What Is Your Credit Utilization Ratio?

*Hint: It has a huge impact on your credit score.*

If you've ever researched factors affecting your credit score, you may have come across the term "credit utilization ratio." It sounds complicated, but it's a really simple idea. Your credit utilization ratio, sometimes called your credit utilization rate, is the ratio between how much revolving credit -- that is, accounts with balances that vary from month to month, like [**credit cards**](https://www.fool.com/the-ascent/credit-cards/) -- you're currently using and how much you have available to you.

It plays a huge factor in your credit score. This is because statistics have shown that a high credit utilization ratio indicates someone who is living beyond their means and may be at increased risk of default. A credit utilization ratio that's too high might leave you ineligible for loans and credit cards or saddle you with higher interest rates. The good news is that controlling your credit utilization ratio isn't difficult once you understand how it works.

How to calculate your credit utilization ratio

Calculate your credit utilization ratio on a single card by dividing your current balance on that card by your credit limit. Then, multiply by 100 to get a percentage. For example, if you have a $10,000 limit on one credit card and your balance is currently $2,000, you would get a credit utilization ratio for that card of 20%: $2,000 / $10,000 = 0.2 x 100 = 20%.

Your credit utilization ratio on each card matters, but you also have to consider your credit utilization ratio as a whole. You figure this out by adding up all of your balances across all of your credit cards and dividing them by the total of your credit limits on all of your cards. Then, multiply by 100 to get your percentage.

For example, if you have one card with a $3,000 limit and a $250 balance, one card with a $5,000 limit and a $1,250 balance and one card with a $10,000 limit and a $3,000 balance, your total balances would be $4,500 ($250 + $1,250 + $3,000) and your total credit limit would be $18,000 ($3,000 + $5,000 + $10,000). You would divide the $4,500 by the $18,500 and multiply by 100 to get 25%.

What is a good credit utilization ratio?

The rule of thumb is to keep your credit utilization ratio under 30% whenever possible. Using more than 30% of your available credit indicates that credit is something you routinely depend on to finance your lifestyle and this makes lenders wary.

If you have a high credit utilization ratio already and a lender gives you even more money, it may push you over the edge. You might not be able to keep up with your payments anymore and the lender might never get its money back. Lenders may hedge their bets by charging borrowers with credit utilization ratios above 30% a higher interest rate, or deny them outright rather than take that chance.

While 30% might be the ceiling for your credit utilization ratio, there's no harm in being well under this limit, as long as you remain above 0%. You might think it looks good to lenders if you never rely on credit, but this also concerns them because then they have no insight into how you will handle borrowed money. Rather than hope for the best, many lenders will deny borrowers without a credit history outright, unless they [have a cosigner](https://www.fool.com/the-ascent/personal-loans/articles/how-ask-someone-cosign-loan/) who is willing to vouch for them and take over the payments if the primary borrower is unable to do so.

How does your credit utilization ratio affect your credit score?

As I mentioned above, statistics have shown that credit utilization ratio is a predictor of future financial behavior, so it's not surprising that it makes up 30% of your [FICO® credit score](https://www.fool.com/the-ascent/credit-cards/articles/the-complete-guide-to-your-fico-score/). This is the scoring model most commonly used by lenders to assess a borrower's creditworthiness. Your credit utilization ratio is second only to your payment history in terms of importance, and the two make up a collective 65% of your score.

[**VantageScore**](https://www.fool.com/the-ascent/credit-cards/articles/complete-guide-your-vantagescore/) -- the other popular credit scoring model -- considers your credit utilization ratio as well, but it only accounts for 20% of your score. It also has a separate category for your available credit, which is the difference between your credit limit and your current balance, and this accounts for 3% of your score.

Because your credit utilization can vary from month to month, so can your credit score. Lowering your credit utilization ratio can improve your credit score, in some cases significantly, but it could be a few weeks before you see the difference. It depends on when you made your payment and when your credit card issuer reported your updated balance and payment information to the credit bureaus.

Credit card companies usually only report to the credit bureaus once at the end of your billing cycle. If you pay off your balance a few weeks earlier, your credit utilization ratio may technically go down, but the credit bureaus won't know about this right away. This is something to bear in mind if you're trying to lower your credit utilization ratio to apply for a new loan or credit card. Wait at least until the end of the billing cycle following your payment before you apply to be sure that your credit score is accurate.

How to improve your credit utilization ratio

Lowering your credit utilization ratio is much easier and quicker than influencing the other factors that impact your credit score, like your payment history and average account age. Here are some things you can do to keep your ratio as low as possible:

* **Reduce the amount of money you charge each month**: This is the simplest way to reduce your credit utilization ratio and is a smart move if you've been known to carry a balance. It may not appeal to everybody because it potentially limits the amount of [**credit card rewards**](https://www.fool.com/the-ascent/credit-cards/articles/7-tricks-to-help-you-maximize-your-credit-card-rewards/) they can earn. If your credit utilization ratio is high only on a single card, try redistributing the amount you charge to each card to keep all your ratios under 30%.
* **Request a** [**credit limit increase**](https://www.fool.com/the-ascent/credit-cards/articles/definitive-guide-securing-higher-credit-limit/): If your credit limit goes up, your credit utilization ratio automatically goes down because you will be using less of your available credit -- assuming you don't increase your spending accordingly. Reach out to your card issuer and request a credit limit increase. Many now enable you to make this request online. Your issuer may ask for updated income information to help make its decision and it might make a [**hard inquiry**](https://www.fool.com/the-ascent/credit-cards/articles/heres-the-difference-between-hard-and-soft-credit-checks/) into your credit report. This will lower your score by a few points, but if you're approved for the credit limit increase, the boost you'll get from lowering your credit utilization ratio will more than make up for it.  
  If you're denied a credit limit increase, wait a few months before requesting one again. Your card issuer is likely to be annoyed if you're constantly pestering it for an increase, and constant hard inquiries can take a toll on your credit score over time. Work at improving the other aspects of your credit, like your payment history, before applying again.
* **Pay off your credit card balance before the end of the billing cycle or make two payments per month:** This is another way you can lower your credit utilization ratio. Remember, the credit bureaus only see the final balance your card issuer reports to them at the end of each billing cycle. You can take advantage of this reporting delay to spend more money without adversely affecting your credit utilization ratio. Paying halfway through the month and then again at the end of it will make it appear as if you only spend a fraction of what you actually did. This strategy only works if you have the money to pay back what you owe.
* **Consider a personal loan:** If you're carrying a balance from month to month and you just can't seem to pay it down, try taking out a [**personal loan**](https://www.fool.com/the-ascent/personal-loans/) to get rid of your credit card debt. This will get you a predictable monthly payment and possibly a lower interest rate than what you were paying on your credit cards. It'll also lower your credit utilization ratio, but you must avoid the temptation to run up more debt on your card or you'll defeat the purpose.

Your credit utilization ratio is an important measure of your financial responsibility and it's relatively easy to control. Figure out what your credit utilization ratio is on each of your credit cards (and overall) and try some of the above tips if you need to to get yours under 30%.