La Terre Federal Credit Union

Financial Literacy

Debt-to-income Ratio

Supplies needed to calculate your debt to income ratio

- Average Annual income
- Credit report
- Calculator
- Pencil

Calculating your monthly gross income

- Average gross annual income divided by 12 = Average gross monthly income
- Example: the gross annual income is $50,000.
- $50,000 divided by 12 = $4,166.67
- The average gross monthly income would be $4,166.67

Calculating your monthly debts

- Go through any one of your credit reports and add all the monthly minimum payment amount for each debt.
- Example: car $500 + credit card $25 + credit Card $100 + loan $125 + mortgage $900 + loan $200 = $1,850
- The average monthly debts total $1,850

Calculating Debt-to-income ratio (DTI)

- Average monthly payments divided by average gross monthly income = DTI
- Example $1,850 divided by $4,166.67 = 0.45
- The example's DTI would be 45%

How does this effect you when applying for a loan?

- Not every lender calculates monthly income the same. Some use overtime and some only use a percentage of overtime. While some don't use overtime at all.
- Some lenders include things like your housing expense or a set dollar amount as housing expense if you don't list any in your debts.
- Some lenders also include your car insurance as a debt.
- Some lenders will exclude a debt if it will be paid off soon.
- The most important thing to remember is to keep your DTI as low as possible.