How Can a Debt Management Plan Can Help You by DJ Willis

Article published on April 22nd 2012 | Finance

Based on the latest report from Statistics Canada the number of personal debt to household income in Canada is at the highest level itâ€™s been since they started measuring the ratio 1990. The current consumer debt-to-income ratio in Canada is 151 per cent, meaning many Canadians are carrying more debt than their household income can handle. With a ratio so high itâ€™s no wonder so many Canadians are struggling now to make ends meet!

Debt-to-income ratio is an essential way of measuring your financial well-being. It shows the amount of your income is being used to pay the minimum payments on your debts, which determines how much cash you'll have to put towards monthly expenses, savings, and enhancing your finances. If your debt-to-income ratio is much more than 100 percent, this means you donâ€™t have enough money coming in to cover all your obligations.

How do we determine your debt-to-income ratio? First add up all of the debt payments you make each month. Including the minimum amounts due every month on your mortgage payment, car payment, education loan payments, any personal loans, and all charge card payments. Once you add these up simply divide the total by your total take-home (net) income and multiply by 100 to determine your debt-to-income ratio.

This number will likely then help you gauge your financial standing. Every situation is different, but in general the following shows what your ratio means:

â€¢Debt-to-income ratio under 36 per cent: Your finances are in good standing. Turn to building your savings or contributing to your RRSP with the extra cash you have coming in each month. In general you want to put 10 per cent to 15 per cent or even more of one's income towards savings.

â€¢Debt-to-income ratio between 37 per cent and 42 per cent: Your financial standing is fair, however it has room for improvement. Consider putting some of your extra money every month towards savings, but use no less than a portion every month to work on paying some of your credit card debts off to improve your finances.

â€¢Debt-to-income ratio between 43 percent and 49 per cent: You are verging on a point of financial distress and should work toward reducing your debt before your finances become a problem. Tighten your budget and put any extra money you have every month towards paying down your credit card debts. Pay all your minimum payments, but put any extra money towards paying off one debt at any given time. You can begin with the highest interest rate debt as it builds your debt the fastest or pay off your smallest debt first and work your way up to be able to build momentum.

â€¢Debt-to-income ratio is more than 50 per cent: You'll need debt relief! Explore options for debt consolidation, such as a debt management plan. Seek the help of a trained credit counsellor or you trusted financial advisor, who will assess your budget and debts to look for the best debt relief solution for your situation. Donâ€™t wait to seek help either, as youâ€™re just giving your debt additional time to build and even potentially limiting the options you have available for relief.

As you can see from all of these numbers, an average 151 percent debt-to-income ratio is just too high for Canadians to sustain. It means increasingly more Canadians are falling further behind every month and facing harsh realities like bankruptcy. If youâ€™re among the millions of Canadians facing too much debt, explore your choices and discover the debt help you need as quickly as possible. It might be tough to face, but the solution to your debt problems may be easier than you think.

Article Source:
http://www.articleside.com/finance-articles/how-can-a-debt-management-plan-can-help-you.htm - Article Side

DJ Willis - About Author:
If you want to learn more about finance, debt, and credit, check out ConsolidatedCredit.CA. We also offer a credit help needed for financial and a debt management program services.

Article Keywords:
finance, credit, services, management program

You can find more free articles on Article Side. Sign up today and share your knowledge to the community! It is completely FREE!