

## Debt Ratios & Responsible Credit

This activity helps test your understanding just how much credit card debt is okay, and when having too much debt can become a really serious problem. Remember that your consumer debt ratio is a factor when they calculate your credit score, so it's important to remember!

### Understanding Credit Load

Read each of the following scenarios and write your answers in the blanks provided. Use the back of this page or a separate piece of paper, to show your work.

#### Question 1

Nancy and Thomas have a combined monthly net income of \$1,200. What is the most they can afford to have credit card debt while maintaining a safe consumer leverage ratio?

#### Question 2

Jessie has a monthly net income of \$800. His fixed monthly expenses consist of \$150 for rent. He currently pays \$80 each month for a credit card bill, and now he wants to buy a car. What does Jessie have left in his budget for a car payment to stay within his safe debt load?

#### Question 3

Carla has a monthly net income of \$450. She wants to buy a new bike and pay for it using a credit card. What is the largest monthly payment she can commit to making?

#### Question 4

Carla has a monthly net income of \$450. She wants to buy a new bike and pay for it using a credit card. What is the largest monthly payment she can commit to making?

**For The Following Questions:**

With the next few questions, let's assume that we are talking about Jorge, who has a monthly net income of \$2760. He also pays \$750 per month to rent an apartment. Use this information to answer the following questions.

**Question 5**

What is Jorge's annual net income?

**Question 6**

If Jorge pays 5% in state taxes and 20% in federal income taxes, and all of his net income is taxable income, how much will Jorge pay in taxes? How much will he keep for himself?

**Question 7**

Jorge also wants to purchase a car which will require him to spend \$400 additionally per month. Does Jorge still remain in his debt load? What about if he also wants to purchase new tires, so the car will actually cost \$650 per month?

**Question 8**

If Jorge does purchase the car, with the new tires, what percentage of Jorge's net income (after paying rent) will be committed to debt repayments?