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MONEYWATCH: MANAGING YOUR MONEY

How credit utilization affects your credit score (and what to do about it)

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Your credit utilization can have a big impact on your credit score — and, in turn, your finances.
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Over the last couple of years, sticky inflation has caused the price of consumer goods to skyrock That, in turn, has led many Americans to turn to their credit cards to cover the cost of their basi needs – resulting in an uptick in credit card debt nationwide.

For example, in the second quarter of 2024, credit card balances increased by $27 billion compa the quarter prior, according to the Federal Reserve Bank of New York. That figure is 5.8% highe was just one year ago.

When you're carrying a credit card balance month to month, interest charges can cause your ba
to balloon quickly. In turn, your credit card utilization increases – which can have a big impact
your financial health and your credit score. Here's why.

Find out how the right debt relief company could help you lower your credit utilization now.

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How credit utilization affects your credit score

Credit utilization, also known as your credit utilization ratio, is essentially the percentage of you
available revolving credit that you're using. Credit utilization is one of the main factors to impac
credit score.

Lenders prefer to see that you're using a lower percentage of your available credit. Having a hig
percentage of your credit available to use signals that you're using your credit responsibly.

"The higher your credit utilization ratio [or] what percentage of your credit limit you've used, th
negatively your score will be impacted," says Lisa Robertson, manager of counseling services at
Parachute Credit Counseling, a nonprofit credit counseling agency. "Credit utilization makes up

your credit score [and] it's the second-biggest score factor behind payment history, which is 35% your score."

The exact impact of your credit utilization can vary, but the following ranges can give you a mor concrete idea of its impact:

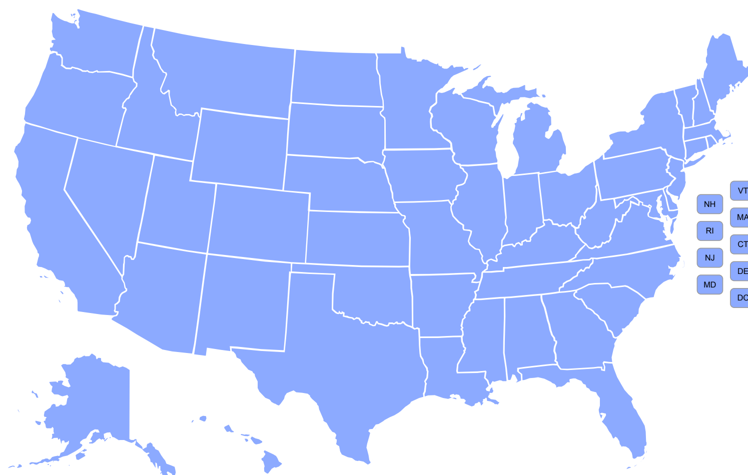
- **Optimal range:** Keeping your credit utilization below 10% is ideal for maximizing this comp of your credit score. This could potentially boost your score by 10-50 points compared to hi utilization rates.
- **Acceptable range:** Utilization between 10-30% is generally considered good. Your score ma be at its peak, but it likely won't suffer significant negative impacts.
- **Warning zone:** Once your utilization exceeds 30%, you might start to see more noticeable in your credit score.
- **High-risk zone:** Utilization over 50% can be a red flag for lenders and may significantly low your score. In some cases, this could result in a drop of 50-100 points or more.
- **Maxed-out credit:** If you're using all or nearly all of your available credit (90-100% utilizati the negative impact on your score can be severe, potentially lowering it by 100 points or mo

It's important to note, though, that credit utilization has no "memory" in most scoring models. T means that if you lower your utilization, you could see a quick improvement in your score.

Need help with your debt? Learn more about the credit card debt relief options available to you

If your debt exceeds $25,000 Freedom Debt Relief could help you reduce the amount you owe

Select your state to begin applying for a debt relief program.



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How to lower your credit utilization

If you want to lower your credit utilization to improve your credit score, there are different strat

you can use to tackle your high-interest debt, including:

Debt consolidation

Consolidating your debt is when you take out a loan to pay off your outstanding debt. You then one payment on your new loan every month until your loan is paid off. Consolidating your debt one loan can positively impact your credit use by freeing up more of your revolving credit, whic lowers your utilization score.

"Obtaining a debt consolidation loan can be an effective way to simplify your budget by combini multiple monthly payments into one, but there is also an opportunity to reduce interest and fee Bruce McClary, senior vice president for media relations & membership at National Foundation Credit Counseling.

Debt management

A nonprofit credit counseling agency can help you develop a debt management plan (DMP) that includes a payoff plan and could also result in reductions in card fees and interest rates. In turn, type of plan can help you lower your credit utilization faster than you would by making minimu credit card payments.

"A DMP can lower your interest rates and payment amounts with a plan to pay your debts in full 60 months," Robertson says. "This makes it more affordable to repay your debt more quickly."

Credit card debt forgiveness

With credit card debt forgiveness, or debt settlement, the goal is to negotiate with your creditor reduce the total amount you owe. You might try this option if you're far behind on debt paymer there's no guarantee that your creditors will agree to settle. If they do, it can stay on your credit for seven years.

"Negotiating with creditors to get a reduction in the amount owed can lower your overall debt, l to a lower credit utilization ratio," McClary says. "However, debt settlement can have a devastati impact on your credit score. If the settlement is $600 or greater, you can expect to be taxed on settled amount."

The bottom line

High credit card utilization can have a big impact on your credit score, but there are a few differ types of debt relief options that can help. So, if you're trying to reduce your credit utilization rat could make sense to consider these or other options – especially if you're struggling to pay off w you owe.

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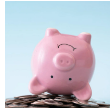

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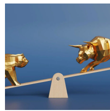

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