

How can I figure out my debt-to-income ratio?

To figure out where you stand on the debt-to-income ratio, you must first understand the meaning of the figure. Most lenders use the ratio 28/36.

The first number, which is also referred to as the front-end ratio, is the percentage of your gross monthly income that you could comfortably afford to spend on your housing payments or mortgage. This figure includes the money you spend on property taxes and insurance as well as the loan payment itself.

The second number, which can also be referred to as the back-end ratio, is the percentage of your gross monthly income that should be spent on all long-term monthly debts combined.

Use the following guidelines to find out where you stand:

- First, figure out your gross monthly income (your income before taxes). To do this, take your gross yearly income and divide it by 12.
- Multiply this figure by 28 percent (.28). The amount you come up with is TYPICALLY the amount you could comfortably afford to spend on your housing payments per month.
- Now, take your gross monthly income (your gross yearly income divided by 12) and multiply it by 36 percent (.36). The figure shown should be the TOTAL amount of money you spend on ALL LONG-TERM DEBTS COMBINED. To get a more accurate mortgage estimate, tally up your monthly bills - which include car payments, credit cards, child support, alimony, etc. - and subtract this amount from the figure you just came up with. However much money is left over is the amount you should truly be spending on your housing payments per month.