FICO Credit Utilization Ratios

The FICO Scoring Models examine revolving tradelines on one's credit report, and performs calculations to determine the ratio or percentage of one's balances owing on tradelines, relative to the credit limit on the credit card. This calculation is called a Credit Utilization Ratio.

Creditor	Balance Owing	Credit Limit	Balance Owing as a % of Credit Limit aka "Credit Utilization Ratio"
Macy's	$500	$1,000	50%
Target	$500	$1,000	50%
Visa	0	$1,000	0%
MasterCard	0	$1,000	0%
Totals	**$1,000**	**$4,000**	**25%**

Now let's look at the same calculations after closing the Visa and MasterCard Accounts

Creditor	Balance Owing	Credit Limit	Balance Owing as a % of Credit Limit aka "Credit Utilization Ratio"
Macy's	$500	$1,000	50%
Target	$500	$1,000	50%
~~Visa~~ **Closed**	~~0~~	~~0~~	~~0%~~
~~MasterCard~~ **Closed**	~~0~~	~~0~~	~~0%~~
Totals	**$1,000**	**$2,000**	**50%**

While the Credit Utilization Ratio for the individual credit cards with outstanding balances remains the same in both scenarios at 50% for each of Macy's and Target, notice how the overall Credit Utilization Ratio for all the revolving accounts increases from 25% to **50%** when both the Visa and MasterCard accounts are closed. Therefore:

1) A higher Credit Utilization Ratio will have a negative effect on an individual's credit score
2) A lower Credit Utilization Ratio will have a positive effect on an individual's credit score

- A Credit Utilization Ratio of 30 % represents the "pivot point" when the scoring model reviews the resulting percentage for Credit Utilization Ratios.
- A Credit Utilization Ratio of less than 30 % is better, and the closer to zero the Utilization ratio progresses, the better the impact on the score
- A Credit Utilization Ratio higher than 30 % starts to negatively impact a credit score incrementally, and the closer the ratio gets to 100% or beyond 100%, the worse the impact on the score