



How Much Consumer Debt Can I Manage?

In general, no more than 10 to 15 percent of your net (after-tax) income should be paid to consumer debt. Rather than try to figuring out the percentage you can afford to *carry* in consumer debt, it's easier to calculate how much you can afford to *pay* each month for consumer debt.

Look at the example below and then complete the calculation for your income.

Yearly income after taxes and deductions = \$25,000

Monthly income = \$2,083 ($\$25,000 \div 12$)

Amount of consumer debt payments per month that you could afford:

\$208 to \$312 ($\$2,083 \times 0.10 = \208 ; $\$2,083 \times 0.15 = \312)

So for the above example, this person probably can manage to pay between \$208 to \$312 each month for total consumer debt (not including mortgage).

Your Turn

Yearly income after taxes and deductions = \$ _____

Monthly income = \$ _____ ($\$ \text{Yearly income} \div 12$)

Amount of consumer debt payments per month that I should not exceed is:

\$ _____ to \$ _____ (Monthly income \times 0.10; Monthly income \times 0.15)

Each month, I can afford to pay between \$ _____ and \$ _____
for my consumer debt.

Source: Adapted from *Taking Charge of Your Finances*, UNH Cooperative Extension, for Project C.A.S.H.

Handout #12

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