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CFS-713-W

Consumer and Family Sciences

Department of Consumer Sciences and Retailing

To Your Credit: Fact Sheet 4

Deciding How Much Credit Is Too Much

EXPERT REVIEWED

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Adapted from Credit Card Smarts, a series published by the University of Illinois Extension (copyright 1997, Board of Trustees, University of Illinois).
http://web.aces.uiuc.edu/cfe/ccs/index.html

Most of us use credit, yet too much credit can lead to problems. How do you know if you are using too much credit? The first step is to add up all of your debts. Do not count your mortgage or your rent. List all of your auto loans, school loans, and personal loans plus the credit card balances you usually carry from month to month. Next, enter your average monthly payment for each loan and the amount you usually pay each month on your credit card balances. If you usually make only the minimum monthly payment on your credit cards, you will be underestimating your true debt. How much would you have to pay each month to close out your credit card balances in a reasonable period, such as six or 12 months? Use that number to figure your debt rate for a truer picture of your debt level.

List of All Loans and Credit Cards	Average Monthly Payment
	$
	$
	$
	$
	$
	$
	$
	$
Total monthly debt payments	$

Now, look at what your debt rate is. What percentage of your take-home pay goes to pay your debts?

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Look at your debt rate: How are you doing?

• **10 percent or less**
Congratulations! You are in the safe limit and probably feel little debt pressure.

• **11 percent to 15 percent**
You are in the possibly safe limit and may feel some debt pressure. Be cautious about taking on more debt.

• **16 percent to 20 percent**
You are probably hoping that no emergency arises. Start working on reducing your debt.

• **21 percent to 25 percent**
You are probably worrying. ALERT! It is time for a dramatic change. You may need help from a credit counselor.

• **26 percent or more**
You definitely have more credit than you can handle. You need professional help immediately to reduce your debt.

• **One source for help is Consumer Credit Counseling Service, 1-800-388-2227.**

Find your debt rate

Divide your total monthly debt payment by your monthly take-home pay.

1. What is your total monthly debt payment? $____________
2. What is your monthly take-home pay? $____________
3. What is your debt rate? ____________%

Total monthly debt payment/Monthly Take-Home Pay = Debt rate

Example: If your total monthly debt payment is $200 and your monthly take-home pay is $1,200, what is your debt rate?

$200/$1,200=16.6%

Look at the list on the left to see how to assess your debt rate.

Another way to check your debt level

How do you know if your debts are out of control? Here are some signs. If many of these signs seem familiar to you, you may be headed for financial trouble.

1. You pay only the minimum amount due on your credit cards each month.
2. You buy so much on credit that the amount you owe from one month to the next month never goes down.
3. You take out new loans or get new credit cards to pay off old ones.
4. You have to skip some payments.
5. You overdraw your checking account.
6. You are borrowing to pay for regular expenses like groceries because you do not have cash.
7. You are frequently late making your monthly payments.
8. You must rely on extra income from overtime to make ends meet.
9. You must use savings to pay current bills.
10. You have more than 20 percent of your take-home pay committed to credit payments other than your home mortgage.
11. You have lost track of how much you owe.
12. You put off medical and dentist visits because you cannot afford them.

If your answers to these questions trigger an "overindebtness" alarm, start now to make changes. Get a copy of *Getting Rid of Credit Card Debt —To Your Credit Fact Sheet 5* (CFS-714-W).

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