



## how much can they safely carry? answer key

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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 10%?

**\$20.00**

$$\begin{aligned} \$1,360 \times 10\% &= \$136 \\ \$136 - \$116 &= \$20 \end{aligned}$$

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?

**\$1400.00**

$$\begin{aligned} \$3,500 \times 12 &= \$42,000 \\ \$42,000 \times 20\% &= \$8,400 \\ \$8,400 - \$6,000 - \$1,000 &= \$1,400 \end{aligned}$$

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 Juanitia’s safe debt load?

**Yes**

$$\begin{aligned} \$2,500 \times 10\% &= \$250 \\ \$250 - \$167 - \$68 &= \$15 \end{aligned}$$