Calculating Your Debt-to-Income Ratio

Most agents and lenders will calculate this information for you, 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 find your approximate debt ratio, including a borrowing limit.

1. Write in your gross annual income.
   (Multiply your weekly before-tax income by 52.)
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. Write in and add up the items below to find your debt ratio limit:

   Auto loan/lease payments.

   Student/other loans.

   Credit cards.

   Installment debt.

   Child support/alimony.

   New house payment limit. (Copy the number on 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.
7. Compare your estimated debt ratio on line 6 to the limit you wrote on line 4.

Your new home price range is probably right if your debt ratio is below 36%. If it is right at 36%, 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%, you need to reduce your debt, increase your down payment or reduce the price you pay for your home.