



## how much can you afford? (the 20-10 rule)

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### never borrow more than 20% of your yearly net income

- If you earn \$400 a month after taxes, then your net income in one year is:

$$12 \times \$400 = \$4,800$$

- Calculate 20% of your annual net income to find your safe debt load.

$$\$4,800 \times 20\% = \$960$$

- So, you should never have more than \$960 of debt outstanding.
- Note: Housing debt (i.e., mortgage payments) should not be counted as part of the 20%, but other debt should be included, such as car loans, student loans and credit cards.

### monthly payments shouldn't exceed 10% of your monthly net income

- If your take-home pay is \$400 a month:

$$\$400 \times 10\% = \$40$$

Your total monthly debt payments shouldn't total more than \$40 per month.

- Note: Housing payments (i.e., mortgage payments) should not be counted as part of the 10%, but other debt should be included, such as car loans, student loans and credit cards.