

The 20/10 Rule

There are many opportunities for young people to access credit - which isn't a bad thing, provided that the borrower makes well informed decisions and is disciplined in maintaining the debt. Building a healthy credit rating through carefully managed debt can lead to future success in attaining a mortgage or a car loan. Applying careful consideration to your borrowing decisions can also help you develop the responsibility necessary to successfully navigate major purchases in the future.

The 20/10 Rule can be a reason guideline for using credit. Simply stated, the rule suggested that safe borrowing can be managed by:

- never borrowing more 20% of your annual net income
- make sure that your monthly payments don't exceed 10% of your monthly net income.

This rule does not apply to home mortgages, which will almost certainly represent higher percentages of your income, but can help you establish.

Complete the following practice problems based on what a full-time minimum wage employee in Saskatchewan would earn in 2020.

Hourly wage	\$11.32
Hours / week	40
Annual net income	
Annual salary (12 x monthly salary)	
Tax rate (calculate 13.9% of annual salary) *	
Annual net income	
Monthly net income (ANI / 12)	

1. The 20/10 rule suggests that a reasonable debt load is 20% of your yearly net income. What would be a safe level to borrow based on the minimum wage scenario?

2. What amount could you allow yourself to commit to in a monthly payment on a debt?

3. Do you believe you could potentially afford a reliable used vehicle within the limits of the 20/10 rule with a full time minimum wage job? Explain why or why not.

4. What could you do to improve your purchasing power?