



how much can they safely carry?

answer key

Most people can afford a certain amount of credit and stay within a safe budget. This amount is called a “safe debt load.” The following exercises will give you practice determining safe debt loads based on various incomes and fixed expenses.

directions

Read each of the following scenarios and determine the largest amount of debt each person can safely carry. **Write your answers in the blanks provided. Use the space below each question to show how you arrived at each answer.**

1. David has a monthly net income of \$1,360. His fixed monthly expenses consist of a rent payment of \$450. He is paying off a student loan of \$116 per month.

David would like to buy a new television set using a credit card. What is the largest monthly payment David can afford for the television set so that his credit card payments and student loan keep him within a safe debt load of 20%?

\$20.00

$$\$1,360 \times 10\% = \$136$$

$$\$136 - \$116 = \$20$$

2. Marsha and Michael have a combined monthly net income of \$3,500. Their fixed monthly expenses consist of \$675 for rent. They also have an outstanding student loan balance of \$6,000 and a balance of \$1,000 for the stereo they bought last month.

How much more debt can they take on and still be within a safe debt load?

\$1,400.00

$$\$3,500 \times 12 = \$42,000$$

$$\$42,000 \times 20\% = \$8,400$$

$$\$8,400 - \$6,000 - \$1,000 = \$1,400$$

3. Juanita has a monthly net income of \$2,500. Her fixed monthly expenses consist of \$500 for rent. She also pays a car insurance premium of \$68 and a car payment of \$167. Are these payments within Juanita's safe debt load?

Yes

$$\$2,500 \times 10\% = \$250$$

$$\$250 - \$167 - \$68 = \$15$$