14]

Consumers may perceive CLDs as one-sided and unfair, especially if their repayment behavior has not changed. The CFPB's 2021 Consumer Credit Card Market Report found a significant increase in consumer complaints relating to CLDs during the pandemic in 2020.[15] Reputational backlash from a CLD can result in lower customer satisfaction or account attrition.[16]

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[12] According to FICO, for example, "'Amounts owed' comprises some 30% of the overall FICO® Score calculation and is heavily weighted towards credit card balances and utilization." *See* Ethan Dornhelm, *Average U.S. FICO Score at 716, Indicating Improvement in Consumer Credit Behaviors Despite Pandemic*, FICO (Aug. 2021), https://www.fico.com/blogs/average-us-ficor-score-716-indicating-improvement-consumer-credit-behaviors-despite-pandemic. A FICO webinar early in the COVID-19 pandemic explored economic recessions and attendant credit line reductions; specifically, credit score impacts with CLDs up to 50% of the original credit limit (*See* FICO, *What FICO Score Dynamics from Prior Downturns and Natural Disasters Can Tell Us About the Road Ahead* (May 2020), 41:00-45:30, https://www.fico.com/en/latest-thinking/webinar/north-america-what-fico-score-dynamics-prior-downturns-and-natural).

[13] Consumer Financial Protection Bureau, *What is a credit score?* (Sep. 2020), https://www.consumerfinance.gov/ask-cfpb/what-is-a-credit-score-en-315/.

[14] For one consumer's experience with consecutive CLDs during the Great Recession, *see* Eric Dash, *Banks Trimming Limits for Many on Credit Cards*, New York Times (Jun. 2008), https://www.nytimes.com/2008/06/21/business/21credit.html?smid=url-share. A notable harm of identity theft is when a credit card account is opened fraudulently in a consumer's name and then never repaid, is that other card issuers can respond by reducing the consumer's existing credit lines even though the consumer is not at fault. *E.g., see*, Michael Lewis, *Against the Rules: The Seven Minute Rule* (Apr. 2019), 00:40-07:05, https://www.pushkin.fm/episode/the-seven-minute-rule/.

[15] "[F]or consumers who did experience a CLD during the pandemic, this reduction in credit availability was surprising and often acutely felt, as evidenced by a 65 percent increase in complaints related to CLDs in 2020." *See* Bureau of Consumer Financial Protection, *The Consumer Credit Card Market* (Sep. 2021), https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2021.pdf. *See also* Kevin Wack, *Credit card lenders clamp down to mitigate coronavirus risk*, American Banker (May 2020), https://www.americanbanker.com/news/credit-card-lenders-clamp-down-to-mitigate-coronavirus-risk.

[16] "On average, among customers in 2021 who say they have an issue with credit limits, overall satisfaction scores are 141 points lower than among those who have no issues." *See* Press Release, J.D. Power, *While Many U.S. Credit Card Issuers Struggle to Meet Evolving Customer Expectations, Some Bright Spots Exist, J.D. Power Finds*, J.D. Power (Aug. 2021), https://www.jdpower.com/business/press-releases/2021-us-credit-card-satisfaction-study. *See supra* note 11.

CREDIT LINE DECREASE INCIDENCE AND DELINQUENCIES

In this report, we define a CLD as a decrease in the credit limit on a consumer's existing open general purpose credit card account that is not an account closure. In Figure 1, we first show overall CLD incidence for general purpose credit cards. In Table 1 and following figures, our tabulations focus on the card with the highest balance among all of a consumer's active general purpose credit cards with a balance. For much of our analysis, we consider CLDs that occurred in 2019Q1 and observe consumer credit characteristics for three quarters before and after to focus on consumer and issuer behavior outside of the COVID-19 pandemic. We define a recent credit card account delinquency as a recorded delinquency in the two quarters preceding the CLD (i.e., 2018Q3 or Q4). A consumer is considered to have a delinquency in a quarter if any of their credit card accounts had a balance at the time that was 30, 60, or 90+ days past due. Grey bars in Figures 4-6 highlight change from the quarter prior to the CLD (2018Q4) to when the CLD was implemented (2019Q1).

CLD activity can vary significantly under different economic conditions. Changes in economic outlook or capital requirement obligations can lead credit card issuers to reduce credit lines to lower the institution's exposure to risk.[17] Around the time of the Great Recession, CLDs reduced total consumer credit card lines by approximately $405 billion between June 2008 and January 2010.[18] Quarterly CLD activity more than tripled from affecting less than one percent of general-purpose credit card accounts in 2006 to nearly four percent of accounts in 2009, as shown in Figure 1. CLD incidence rose across consumer credit score tiers, and was higher for subprime borrowers.[19] As financial conditions improved, the incidence of CLDs also fell accordingly to approximately one to two percent by 2012.[20]

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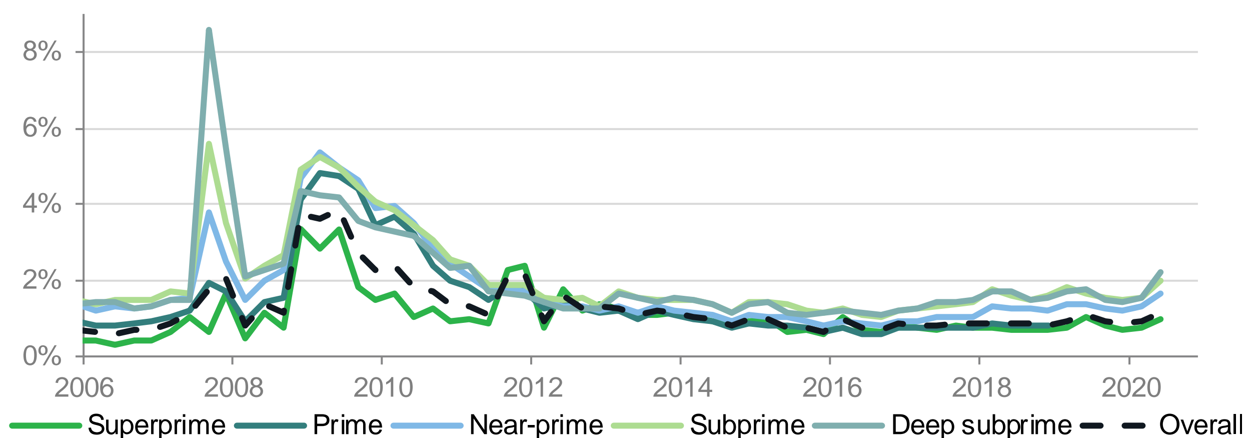
[17] Credit card issuers have obligations to maintain adequate safeguards against market risk. *See supra* note 10.

[18] Consumer Financial Protection Bureau, *CARD Act Report* (Oct. 2013), https://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf.

[19] Score tiers are defined as Superprime (scores of 720 or greater), Prime (scores from 660 to 719), Near-prime (scores from 620 to 659), Subprime (scores from 580 to 619), and Deep subprime (scores of 579 or less).

[20] Credit card loan delinquency rates peaked in 2009, coinciding with the increase in CLD activity. *See* Federal Reserve Board, *Delinquency Rate on Credit Card Loans, All Commercial Banks*, accessed from Federal Reserve Bank of St. Louis (Feb. 2022), https://fred.stlouisfed.org/series/DRCCLACBS.

FIGURE 1: QUARTERLY CLD INCIDENCE, ALL GENERAL PURPOSE CARDS[21]



In Table 1, CLD actions were four times as common if a consumer had a recent credit card delinquency (1.33 percent compared to 0.31 percent). However, approximately 67 percent of consumers who had CLDs show no evidence of a recent delinquency on any credit card, and 83 percent had no delinquency on the card that received the CLD (not shown). For these consumers, the CLD decision may be driven by other changes in their credit profile, internal account performance data, or by changes in institution risk management unrelated to consumer credit standing.

TABLE 1: SHARE OF CONSUMERS WHO RECEIVED A CLD ON HIGHEST BALANCE ACCOUNT, BY RECENT CREDIT CARD DELINQUENCY STATUS (2019Q1)

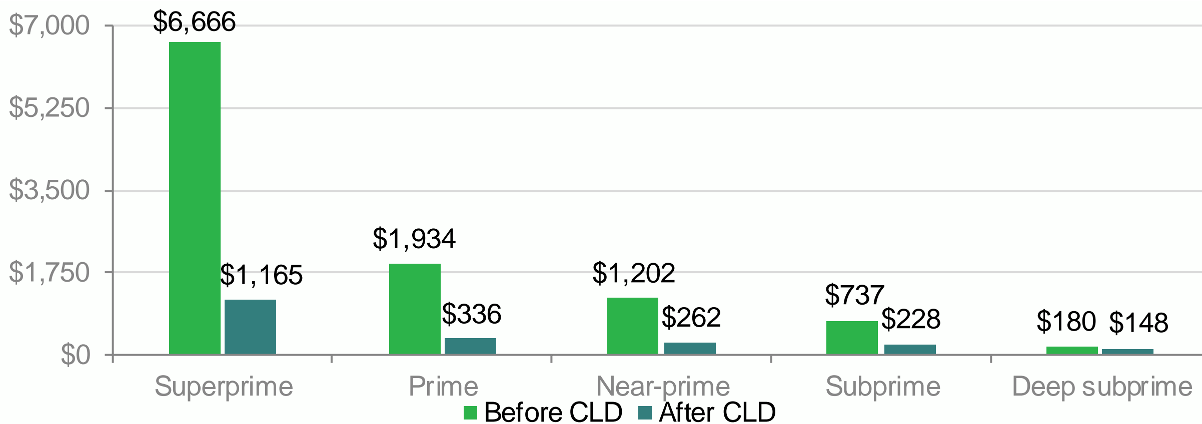
Score Tier	Share of Consumers that Received a CLD	Share of Consumers with a Recent Delinquency that Received a CLD	Share of Consumers without a Recent Delinquency that Received a CLD	Share of CLD Recipients without any Recent Card Delinquency
Deep subprime	0.47%	0.64%	0.35%	44.5%
Subprime	0.95%	1.64%	0.71%	55.5%
Near-prime	1.02%	2.23%	0.78%	64.6%
Prime	0.70%	2.29%	0.56%	73.6%
Superprime	0.15%	1.73%	0.13%	84.2%
Total	**0.41%**	**1.33%**	**0.31%**	**67.3%**

[21] Includes all general purpose credit cards.

CREDIT LINE DECREASE AMOUNT AND IMPACT ON AVAILABLE CREDIT

During a CLD, issuers often cut the vast majority of available credit. Across score tiers, the median share of the open line cut by a CLD was approximately 75 percent (not shown). In Figure 2, we show the effect of CLDs on available credit, as measured by the difference in median available credit (that is, credit limit minus balances) before and after the CLD. The median available line after the CLD was less than $400 for all consumers except those with superprime scores. Median available credit lines for subprime-scored borrowers fell from $737 to $228. This may lead to a significant disruption in a consumer's ability to spend or to rely on that credit during a hardship. In 2021, 32 percent of adults said that they would be unable to cover an unexpected $400 expense completely with cash or equivalents.[22]

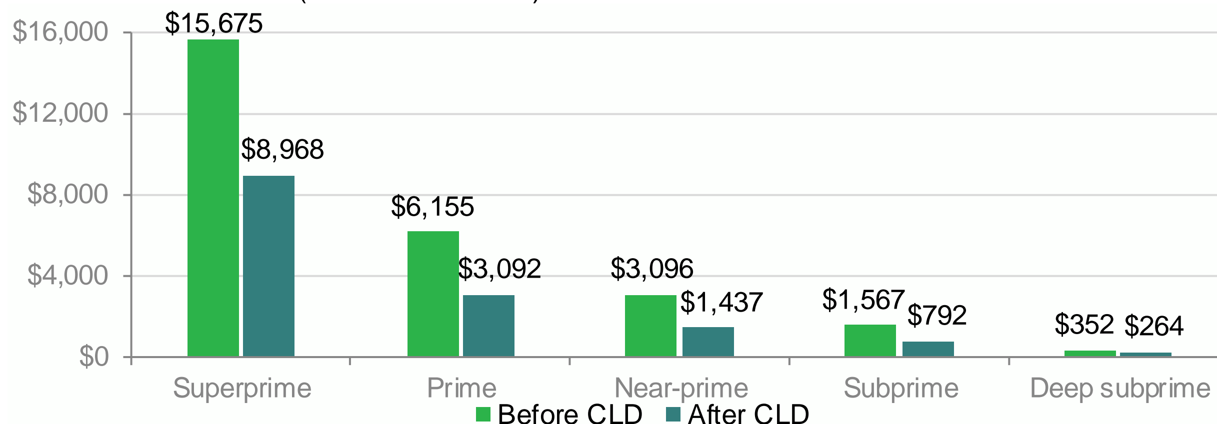
FIGURE 2: MEDIAN CLD-IMPACTED ACCOUNT AVAILABLE CREDIT (LIMIT – BALANCE) BEFORE AND AFTER CLD (2018Q4-2019Q1)



Next, we examine consumers' total available card credit across accounts after receiving a CLD on their highest balance card. Figure 3 combines the available credit of each of a consumer's general-purpose credit card lines. While most consumers have more than one credit card, Figure 3 shows that a CLD on their highest balance card significantly affects a consumer's total access to general-purpose card credit. For consumers with prime scores, the median total line available fell from $6,155 to $3,092. Subprime and deep subprime-scored consumer median available credit fell from $1,567 to $792 and from $352 to $264, respectively. The impact of a CLD may be more acutely felt for consumers in lower score tiers who are less likely to have as many cards as their prime counterparts and may find it more challenging to access new credit.

[22] *See supra* note 4.

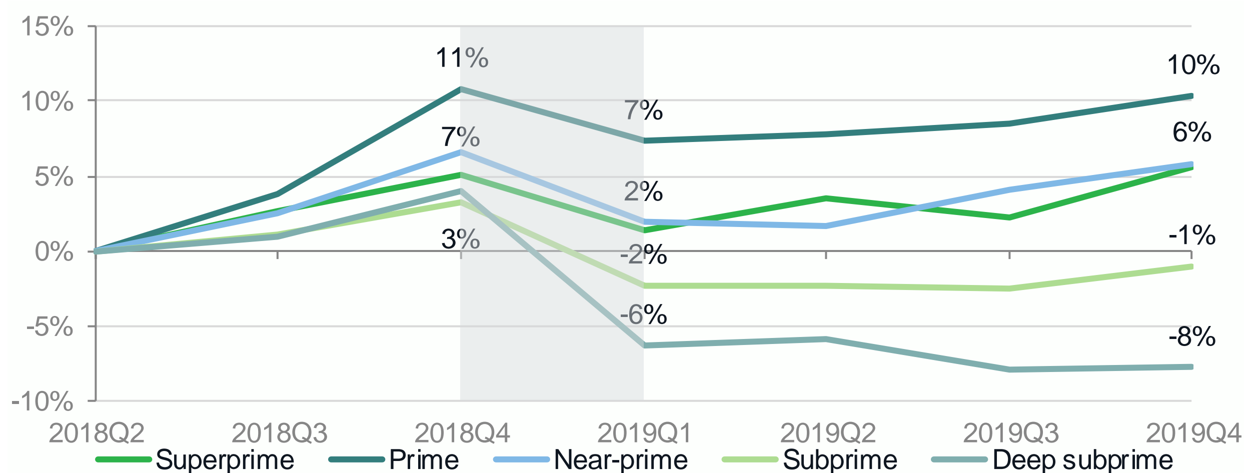
FIGURE 3: MEDIAN TOTAL CONSUMER AVAILABLE CREDIT (LIMIT – BALANCE) BEFORE AND AFTER CLD (2018Q4-2019Q1)



BALANCE CHANGES AFTER A CREDIT LINE DECREASE

CLDs reduce the ceiling on the balances that can be accrued on a credit card. For the highest balance card with the CLD, balances fell across score tiers in the following quarter. Figure 4 shows that the impact of a CLD on total consumer card balances diverged by consumer score tier. While median total consumer card balances fell after the CLD, superprime, prime, and near-prime consumer card balances recovered by 2019Q4 to approximately pre-CLD balances. However, subprime, and deep subprime total consumer card balances fell and remain depressed after a CLD. This divergence represents potential differences in the ability of consumers to recover balance levels after a CLD is imposed. Prime consumers who may carry more cards and have greater access to new forms of credit are able to return to pre-CLD levels within three quarters, while subprime consumer card balances remain impacted by the CLD.

FIGURE 4: MEDIAN PERCENT CHANGE IN TOTAL CONSUMER CARD BALANCES SINCE 2018Q2



UTILIZATION IMPACT OF A CREDIT LINE DECREASE

Figures 5 and 6 illustrate the impact of a CLD on the credit card utilization rate of the affected card and across all consumer credit cards. For the single impacted card, utilization significantly increased, with most consumers essentially "maxing out" the card. Median deep subprime, subprime, near-prime, and prime account utilization reached 94 percent when the CLD was applied. Even for superprime consumers, account utilization more than doubled from 37 percent to 78 percent. Superprime consumers reduced utilization more quickly following the CLD. Subprime, near-prime, and prime account utilization remained close to the limit in the following quarters. For these prime-or-below scored consumers, this source of card credit remained "maxed out," potentially leaving consumers unprepared for unexpected expenses or financial hardships.

FIGURE 5: MEDIAN CLD-IMPACTED ACCOUNT UTILIZATION (2018Q2-2019Q4)

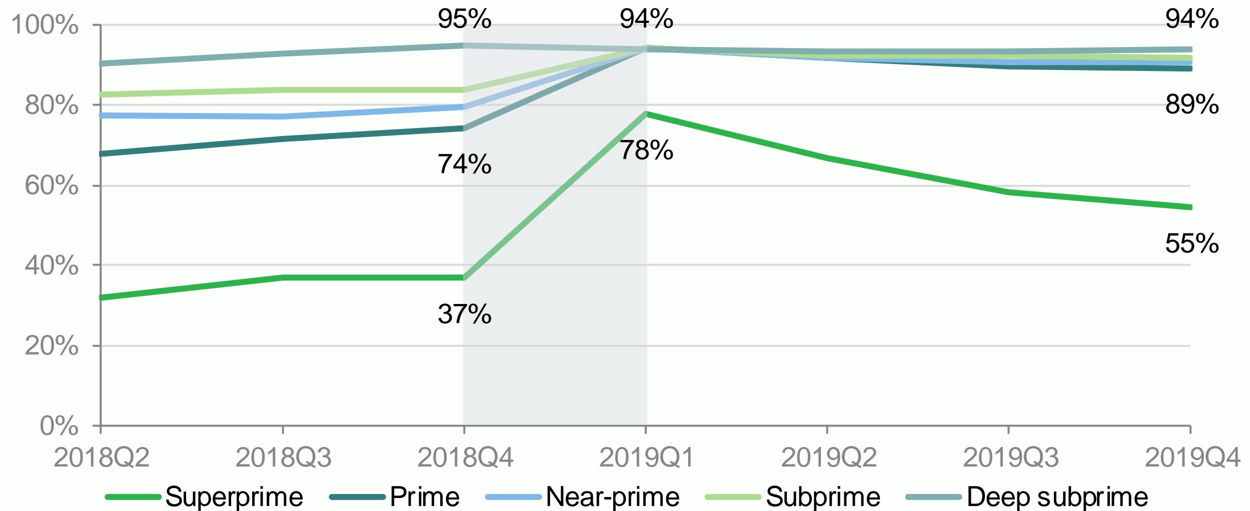
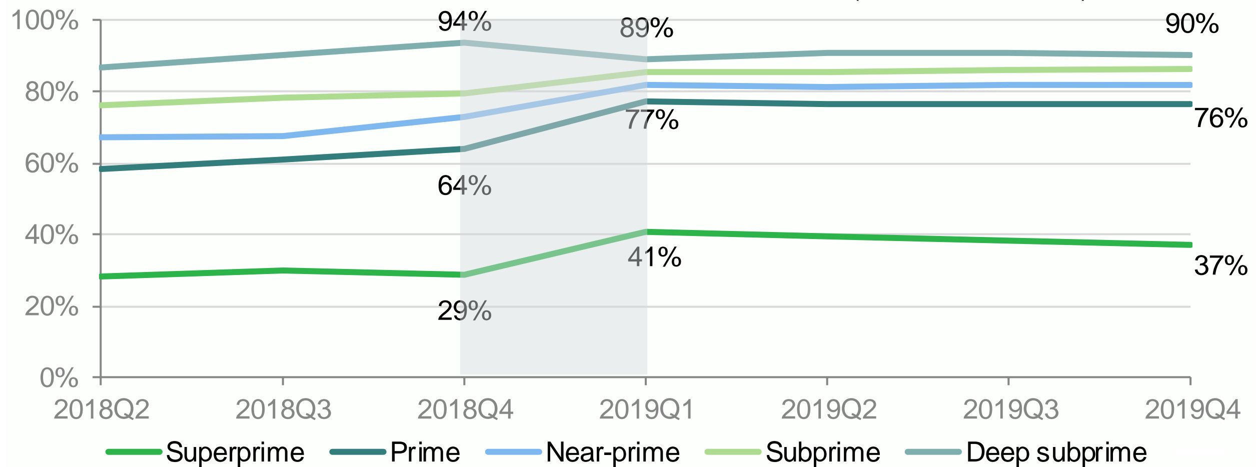


FIGURE 6: MEDIAN CONSUMER TOTAL CARD UTILIZATION (2018Q2-2019Q4)



If the consumer had other unaffected cards, total consumer card utilization also increased, but the effect was less dramatic. Consumers with scores in the prime, near-prime, and subprime score tiers reached the starting consumer utilization rates of a lower score tier. This may carry implications for future risk assessments. After the CLD, the median prime account utilization rate was over 90 percent, and the overall consumer card utilization rate reached 77 percent, higher than the median subprime total card utilization rate three quarters before the CLD. Utilization is a key input in most credit scoring models so the effect of "maxing" account utilization and increasing overall consumer utilization may cause lenders to view the consumer as a higher credit risk, versus other loan applicants, and may make it harder to access credit.[23]

CHANGES IN CREDIT SCORES FOR CONSUMERS WHO RECEIVE A CLD

Credit scores declined following a CLD across score tiers, though the decline was significantly greater if a consumer had a recent credit card delinquency on any card. Superprime, prime, and near-prime-scored consumers had larger score decreases. As noted above, utilization is an input into many credit scoring models, so these score decreases may stem in part from the increase in utilization rates given these borrowers' lower starting utilization rate before the CLD.

For consumers with prime-or-below scores and a recent card delinquency, credit scores declined in the quarter preceding the CLD. The recent delinquency or change in score may have prompted a credit card issuer to initiate a CLD. After the CLD was applied, median scores fell between 7 points for subprime-scored consumers to 90 points for prime-scored consumers. Over the course of the analysis period between 2018Q2 and 2019Q4, credit scores decreased across score tiers for consumers with recent card delinquencies, ranging from a median loss of 33 points for deep subprime-scored consumers to 87 points for superprime-scored consumers.

For consumers without a recent card delinquency, the score decrease prior to the CLD ranged between zero and 21 points. By the end of the analysis period, median deep, subprime consumer scores increased to near pre-CLD levels. Median superprime, prime, near-prime, and subprime scores remained somewhat lower than the start of the analysis period, ranging from a decrease of four points for superprime-scored consumers to 12 points for prime and near-prime-scored consumers.

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[23] "Using a high percentage of your available credit means you're close to maxing out your credit cards, which can have a negative impact on your FICO Scores." *See* myFICO, *What is Amounts Owed?*, Fair Isaac Corporation, https://www.myfico.com/credit-education/credit-scores/amount-of-debt. *See also* VantageScore, *Did You Know all about impact of percent of credit limit used?* (Jun. 2020), https://vantagescore.com/newsletter/did-you-know-all-about-impact-of-percent-of-credit-limit-used/. *See supra* note 12.

TABLE 2: MEDIAN CHANGE IN CREDIT SCORE FOR CONSUMERS, BASED ON RECENT COMBINED CARD DELINQUENCY STATUS

	Before CLD (2018Q2-2018Q4)		At CLD (2019Q1)		After CLD (2019Q2-2019Q4)		Over Entire Analysis Period	
Score Tier	**Recent Delinq.**	**Non-Delinq.**	**Recent Delinq.**	**Non-Delinq.**	**Recent Delinq.**	**Non-Delinq.**	**Recent Delinq.**	**Non-Delinq.**
Superprime	1	0	-90	-5	8	0	-87	-4
Prime	-10	-4	-49	-4	5	0	-64	-12
Near-prime	-21	-9	-21	1	7	0	-44	-12
Subprime	-40	-12	-7	6	5	7	-43	-8
Deep subprime	-59	-21	16	16	10	9	-33	-1

During our analysis period, credit scores for consumers without CLDs generally increased, widening the score gap between those consumers who received CLDs and those who did not.

CONCLUSION

Analysis of CCP data reveals the impacts of CLDs on consumer credit availability, balances, utilization of credit, and consumer scores. A CLD resulted in a dramatic reduction in available credit on consumers' impacted credit card, with a median decline of 75 percent. For consumers already struggling to meet credit obligations, CLDs can prevent them from being further overextended, but these reductions may also carry significant implications for consumer financial resilience. While superprime and prime-scored consumers may have used other credit cards or new accounts to offset the CLD and return to previous total card balance levels, subprime and deep subprime balances remained depressed three quarters later. The lasting effects of this credit reduction may be particularly felt by financially vulnerable consumers, as their cards were "maxed out" and they were no longer able to use this credit. CLDs also resulted in a sharp rise in the affected card's utilization rate, even as median card balances declined. Consumers with below-superprime scores maintained extremely high median utilization on the affected card (89 to 94 percent), which could have credit access and pricing implications for affected consumers.

Additional research could enhance our understanding of credit line management and its impact on consumers. This may include analyses that compare CLDs caused by consumer risk with those driven by institutional risk management, or the influence of regulatory changes such as the CARD Act of 2009.[24] Research could also explore the role of adverse action notifications on CLD transparency, and how credit line management practices vary among credit card issuers.

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[24] *See* Consumer Financial Protection Bureau, *Final rules*, https://www.consumerfinance.gov/rules-policy/final-rules/?topics=credit-card-act. *Cf.* Sudheer Chava et al., *Shocked by Bank Funding Shocks: Evidence from Consumer Credit Cards* (Jul. 2018), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3509356.