

Debt: How Much is Too Much?

Are you carrying too much debt? Is it good debt or bad debt? What is the difference?

Good debt provides you with some type of return. For example, a loan for education has a potential return such as higher pay or advancement in a job. Purchasing a home can be good debt provided you do not overextend yourself. In other words, buy a condominium or home you can afford.


Bad debt does nothing for your bottom line. It provides little to no return on your money. Credit card debt would fall into this category. Purchasing something today on credit that may not be around by the time you pay it off is one example of bad debt.

Use this worksheet to help you determine where you stand...

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|---|------------|----|--|
| 1. Total average monthly debt payments
(not including mortgage, rent, utilities) | | \$ | |
| | divided by | | |
| 2. Monthly take-home pay | | \$ | |
| | Equals | | |
| 3. Debt-to-income ratio | | \$ | |

Is your debt within a comfortable range or are you headed for danger? Check out the chart below.

Rule of thumb for consumer debt	
Less than 15%	Comfortable
15% - 20%	Caution
More than 20%	Danger

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