How Much Credit Card Debt Is Too Much?

A high credit utilization ratio might indicate having too much credit card debt. Maxing out your credit cards is also a sign.

Written By Rajiv Baniwal | Reviewed By Sarah Mattie |
Edited By Erika Hearthway |
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The content on this page is accurate as of the posting date; however, some of the offers mentioned may have expired.

On This Page

- What Is Too Much Credit Card Debt?
- Pay Off Credit Card Debts
- Expenses to Charge on Your Card
- Tips to Pay Off Credit Card Debt
- Tips to Avoid Debt
- FAQs

If you feel you might have too much credit card debt, start by determining exactly where you stand. Then, consider how you could go about paying off your existing debt in a quick and cost-efficient manner. For instance, using a balance transfer card may help you save on interest charges. In general, remember that developing good credit management habits can help you steer clear of getting into too much credit card debt once more.

According to data collected by MoneyGeek, the average American credit card debt in the second quarter of 2021 stood at $2,836. This was down from $3,260 in the first quarter of 2020, when the COVID-19 pandemic had started making inroads and a significant number of Americans turned to their credit cards to meet a variety of expenses.

Unfortunately, things have not improved substantially. The annual inflation rate for the country from August 2021 to August 2022 stood at 8.3%. This has made most purchases more expensive than they were a year ago. However, since incomes have not kept pace with inflation, it's common to see people using their credit cards more than before to manage their expenses. If you find yourself in this boat, it's essential to keep a close eye on your credit utilization ratio because it can have a negative impact on your credit score.

ON THIS PAGE:

- What Is Too Much Credit Card Debt?
- How to Pay Off Credit Card Debt
- Expenses You Can Charge on Your Credit Card
- Tips to Pay Off Your Credit Card Balance
- Helpful Tips to Stay Out of Credit Card Debt
- Other Questions You May Have About Credit Card Debt

MONEYGEEK'S TAKEAWAYS



Your monthly household debt obligations should ideally be limited to no more than 36% of your monthly income.



If your balances don't decrease by much even though you're making regular payments, you might have a problem.



You may want to consider paying off your high-interest debt by getting a balance transfer card or a personal loan.

What Is Too Much Credit Card Debt?

Several factors play a role in determining how much [credit card debt]((https://www.moneygeek.com/credit-cards/analysis/average-american-debt/) is too much. While having high outstanding balances on multiple cards is usually a sign that you may have accumulated too much debt, you also need to consider the cards' credit limits and your income.

Making things even more challenging is that too much debt can cause issues and hurt your credit, but not having any credit card debt might also work against you.

As a result, knowing how much balance to keep on credit cards is important.

You Maxed Out Your Credit Card

Maxing out one or more credit cards or having high balances on all your cards is usually a sign of carrying too much debt. When you do this, you end up with a high credit utilization ratio, which hurts your credit score. Your credit utilization ratio, or debt-to-credit ratio, refers to the amount you owe compared to your total available credit.

For example, if the combined credit limit of all your credit cards is $10,000 and you owe $8,000, your credit utilization ratio is 80%. This number should ideally be at 30% or lower.

You Have a High Debt-to-Income Ratio

The debt-to-income ratio refers to the debt you owe in relation to your income. While this number does not appear on your credit reports and does not affect your credit score, it plays an important role when you're applying for a mortgage. In addition, a high debt-to-income ratio is usually indicative of having debt that one might have trouble repaying.

Calculating your debt-to-income ratio is relatively straightforward. Let's say you have a monthly income of $2,500, and your total monthly debt payments stand at $1,400. You divide $2,500 by $1,400 and then multiply it by 100. In this case, your debt-to-income ratio is 56%.

According to the Consumer Financial Protection Bureau (CFPB), renters should try to keep their debt-to-income ratios at 15% to 20% or lower. For homeowners, a debt-to-income ratio of 36% or lower is ideal.

How to Pay Off Credit Card Debt

If you have no option but to maintain outstanding balances on your credit cards, it's imperative that you try to pay off the debt in a systematic way. That can help prevent a significant decline in your credit score and save you from paying a lot in interest. Whether you wish to pay off existing or future debt, there are things you can do to streamline the process.

You Already Carry Credit Card Debt

There is no single best way to pay credit card debt because not every case is the same. For example, if you think you might be able to repay the money you owe within around 18 months, consider getting a balance transfer card. If you, on the other hand, need more time or have a very large debt, you may benefit from applying for debt consolidation.

HOW TO PAY CREDIT CARD DEBT: PROS & CONS

Feature	Pros	Cons
Balance Transfer	• Intro 0% APR offers for up to 21 months • Ability to earn rewards on purchases • Possible to get no-annual-fee cards	• Balance transfer fees may vary from 3% to 5% • Need to transfer balances withi a given time period
Debt Consolidation	• Can be secured or unsecured • Lower ongoing APRs than credit cards • Higher limits than credit cards	• Loan origination fees • Prepayment penalties

PAY YOUR CREDIT CARD DEBT WITH A CREDIT CARD

A balance transfer card is a credit card that comes with an intro 0% APR offer on a balance transfer (BT). When you transfer balances from other cards to any such card, you pay no interest charges on transferred balances for a set period of time. This typically varies from 12 to 21 months. The amount you may transfer to a balance transfer card is typically up to its available credit limit.

Once the promo period ends, you will need to start paying interest toward any outstanding balance at the card's regular balance transfer APR. More often than not, you need to pay a balance transfer fee. This usually varies from 3% to 5% of the transferred amount. Qualifying for a balance transfer card usually requires you to have good or excellent creditworthiness.

MONEYGEEK'S BEST BALANCE TRANSFER (BT) CREDIT CARDS

Card Name	BT Offer Length	Credit Needed	BT Fee
Citi® Diamond Preferred® Card	21 months	Excellent (FICO score: 800 - 850)	5%
Citi Simplicity® Card	21 months	Good-excellent (FICO score: 670 - 850)	5%*

U.S. Bank Visa® Platinum Card	18 months	Good-excellent	3%

***or $5 if balance transfer is completed within the first 4 months.*

CONSOLIDATE YOUR DEBTS

If you have more debt than you can transfer to a balance transfer credit card, need more time to repay your debt than offered through intro APR offers or wish to pay off debt from different types of credit, consider debt consolidation. This requires that you take out a loan to pay off your existing debt and start making a single fixed monthly payment toward the new loan.

If you wish to get a secured loan, you'll need to provide some type of collateral — e.g., the equity you've built in your home, a vehicle, or another asset. Unsecured loans come with no such requirement.

MORE: Balance Transfer vs. Debt Consolidation

GET A PERSONAL LOAN

A personal loan does not usually require any form of collateral. Upon getting one, you may use the proceeds to pay off any type of legitimate debt. Once you get a personal loan, you must make fixed monthly payments until you pay the debt off completely. Loan terms typically vary from two to seven years.

Personal loans tend to come with higher lending limits when compared to credit cards. The interest rate you qualify for depends largely on your credit score. However, it is still usually lower than the rate you may get through a credit card.

If you get a personal loan to pay off credit card debt, think twice about closing your old credit card accounts. Doing so may hurt your credit score.

MORE: Balance Transfer vs. Personal Loan

EXPERT TIP

Always assume you owe your debt. It doesn't matter if you hear it's been written off or that your company has X number of years to pursue unpaid amounts. Unless you have your release from the debt in writing from the card company or a legal entity, assume you owe it. And if you can't pay? Call the credit card company and talk about options. The worst that can happen is they say nothing can be done.

—Sarah Mattie, contributing expert for MoneyGeek

You Want to Charge Additional Expenses on Your Credit Card

While carrying credit card balances from one month to the next isn't ideal, many Americans choose to do so, remaining in credit card debt, to manage their expenses

and cash flow. If you find yourself in this situation, it's crucial that you monitor your credit utilization ratio because it plays an important role in your credit score. As a rule of thumb, your credit utilization ratio should not exceed 30%. This factor accounts for 30% of your FICO score. It is also a good idea to make sure that you make at least your minimum monthly payments on time.

Taking these steps can mitigate any hit to your credit score — an important goal. A poor credit score can make qualifying for the best rates or even getting credit in the future difficult. Poor creditworthiness might also result in increased insurance premiums. You might face challenges renting a home, miss out on career opportunities or have to pay a security deposit to get a utility connection.

Maintaining outstanding credit card balances involves paying interest charges that can be rather steep. The more you owe, the more you need to pay in interest, which is another reason you should try to keep your outstanding balances as low as possible.

People who plan to carry balances on their credit cards may want to consider looking at what the best cash back and low-interest credit cards have to offer. While the cards with the lowest rates and highest reward-earning potential usually are only granted to people with good credit, those with poor credit also have a decent selection of cards to consider.

USE CASH BACK CREDIT CARDS TO HELP PAY BILLS

A cash back credit card lets you capitalize on your spending by offering a percentage of the amount you spend back. For example, if you use a cash back card with 2% cash back to make a $1,000 purchase, you get $20 back. Even if you plan to carry balances from one month to the next, the cash back you earn can offset a small portion (although certainly not all) of the money you'll pay in interest.

Cash back rates may vary from one card to the next. While some of the top cash back cards we've picked come with flat cash back rates, others offer higher cash back on bonus categories. All the cards we've selected come with no annual fees. Depending on the card you choose, you might get other benefits too.

BEST CASH BACK CREDIT CARDS

Card Name	Rewards Rate	Credit Needed
U.S. Bank Altitude® Go Visa Signature® Card	1–4 points per $1	Excellent
Chase Freedom Unlimited	1.5%–5% cash back	Excellent
Amazon Prime Rewards Visa Signature Card	1%–5% cash back	Good-excellent
Citi Custom Cash℠ Card	1%–5% cash back	Good-excellent

If you already have a cash back credit card, consider requesting a higher credit limit. You have a greater chance of having your request approved if you've used the card

for six months or more, made all your payments on time and maintained a low credit utilization ratio. Your credit score plays a role too.

CREDIT CARDS FOR BAD CREDIT

If you have poor credit or no credit history, you may want to consider building or rebuilding your credit with a secured card. These cards require you to make a security deposit, which typically doubles as your card's credit limit. However, using these cards responsibly for several months can help you build credit — and eventually qualify for an unsecured card.

Keep in mind, though, that qualifying for a credit card with poor credit typically means you'll have a high APR. So using these cards to carry balances from month to month isn't recommended.

We've selected the top cards for bad credit after considering factors such as annual fees, rewards/cash back, ongoing APRs and added benefits.

BEST CREDIT CARDS FOR BAD CREDIT

Card Name	Annual Fee	Security Deposit
Chime Credit Builder Secured Visa® Credit Card	$0	$200
OakStone Platinum Secured Mastercard®	$49	$200
Navy Federal Credit Union® nRewards® Secured Credit Card	$0	$200
OakStone Gold Secured Mastercard®	$39	$200

CREDIT CARDS WITH LOW-INTEREST

If you plan to maintain revolving balances on your credit card, you may benefit by comparing the top low-interest cards. With such cards, a low ongoing variable APR typically applies for as long as your account remains active. However, credit card issuers make the lowest APRs available to people with excellent or exceptional credit scores.

We've selected the best cards from this category based on annual fees, ongoing APRs, welcome offers and additional benefits. The top three include the Citi Diamond Preferred Card, the Citi Simplicity Card and the U.S. Bank Visa Platinum Card.

CASH ADVANCE TO PAY FOR EXPENSES

Using a cash advance to pay for expenses is not recommended unless it's an emergency. Cash advances tend to come with high interest rates. Interest starts accruing immediately after the purchase, and there are steep fees. If you do decide to get a cash advance to deal with any kind of situation, you should aim to repay the entire amount as quickly as possible, ideally within a few days.

Expenses You Can Charge on Your Credit Card

You may use a credit card to pay for practically any legitimate expense as long as the merchant in question accepts credit card payments. Depending on the card you have, you may earn higher-than-usual cash back, reward points or miles through category-based spending. Some of the popular categories that come with bonus rewards include:

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Travel

Travel purchases may include airline tickets, hotel stays, rental cars, train tickets, taxis, rideshares, timeshares and cruises. Examples of good travel cards include the Capital One Venture X Rewards Card and the American Express Platinum Card.



Gas

The best credit cards for gas don't limit your reward-earning potential to any particular brand. Besides, they tend to offer higher earn rates on other categories too. Examples of such cards include the PenFed Platinum Rewards Visa Signature Card and the U.S. Bank Altitude Connect Visa Signature Card.



Groceries

Depending on your card, you might earn higher-than-usual rewards at supermarkets, convenience stores, small grocery stores, bakeries and meat lockers. Purchases that fall under this category might vary from one card to the next. Examples of good grocery cards include the American Express Blue Cash Preferred Card and the PenFed Platinum Rewards Visa Signature Card.



Dining

Bear in mind that not all card issuers classify dining purchases the same way. For example, spending at a bar or a nightclub might not make the cut with some cards. In addition, a few Amex cards offer higher reward rates only on dining purchases in the U.S. Some of the top cards for earning dining rewards include the American Express Gold Card, the Chase Freedom Unlimited Card and the Citi Custom Cash Card.



Streaming services

If you've signed up for one or more streaming services, you may be able to earn rewards when you pay your bill with your credit card. Some popular names that qualify include Netflix, Hulu, HBO Max, ESPN+, Disney+, Pandora, Apple Music and Spotify. The top cards that offer high reward rates on streaming services include the Amex Blue Cash Preferred Card and the U.S. Bank Cash+ Visa Signature Card.

Tips to Pay Off Your Credit Card Balance

Using credit cards indiscriminately may lead to debt that you have trouble repaying. However, if you manage to use your cards responsibly, it can help build your credit score and give you access to lower interest rates. And if you accrue debt, you want to be strategic about paying off your balances.

1

Target specific debts

If you have outstanding balances on multiple credit cards, start by ensuring that you pay the minimum due on each card every month. Then, try to pay off the balance of a particular card as quickly as possible. That could be the card with the highest interest rate (avalanche method) or the one with the lowest balance (snowball method). Continue until you've paid off all your balances.

2

Make more than the minimum due payments

Paying off your credit card debt may take considerable time if you make no more than the minimum due payments. Moreover, the longer you take to repay your debt, the more you will need to pay in interest charges.

3

Think about debt consolidation

If you have high-interest credit card debt, you may want to consider consolidating your debt and benefiting through a lower rate. Your options typically include getting a balance transfer card, a personal loan or a home equity loan. Bear in mind that each comes with its share of pros and cons.

4

Monitor your spending

Avoid accumulating more debt by keeping a close eye on how much you spend on necessities and things you can do without. Creating a reasonable budget is a good starting point. You may also consider switching to cash or debit card payments to help keep your spending in check.

Helpful Tips to Stay Out of Credit Card Debt

While achieving financial freedom is what most people want, it is easier said than done. In addition, not taking on any debt at all might not be a good idea, especially if you plan to apply for a mortgage or finance another large expense with credit in the future. However, it's important to avoid taking on any debt that might cost you a lot of money or hurt your credit score.

1

Know where you stand

Take a close look at how much you owe on all your credit cards and other forms of credit. Then, create a roadmap that details how you plan to tackle each.

2

Make a budget

The budget you create should take into account your basic necessities, other day-to-day expenses, debt obligations and unforeseen circumstances.

3

Borrow as much as you can afford

Credit cards might give you the illusion that you can afford to make purchases beyond your means. But if you cannot afford to buy something using cash, think hard before charging it to a credit card.

4

Differentiate between needs and wants

Getting your car fixed so you may continue working without hindrances might be a pressing need, so it might be okay to use your credit card to pay for repairs. However, a monthly movie followed by dinner at a Michelin-starred restaurant would easily be classified as a want.

5

Pay in full each month

The best way to pay credit card debt is to pay off all your balances in full each month. That helps you avoid interest charges. It also means you can make the most of your card's rewards and benefits.

6

Build an emergency fund

Building and maintaining an emergency fund allows you to meet unexpected expenses without turning to your credit cards. Even if you don't have immediate access to your savings, you can still use your credit cards and pay them off before they start accruing interest charges.

7

Think about buying insurance

If you die, the liability to pay your debts might rest with your spouse. In such a scenario, any proceeds your partner receives from your life insurance might help provide the required financial protection.