



Take Charge: Wise Use of Credit Cards

## Figuring credit limits

How much is “safe” to spend on credit cards?

- **Calculation 1:** *Monthly take-home pay (net) x 20%*  
[Keep monthly, short-term credit payments below this level.]
- **Calculation 2:** *Spendable income ÷ by 3*  
[Subtract mortgage or rent, utilities, food, clothing, medical, transportation, child care, and other basic needs or regular payments from take-home pay to get spendable income, then divide by 3. Keep credit payments below this level.]

### **TELL AUDIENCE:**

If you buy items on credit, know how much you can afford to charge each month, based on your income and expenses.

Consider two different calculation methods to give yourself a good idea of what’s considered safe for your situation.

### **EXPLAIN SLIDE WITH THIS EXAMPLE**

*Calculation 1:* If your take-home pay is \$2,000 a month, multiply that by 20% to get \$400. Your credit card payments should not exceed this amount. If they do, don’t add new debt.

*Calculation 2:* If your take-home pay is \$2,000 a month and your monthly expenses for basic needs totals \$1,290, spendable income is \$710 (\$2,000 - \$1,290). Divide by three and you get \$237 as the amount that safely can go toward credit payments each month. This figure is lower than the amount from the first calculation.

**NOTE:** Calculation 2 is usually more conservative and generally considered a more “safe” limit to use. And remember that calculation 1 doesn’t account for housing costs!