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20 Percent Personal Debt Ratio Spells Trouble for Consumer

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20 PERCENT PERSONAL DEBT RATIO SPELLS TROUBLE FOR CONSUMERS

DAYTON, Ohio--Calculating your personal debt ratio is the first step toward preventing financial disaster in all economic cycles, according to Barbara De Luca, assistant professor of human ecology at the University of Dayton.

"You need to figure out what proportion of your monthly take-home pay is necessary for debt repayment," said De Luca, who teaches consumer economics courses and has researched consumer credit. "That includes all debts except mortgage payments and credit card balances that are paid by the due date. If you find that your debt ratio is 20 percent or more, you are in trouble. A 10 percent debt ratio is comfortable for most families."

She cites the example of a person with a yearly disposable income (wages or salary minus withheld taxes) of $24,000. The monthly take-home pay is $2,000, so a debt commitment of $200 per month is acceptable. The danger point would be $400.

"In a recession, the economy slows down," said De Luca. "And because two-thirds of all economic activity is household or consumer spending, in most cases the economy slows down because

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consumers stop spending. If consumers stop spending, businesses stop selling and generally tend to lay-off employees.

"People with a lot of debt will be in a great deal of trouble if a recession happens and lay-offs occur," said De Luca. "If they lose their jobs, their income level will likely go down. Without that available income, they're apt to use credit for purchases, and that will increase their debt level. Their debt ratio will absolutely skyrocket."

For those whose jobs may be threatened by an economic downturn, "it's important to get your debt rate as low as possible," said De Luca. "If you are laid off because of a recession, what are you going to buy first? Food, shelter and clothing needs will top the list, and your credit debt will possibly go unpaid. If you find you can't pay the monthly minimum, then you may need credit counseling."

A service such as the Consumer Credit Counseling Service, a nationwide nonprofit organization, will help clients compile credit information. "They will identify what portion of your monthly income you can comfortably spend on debt and then contact your debtors and make arrangements to repay the amount you owe," said De Luca. "Most creditors will cooperate with an extended repayment schedule because it's to their advantage--there is a greater likelihood that they will get their money back if they cooperate with the credit counseling service."

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The most drastic result of excessive debt is personal bankruptcy. "Personal bankruptcies are going up astronomically as it is," said De Luca. "If a 20 percent debt ratio is acceptable technically and bankruptcies are still increasing, then perhaps it's time to revise that 20 percent ratio as an indicator of financial insecurity to a lower, but more realistic, figure."

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For media interviews, contact **Barbara De Luca** at (513) 229-2156.