

4

The 30% Rule

L4.3.4 · CREDIT UTILIZATION

I CAN

calculate utilization and explain why a paid-in-full card can still lower a score

Total balances reported

Total credit limits

Utilization = balances ÷ limits

Your percentage

SCENARIO	BALANCE	LIMIT	UTILIZATION	EFFECT ON SCORE
Spends \$200, limit \$500	\$200	\$500		
Spends \$200, limit \$2,000	\$200	\$2,000		
Pays in full, but after the statement	\$1,400	\$2,000		



MILO

"The card reports the statement balance, not what you owe today. Pay before the statement closes and the number the bureau sees is lower."

Answers and talking points

What a good answer looks like, and one question to ask when the pencils go down.

Scenario	Balance	Limit	Utilization	Effect
Spends \$200, limit \$500	\$200	\$500	40%	Hurts — well over 30%
Spends \$200, limit \$2,000	\$200	\$2,000	10%	Fine — at the ideal edge
Pays in full, after the statement	\$1,400	\$2,000	70%	Damaging, despite owing nothing

9-12

The row that surprises everyone

Identical spending, different limits, opposite outcomes. \$200 on a \$500 card is 40% and hurts; the same \$200 on a \$2,000 card is 10% and does not. Nothing about the behavior changed. That is why utilization is a ratio and not an amount — and why closing an old card can lower a score even though you now owe less.

Ask: "Which of these two is better with money?" Neither. They spent the same. Only the denominator moved.

9-12

The third row is the one to teach

This person **pays in full every month and still reports 70%**. A card reports the **statement balance**, not what is owed after payment. Paying on the due date is on time for the lender and too late for the bureau. **Pay before the statement closes** and the reported number drops.

Ask: "When does your statement close?" Almost nobody knows, and it is the one date on the card that moves this number.

Want the rest of the unit?

This page is one activity, unchanged, from **Unit 4.3 — Building and Protecting Your Credit**, a Financial Foundations™ unit of 10 to 12 lessons with teacher scripts, family letters and a unit checkpoint. For a free five-day money game your students can play in a browser, try **The \$100 Week™**. Everything is at wealthwisekids.org.