How Much Debt is too Much?

Too much debt is like playing with fire. As a rule of thumb, your debt, excluding your home, should not exceed 20 percent of your take-home pay. Second mortgages and home equity loans should be included in the 20-percent rule. This is because they are usually used to pay off unsecured debt, while a first mortgage is an investment in property that, in most cases, is appreciating in value.

Even if your debt is only in the high teens you may still have too much debt. A financial counselor can often help you understand your finances and learn the appropriate limits. Here are some signs that could indicate it's time to seek assistance:

- Your credit card balances are rising but your income is decreasing
- You are only paying the minimum amounts required on your accounts
- You consistently charge more each month than you make in payments
- You are using new credit or cash advances to pay bills
- You are using your credit cards to buy necessities like food or gasoline
- You are over the limit on any of your credit cards
- You have received phone calls or letters about delinquent bill payments
- You don't know how much you owe and are afraid to find out
- You are hiding the true cost of your purchases from your spouse
- You are working overtime to keep up with your credit card payments
- You are dipping into savings to pay your monthly bills
- You have just lost your job, or are fearful that you are about to, and are concerned about how you will pay all your bills

Look for patterns and be aware. If it is something temporary, don't panic. If it is more serious, be honest with yourself and seek financial advice. A financial counselor can provide a thorough analysis of your family's personal finances which will help you assess how much trouble you're in and how much help you need. For many people, a financial counselor can help them get organized and lend support. For those who need more personal assistance a Debt Management Program can help.