Analyzing Your Debt to Income Ratio

The ratio affects your buying power...

Your debt to income ratio is a simple way of showing what percentage of your income is available for a mortgage payment after all other continuing obligations are met. The ratio is one of the many things a lender considers before approving your home loan.

You may see conventional loan debt limits referred to as the *28/36 qualifying ratio*. Those numbers refer to two percentages that are used to examine two aspects of your debt load.

Download some time-tested advice.

The First Number, 28%

This number indicates the maximum percentage of your monthly gross income that the lender allows for housing expenses. The total includes payments on the loan principal and interest, private mortgage insurance, hazard insurance, property taxes, and homeowner's association dues. (Often referred to by the acronym PITI.)

The Second Number, 36%

This number refers to the maximum percentage of your monthly gross income that the lender allows for housing expenses plus recurring debt.

Recurring debt includes credit card payments, child support, car loans, and other obligations that will not be paid off within a relatively short period of time (6-10 months).

Debt to Income Example

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

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

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

Not All Loans Are the Same

FHA loan ratios are typically 29/41, allowing a higher debt load for both housing expenses and recurring debt.

- For the above example, FHA would allow $1087 for housing and $1538 for housing plus recurring debt.

- For a VA loan, the debt to income ratio should not exceed 41% of your monthly gross income.

Get Pre-Approved

Staying within the lender's debt to income ratio limits is only one part of qualifying for a home loan.

If the overall picture looks good, a lender may allow you to carry more debt. It's always best to be pre-approved before you begin home shopping, so that you'll know exactly what price range (and loan payment) fits your budget.