

HOW CAN YOU KNOW IF YOU CAN TAKE ON A NEW LOAN?

Before taking out a loan,
it is important to know whether you will be able to repay it easily.

To find out, you need to know your **ability to pay**.

Financial institutions also refer to this ability to pay
as **creditworthiness**.

It is important to know your ability to pay
so that you can manage your money more easily
and avoid financial problems.

What is creditworthiness?

Creditworthiness indicates whether you can repay a new debt
without affecting your financial situation.

To work this out, you need to think about:

- the money you earn each month,
- the money you spend each month,
- and the money you have left.

What is the debt-to-income ratio?

Your **debt-to-income** ratio shows what proportion of your income you use to repay loans and other debts.

If you spend a very large proportion of your income, you'll have less money left to cover other expenses or unexpected costs.

The lower your debt-to-income ratio, the more money you'll have left over.

What is disposable income?

Disposable income is the money you have left each month after paying:

- your basic living costs,
- your debts,
- and other obligations.

This information helps you know whether you can manage a new monthly payment without any difficulty.

HOW CAN YOU WORK IT OUT?

You can work out your disposable income in three steps:

1. Write down all your monthly income.
2. Subtract the instalments on your loans and debts.
3. Subtract your basic expenses (housing, food, utilities, transport, etc.).

The result is the amount of money you have left over each month.

With this money, you can save,
pay for unexpected expenses,
or assess whether you can take on new debt.

If you're running low on money, it's best to be cautious
and not take out a new loan.

Example:

Imagine you receive 2,500 euros every month.

Each month you pay:

- 800 euros in loans and debts;
- 1,200 euros on basic living costs.

To work out how much money you have left (disposable income),
you do this sum:

$$€2,500 \text{ (income)} - €800 \text{ (debts)} - €1,200 \text{ (basic expenses)} = €500$$

So, that leaves you with 500 euros a month,
to put aside or to cover unexpected expenses.

Knowing your creditworthiness is important to:

- Make better decisions.
- Take out loans that you can actually afford to repay.
- Avoid taking on too much debt.
- Set aside part of your income for unforeseen circumstances..

Recommendations

- Check your income and spending regularly.
- Before taking out a loan,
work out how much money you have left.
- Don't take on any new debt if you're left with very little money
at the end of each month.
- Always set aside a portion of your income
for unexpected expenses.



Final advice

It's not just about how much money you earn.
It also matters how much money you have left
after paying your bills and debts.

Understanding your ability to pay
helps you make responsible decisions
and manage your finances.