People in different situations can handle more debt than others. How do you know if you’re using too much credit?

**Decide How Much Credit Is Too Much**

Most of us use credit. Credit lets you use goods and services while you pay for them. But 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. Don’t count your mortgage or your rent. List all of your auto loans, school loans, personal loans, and time-payment 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’ll underestimate your true debt rate. How much would you have to pay each month to pay off your credit card balances in a reasonable period of time, such as six or twelve months? Use that number to figure your debt rate for a truer picture of your debt level.

<table>
<thead>
<tr>
<th>List of All My Loans and Credit Cards</th>
<th>Average Monthly Payment</th>
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<tbody>
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<tr>
<td><strong>Total monthly debt payments</strong></td>
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</table>
How are you doing?¹

- **10 %**
  Congratulations! Like 85% of all American families you limit the amount of debt you carry on your credit cards.

- **11 to 15 %**
  You are in the high average group. Don’t be too alarmed but you should slow down and try to get your debt closer to 10 percent.

- **16 to 20 %**
  You have more debt than most people with your income. Only five out of 100 people owe as much as you do. Start working on reducing your debt.

- **21 to 25 %**
  RED ALERT! Your home, your car, and your debt are probably eating up 75 percent of your paycheck. It’s time for a dramatic change. You may need help from the National Foundation for Credit Counseling (1-800-388-2227) or Myvesta.org (1-800-698-3782).

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


Written by Brenda Cude, Consumer and Family Economics Specialist, University of Illinois Extension, September 1997.
Reviewed 2009.

For more information about credit, see other Credit Card Smarts fact sheets. Related fact sheets are “Get Rid of Credit Card Debt” and “Decide How Many Credit Cards You Need.

Now, let’s see what your debt rate is. What percentage of your take-home pay goes to pay your debts? The average American has a debt rate of around 12 percent.

**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? _____%

For example: If your monthly take-home pay is $1100 and total monthly debt payment is $132, then your debt rate is 12%.

\[ \frac{132}{1100} = 0.12 \]
\[ 0.12 \times 100 = 12\% \]

**Another Way To Check Your Debt Level**

People in different situations can handle more debt than others. If you don’t trust the numbers, read the following statements. If you answer yes to more than two or three of them, you should work on trimming your debt.

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 charge day-to-day expenses like groceries, because you don’t have the cash.
7. You are late making your payments most months.
8. You rely on extra income from overtime to make ends meet.
9. You use savings to pay current bills.
10. You borrow money to pay bills that you know are coming, like taxes and insurance.
11. You don’t have an emergency fund.
12. You put off medical and dentist visits, because you can’t afford them.

If you need to trim your credit, start now. Get the Credit Card Smarts fact sheet “Get Rid of Credit Card Debt.”