FREE PRACTICE | LIFEREADY

Beginner Credit Utilization

Cleo uses utilization to describe revolving balances relative to credit limits. Divide the reported balance by the limit, then multiply by 100. For several cards, add their balances and limits first. Do not average percentages when limits differ. Reported balances and reporting dates may differ from today's app balance.

Worked example: fictional cards

Card	Balance	Limit	Utilization
Aster	$200	$1,000	20%
Maple	$300	$500	60%
Combined	$500	$1,500	33.3%

Combined: $500 / $1,500 x 100 = 33.3% rounded. The average of 20% and 60% is 40%, but that is not the correct combined calculation. No particular utilization percentage guarantees a score or approval.

Your calculations

1. Card A has $150 of a $600 limit. Card B has $50 of a $400 limit. Find each percentage and combined utilization.

2. If Card A's balance falls by $90 and the limits stay unchanged, find the new combined utilization.

3. If a card has a $0 balance, must you carry an interest-bearing balance to establish responsible habits?

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BEGINNER CREDIT UTILIZATION

Check, explain, and apply

Answers with the denominator shown

1. Card A: $150 / $600 x 100 = 25%. Card B: $50 / $400 x 100 = 12.5%. Combined: ($150 + $50) / ($600 + $400) x 100 = 20%.

2. Card A becomes $60. Combined balances become $60 + $50 = $110. Limits still total $1,000. New utilization is 11%.

3. No. Paying interest is not a requirement for responsible credit use. A purchase grace period may allow interest avoidance if its conditions are met and the full statement balance is paid on time. Not every card has a grace period; cash advances usually differ.

Utilization is one piece

Payment history, account age, types of credit, new applications, and other report information can also matter. Model, lender, data, and timing differences can produce different results. Do not borrow unnecessarily or open an account just to chase a percentage.

Explain

1. Why would paying a balance today not always change a credit report immediately? Why does a utilization calculation not tell you whether a monthly payment is affordable?

Sources: consumerfinance.gov/ask-cfpb/what-is-a-credit-score-en-315/ ; consumerfinance.gov/ask-cfpb/what-is-a-grace-period-for-a-credit-card-en-47/ . Educational practice, not individualized financial, legal, tax, or investment advice. Examples are fictional. U.S. rules and account terms can vary.

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