Funding, Finance and Credit

What is a Debt Ratio?

Also known as debt to income. The ratio of the total of minimum monthly debt payments to gross monthly income. If a person’s minimum monthly payments on a credit card, auto lease, and mortgage (PITI) were $30, $220 and $750 respectively, and his/her gross monthly income was $3000, his or her debt ratio would be calculated as 33.33%. Non-fixed payments for things such as food, utilities, medical bills, and entertainment are not included in the calculation. However, contractual obligations such as a lease are included. The housing ratio in this example would be 25% ($750 / $3000). Preferred candidates for loans usually have debt ratios of 28% or less for housing, and 36% or less in total. The maximum ratios that lenders will allow are generally around 30% housing and 40% total, though lenders may consider extenuating circumstances when making their decision. Confirming loans such as FHA and VA loans allow a total of approximately 41%, while non-conforming loans sometimes allow total debt ratios as high as 55%.

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Author: admin
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