

How to figure DTI (Debt-to-Income Ratio)

DTI is the percentage of your buyer's monthly GROSS income (before taxes) that goes toward paying debts.

There are 2 main kinds of DTI. They are shown as a pair using the notation x/y (for example, 28/36).

The first DTI is called the front ratio. It shows the percentage of income that goes toward housing costs, which for a renter is the rent amount and for a homeowner is the PITI (mortgage Principal and Interest, mortgage insurance premium [when applicable], property Taxes, homeowner's Insurance premium, and homeowner's association dues [when applicable]).

The second DTI is called the back ratio. It shows the percentage of income that goes toward paying all recurring debt payments, including those covered by the first DTI, and other debts such as credit card payments, car loan payments, student loan payments, child support payments, legal judgments, etc.

So, for example, in order to qualify for a mortgage in which the lender requires a DTI of 28/36:

Yearly Gross Income = \$45,000 / Divided by 12 = \$3,750 per month income.

\$3,750 Monthly Income x .28 = \$1,050 allowed for housing expenses.

\$3,750 Monthly Income x .36 = \$1,350 allowed for housing expenses plus recurring debt.

Here are the typical limits for a few different types of loans:

Conventional Financing (loans with an 80% loan to value ratio, example - \$100,000 house with an \$80,000 loan): 28/36

FHA: 31/43 http://www.fha.com/fha_requirements_debt.cfm

VA: The limit on a VA loan is only calculated with one DTI of 41 (effectively equal to 41/41, but VA doesn't use the notation).

Non-conforming Loans:

Worksheet:

Gross Yearly Income \$ _____

(divide by 12 months) /12
 = Gross Monthly Income (GMI) \$ _____

Current Mortgage Payment + \$ _____
 Current Property Taxes (if not inc. in mtg. pmt.) + \$ _____
 Current Homeowner's Insurance (if not inc. in mtg. pmt.)+ \$ _____
 Current Rent Payment + \$ _____
 Current HOA dues + \$ _____

=Front Ratio \$ Amount \$ _____

Front DTI Ratio: GMI \$ _____ x .28 (conv.) or .31 (FHA) or .41 (VA) = ____%

Current Mortgage Payment + \$ _____
 Current Property Taxes (if not inc. in mtg. pmt.)+ \$ _____
 Current Homeowner's Insurance (if not inc. in mtg. pmt.)+ \$ _____
 Current Rent Payment + \$ _____
 Current HOA dues + \$ _____
 Credit Card Payments \$ _____
 Student Loan Payments \$ _____
 Child Support Payments \$ _____
 Court Judgment Payments \$ _____
 Misc. Other Long-term Debt (not utilities, cell phone, etc.) \$ _____
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=Back Ratio \$ Amount \$ _____

Back DTI Ratio: GMI \$ _____ x .36 (conv.) or .43 (FHA) or .41 (VA) = ____%

DTI Ratio= ____%/____%