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### **Credit Analyst Warns of Trap For Credit Card Customers**

“Many people will have their credit scores lowered this year if they’re not watchful, know what to do and take action,” said Eddie Johansson, president of Credit Security Group, a leading nationwide credit score analysis and rescoring firm.

Credit scores are used by lenders to determine credit risk. Lower scores result in loss of credit and higher interest rates. Financial analysts predict cuts up to \$2 trillion in credit card account lines over the next 18 months.

“This will have very bad consequences for consumers who are not prepared,” said Johansson speaking recently about credit scores at the Texas Bankers Association’s Financial Literacy Summit.

Analysts predict many card companies will be canceling unused cards and lowering limits this year. According to Johansson, “This is how the trap will be set: you have a \$4,000 balance on a card that the company lowers your limit from \$10,000 to \$5000. You don’t know it, but your credit score has just taken a hit — and it’s only beginning.” Johansson says credit companies constantly monitor your credit score, which causes the trap to spring.

“Another company lowers your limit and increases your interest rate, ‘due to decreased credit score.’ This lowers your credit score further. Another company cancels an unused card. The cycle snowballs with other cards, and then the same ones over again. If you are planning a major credit move — say, refinancing your house for lower rates, your lower credit score hurts your chances of refinancing and greatly increases the interest rate offered.”

Johansson points out that the consumer here has done nothing different, hasn’t gone into more debt, hasn’t missed any payments. Yet, his rates have gone up and his ability to use credit has been damaged — while he was unaware. And once ensnared it’s difficult to get out. “This is why it’s a trap,” Johansson said.

“You can prevent this from happening to you,” he said, “if you know how.”

“The critical piece of this trap is your credit score,” said Johansson. “It’s what keeps the snowball rolling. Your credit score is also the sole measure used to determine your credit risk and interest rates in the future. You should carefully guard it as it comes under attack this year,” he said.

With the amount of credit reduction projected, almost everyone will lose some credit availability, Johansson said. “You can’t control credit card companies reducing the amount of credit in the system, but you can make sure it does not hurt your credit score — and this is critical to maintaining your ability to manage your finances in addition to saving you thousands of dollars in fees and interest payments.”

Johansson gives specific advice on what to do. The key is in your credit scores — knowing how the scoring system works and how to avoid hits to your score. In brief, the steps are:

- 1) Keep your balances low on existing cards.
- 2) Remember it’s the balance/limit ratio that counts — not the balance amount. If a credit card company lowers your limit, immediately lower your balance if necessary to stay under eight percent. Try to keep all cards under the eight percent guideline.
- 3) Charge small amounts on your old, unused credit cards. This makes them active which increases the limit portion of your balance/limit ratio. Keeping a balance can also prevent the account from being closed.
- 4) Avoid opening new lines of credit if at all possible. Use new credit sparingly and for your best advantage.
- 5) Don’t price-shop where the seller pulls your credit score. This includes homes and cars among other products and services. If you’re not sure, make sure — tell them not to pull your credit report.
- 6) Whatever it takes, avoid any negative events on your credit report.
- 7) Monitor your credit reports; be alert for any changes. Correct inaccurate information in your report, or hire a professional to do so. Besides keeping your score from decreasing, many people increase their scores by correcting their data at the credit bureaus.

If you face a cash squeeze, Johansson has key advice: Know which bills report to credit bureaus and pay them first. “If you absolutely must be late some bills, pay the ones that affect your credit score first,” he recommended. These include car payments, mortgage and credit card bills as well as other revolving and installment accounts.

“If you just cannot pay your bills, you must make arrangements to get current and prioritize your bill payments,” he said.

Johansson emphasized the high potential damage of collection notices from current creditors. “A collection notice means you are about to receive a severe hit to your credit score. Pay these immediately, or contact the original creditor to make arrangements. You must be certain not to get a collection on your credit report at this time,” he said. “This will start the snowball really rolling and make a bad situation much worse. A single, recent, one dollar debt collection can dramatically lower your credit scores.”

Johansson said that consumer’s lack of knowledge about the credit systems is particularly costly in these times and that there is a great deal of misinformation. “How much you have in the bank does not affect your credit score, Johansson said. “A common misconception is that if you have a high paying job, lots of assets and net worth, this means you have low credit risk and scores.” Johansson said that while these matter when you go to borrow money, they do not affect your credit score at all. “This is solely determined by your FICO score and data reported to the three major credit reporting companies — this doesn’t include any asset or income information for you or your spouse.

Lenders have reduced the limits on what are known as home equity lines of credit, or HELOCs. Many investors do not realized that HELOCs are scored as revolving accounts and will be affected similarly to credit card accounts,” Johansson recently told investors at the North Texas Association of Housing Providers’ Year End Financial Clinic.

Consumers should be careful not to act emotionally and to not take this personally, Johansson cautioned. “This is done by computer programs, unfortunately,” he said, “and you should not feel singled out. Everyone will take a hit. You need to act calmly and wisely to make it through this time with your credit intact.”

### **About Credit Security Group**

Credit Security Group serves consumers and lending organizations nationwide and advises major banks and mortgage lenders and their clients on how the system works and how to improve credit scores. CSG also conducts seminars and educational presentations to consumer, banking and mortgage groups and associations. President Eddie Johansson has appeared on television and radio programs as the consumer credit score expert.

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