



How Much Credit Can You Afford?

Here is an exercise that will help you determine how much credit you can afford in your budget.

How much of your income is potentially available for debt payments?

Your Monthly Take-home Pay	\$
Times 20% (.02)	x .02
Equals Your Available Income to Make Credit Payments	\$

A general rule of thumb is that your monthly installment debt payments should not exceed 20% of your monthly take-home pay. Installment debt payments would include auto loans, credit cards, student loans, personal loans, and loans for vacations and home improvements.

For example, if your monthly take-home pay is \$1,000 you can afford no more than \$200 per month in credit payments.

EXERCISE

How much money is left over in your budget for credit payments after you have met your monthly expenses?

Your Monthly Take-home Pay	\$
Minus Your Fixed Monthly Expenses	\$
Minus Your Variable Monthly Expenses	\$
Minus Your Periodic Monthly Expenses	\$
Equals Your Balance Surplus or Deficit	\$

Analysis

- If a balance is left each month, then you may be able to handle a credit payment.
- If income meets expenses but there is no balance left, then you should postpone taking on a monthly credit payment until there is more money available.
- If your expenses are greater than your monthly income, then you cannot afford a monthly credit payment. You will need to adjust your spending habits to meet your income.