Calculating Your Debt-to-Income Ratio

Why Your Debt-to-Income Ratio Matters:

Mortgage lenders establish maximum acceptable debt-to-income ratios as part of the process of approving home loans. Under new mortgage laws, **the maximum long-term debt-to-income ratio for "qualified" mortgage loans is 43%.** Estimate your long-term debt-to-income ratio to determine how your finances compare with mortgage lender requirements. Please note that other lenders may include other sources of income and debt. This is an example based on Bend Area Habitat basic guidelines.

Step 1. Determine Monthly Gross Household Income using the chart below. The chart will add the monthly gross income earned by all borrowers. Important: Your gross income is the amount earned before income taxes and other costs are deducted from your pay.

	Applicant	Co-Applicant	Others in Household
Regular Working Wages			
Permanent SSI or SSDI			
Permanent Disability			
Earned Income Tax Credit			
Retirement Income			
Subtotals			

Monthly Gross Household Income:	

To calculate your wages: If you are paid weekly, multiply your weekly gross income by 52 and divide the result by 12. If you are paid every two weeks, multiply your pay by 26 and divide the result by 12

Step 2: Enter your estimated mortgage payment by muliplying your total monthly income by .30 (30%)

Step 3: Determine your monthly household debt. Include monthly credit card payments, student loan payments, medical bills, vehicle payments, other loan payments, and family support payments if any for all household members. Do not include utilities, groceries, or other miscellaneous expenses. Important: List only the minimum required payment for each account, even if you pay more. Check your most recent account statements for each minimum monthly payment amount.

		x .015 (1.5%)
Total Deferred Loan Amount:		

over

Debt Type	Monthly Minimum Payment
Student loan payment	
TOTAL	

If yes, enter estimate or known amount

Step 4: Calculate your debt to income ratio. Enter your total monthly debt payments and divide it by your monthly gross income.

Monthly Debt Payments	Monthly Gross Income	Debt-to-Income Ratio

Step 5: Estimate your Back End Debt to Income Ratio. This is the term used to show your estimated mortgage and your debt shown as a percentage. Add your estimated Mortgage payment to your monthly debt payment and divide it by your monthly gross income to get your "back end" Debt-to-Income ratio (not to exceed 43% in our example)

Estimated Mortgage Payment	Monthly Debt Payment	Monthly Gross Income	Back End DTI

Things to Keep in Mind

With conventional bank loans, mortgage approval requirements vary between loan programs and from lender to lender. If your debt-to-income ratio doesn't work with one lender, try another. FHA and VA loans allow higher debt-to-income ratios, but also carry a loan guarantee fee (VA loans) and FHA mortgage insurance premiums.

Conventional loans made with less than a 20 percent down payment require private mortgage insurance (MI).

Ask questions! If your debt-to-income ratio is too high, don't give up. Ask about other loan programs or suggestions for lowering your debt-to-income ratio. Pay down consumer debt or increase your down payment to lower your debt-to-income ratio.