Calculating Debt to Income

It's good to know how lenders determine if you'll be able to afford your monthly payments comfortably, based on your income and other debts. Remember: Many lenders exceed these guidelines, particularly if you have no debt, good credit, or a large down payment when applying for a mortgage.

Use this guide to calculate your debt-to-income ratio:

Debt:

Monthly mortgage or rent $________
Minimum monthly credit card payments ________
Monthly car loan payment ________
Other loan obligations ________
Total monthly debt payments: $________

Income:

Monthly gross salary $________
Other monthly income (bonuses, overtime, and so on) ________
Monthly alimony received ________
Total monthly income: $________

Total debt divided by total income = _______%

36% or less: This is an ideal debt load to carry for most people. Showing that you can control your spending in relation to your income is what lenders are looking for when evaluating if you are credit-worthy.

37% to 42%: Your debts still may seem manageable, but start paying them down before they begin to spiral out of control. At this level, credit cards still may be easy to obtain, but acquiring loans may be more difficult.

43% to 49%: Your debt ratio is high and financial difficulties may be looming unless you take immediate action.

50% or more: Seek professional help to make plans for drastically reducing your debt before it becomes a real problem.