



## HOME BUYING

# Debt-to-Income Ratio

Most agents and lenders will calculate your debt-to-income ratio, free of charge, and with no obligation. They will provide you with an approximate amount you may be able to borrow. Some lenders will go a step further, offering pre-approval before you buy a home. Being pre-approved is like being a cash buyer and may give you more bargaining power when you shop for a home.

Use this worksheet to determine your approximate debt ratio, including a borrowing limit.

1. Write down your gross annual income. \_\_\_\_\_
2. Write in your gross monthly income. (Divide line 1 by 12.) \_\_\_\_\_
3. Establish your approximate house payment limit, including principal, interest, taxes and insurance (PITI). (Multiply line 2 by .28) \_\_\_\_\_
4. Calculate your monthly debt ratio limit. (Multiply line 2 by .36) \_\_\_\_\_
5. Enter and total the monthly payments for the items below to find your current debt load:  
Auto loan/lease payments \_\_\_\_\_  
Student/other loans \_\_\_\_\_  
Credit cards \_\_\_\_\_  
Installment debt \_\_\_\_\_  
Child support/alimony \_\_\_\_\_  
New house payment limit. \_\_\_\_\_  
(Enter the number from line 3.) \_\_\_\_\_  
  
Total Debt:
6. To calculate your debt ratio, divide the number in the Total Debt box by the number you wrote on line 2. \_\_\_\_\_

Your new home price range is probably right if your debt ratio is below 36 percent. If it is at 36 percent, you are probably right at the upper limit of your price range and should consider whether unplanned expenses might prevent you from making your new house payment. If your debt ratio exceeds 36 percent, you need to reduce your debt, increase your down payment, or reduce the price you pay for your home.

