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Utah State University Extension

FINANCIAL FITNESS

Fact Sheet

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HOW MUCH CREDIT IS TOO MUCH?

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Most of us know that too many credit cards and access to too much credit can lead to problems. How do you know if you're using too much credit?

The first step is to add up all of your credit, not including your mortgage or your rent. In the table below, list all of your auto loans, school loans, and personal loans as well as the credit card balances you usually carry from month to month. Then 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 six or twelve months? Use that number to get a truer picture of your debt level.

Now, look at what your debt rate is. What percentage of your take-home pay goes to pay credit debts? According to the Survey of Consumer Finance conducted by the Federal Reserve Bank, the average American has a debt rate of around 17%.

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

[1] Adapted from *Deciding How Much Credit Is Too Much*, written by Janet C. Bechman, Purdue University Extension Service, WestLafayette, IN.

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 to 15 percent*

You are in the safe limit but you may feel some debt pressure. Be cautious about taking on more debt.

- *16 to 20 percent*

You are probably hoping that no emergency arises. Start working on reducing your debt.

- *21 to 25 percent*

You are probably worrying about your debt load. 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.

Find Your Debt Rate

Divide your total month 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%

Another way to check your debt level

People in different situations can handle more debt than others. Here are some signs that debts are out of control. If you answer yes to more than two or three of them, you need to work on trimming your debt load.

- You pay only the minimum amount due on your credit cards each month.
- You buy so much on credit that the amount you owe from one month to the next never goes down.
- You take out new loans or get new credit cards to pay off old ones.
- You have to skip some payments.
- You are borrowing to pay for regular expenses like groceries because you do not have cash.
- You are frequently late making your monthly payments.
- You must rely on extra income from overtime work to make ends meet.
- You must use savings to pay current bills.
- You have more than 20 percent of your take-home pay committed to credit payments other than your home mortgage.
- You have lost track of how much you owe.
- You put off essential medical or dental work because you cannot afford it.

If you need to trim your credit, start now to make changes. One way is to use the PowerPay computer software program available at your local USU Extension office or mail a PowerPay worksheet to the Family Resource Management Specialist, 2949 Old Main Hill, Logan, UT 84322-2949. A confidential schedule of several repayment options will be returned to you.

The principle of power payments is that as soon as one debt is paid off, you apply the monthly payment from that debt to the next debt. By the time you have moved on down the list, you are paying large monthly payments to the remaining debts. The PowerPay computer program will help you decide how to distribute these payments. Your total monthly payments are not increased, only the distribution of those payments changes.

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