

# Financial Management

 **Working for Wisconsin Families**

Gayle Rose Martinez, AFC  
Clark County Family Living Agent  
University of Wisconsin-Extension

## How Much Debt is Too Much



“Don’t spend what you don’t have.” Makes Sense, doesn’t it? Then why is it that we have a 7 trillion dollars gross national debt and the average balance on a credit card is **\$7,000**.

Each of us must decide if we think debt is an acceptable part of our personal money management plan. Some consumers say, “I am going to pay off all my debt,” as if this is the goal. They proceed with accomplishing this goal, then turn around and create more debt (recycling debt).

Take time to determine what you consider acceptable debt and a level of debt in which you are comfortable. Debt can be viewed from an emotional or linear perspective – or both.

### Emotional Tolerance For Debt

There are many kinds of debt; mortgage loans, credit cards, and educational loans. You may feel differently about different kinds of debt. Try to identify what kind of debt and how much debt creates stress for you. If debt is causing you stress it could be attached to: the size of the debt, what it is costing you to have this debt, or the time it is taking to pay it off.

If your credit card balance is **\$8,000**, and you make the minimum monthly payment at 18% interest, it

will take you 25 years, 7 months to pay the debt off. You will pay **\$15,432** in interest charges, (almost twice the balance), bringing your total to **\$23,432**.

Time frames can relieve stress, like a 15 year mortgage or a 4 year car loan. Credit cards are usually not limited by time, putting a time frame on paying them off could decrease some stress. Often concrete figures decrease stress. For example, I am comfortable with a car loan for 50% of the worth of the car, a house loan for 75% the value of my house and credit card debt that I can pay off in six months. Knowing my tolerance for debt assists me in focusing a clear intent with my spending.

### Acceptable Debt from a linear perspective

Another way to perceive your capacity for debt is to calculate your Debt to Income Ratio. Divide your debt by your gross annual income.



(Ex. A person making **\$20,000** a year gross income with **\$10,000** of outstanding debt has a 50% DTI Ratio.) If your Ratio is .30 (30%) or lower it indicates you have enough gross income to make

debt repayments easily and it implies financial strength. If your debt ration is 45% or higher lenders will perceive you as “over extended” and offered higher interest rates when applying for loans.

These formulas determine whether debt is acceptable from a linear perspective for maintaining financial balance in your life. Once your capacity for debt is determined you can set goals for yourself to match your intent with your spending choices.



Debt is not a simple issue. Being judgmental about your own or other’s debt, or debt management, is a simplistic response to a complex issue. It seems more respectful to decide that debt is a part of this culture, certainly demonstrated by our government and our economy. Then discern your own personal comfort level with the amount and kind of debt you have in your life, and spend accordingly. Having debt that is acceptable to you will increase your personal power around your finances and decrease money related stress.

Author: Gayle Rose Martinez, AFC, Family Living Agent, University of Wisconsin-Extension,  
Reviewer: Michael Gutter, Asst. Professor UW-Madison, Family Financial Management Specialist, Family Living Program UWEX; Rita Straub, Family Living Agent Marathon Co. UWEX; Brenda Janke, Family Living Agent Lincoln Co. UWEX, Family Finance Management Specialist  
Resources: *Personal Finances* by Jeff Madura, Addison Wesley

For more information contact: Gayle Rose Martinez, Clark County Family Living Agent, University Wisconsin-Extension, 517 Court St., Courthouse Room 104, Neillsville WI 54456 or call 715-743-5121, FAX 715-743-5129  
Email: [gaylerose.martinez@ces.uwex.edu](mailto:gaylerose.martinez@ces.uwex.edu)