DEBT TO INCOME RATIO TIP SHEET

Calculating Debt to Income (DTI) Ratios

One of the fundamental steps in the foreclosure intervention counseling process is determining whether or not a situation will allow a homeowner to retain the home or need to transition to other housing. In order to retain the home, the housing costs must be **affordable and sustainable**. DTI ratios help make that determination.

Ratios can also be a basis for educating the homeowner during budget counseling, especially when explaining why a situation may be unaffordable and will lead to transition. Ultimately, DTI ratios help determine the foreclosure intervention tool that is most appropriate for a homeowner.

HAMP uses two debt to income ratios:

1. Monthly Mortgage Payment DTI Ratio **(Payment DTI)**
2. Total Debt to Income Ratio **(Total DTI)**

The **Payment DTI** is also commonly referred to as "the front end ratio". This ratio expresses the percentage of the homeowner's monthly income that is used for the mortgage payment. To determine the **Payment DTI,** the homeowner's gross monthly income is divided by the mortgage payment. HAMP guidelines consider a 31% payment ratio as an affordable payment and the goal of the program is to get homeowner mortgage payments as close to 31% as possible without going below that ratio. (Note- DTI ranges from 25%-42% for Tier 2 expanded DTI.)

Total DTI is commonly known as the back end ratio. It expresses the percentage of the homeowner's monthly income that is used for the mortgage payments and all other debt. The other debt considered includes the same monthly debt as the housing ratio plus all other monthly installment debt payments, such as all other mortgage loans, auto, student, and consumer loans; and all revolving debt, such as credit cards.

To determine the **Total Debt DTI**, the homeowner's gross income is divided by the total of the mortgage debt and all other debt. If a total debt DTI is over 55%, the homeowner is required to attend counseling with a HUD certified counseling agency. This "over 55%" counseling is commonly known as Level 4 counseling and the counseling agency may receive funding for this counseling through NFMC.

The Debt to Income Worksheet is found on the following page and includes descriptions of what should be included in each DTI calculation.

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Debt to Income Worksheet

Payment DTI Ratio

(1) Total House Payment
(First mortgage including escrow[1]) $________________

(2) Gross monthly Income[2] $________________

(**3) Payment DTI Ratio (1÷2)**

________________**%**

Less than 31% is considered affordable

Total Debt to Income Ratio (Total DTI)

(1) Total House Payment $ _______________

(4) Monthly Debt Payments[3] $________________

(5) Monthly Debt Expense (1+4) $________________

(**6) Total DTI Ratio (5÷2)** **$_______________%**

Less than 55% is considered affordable

[1] FOR MHA: Housing Payment escrows include monthly property tax, homeowners and mortgage insurance premiums. The total housing payment also includes monthly HOA fees. It does not include mortgage insurance however it does include any projected escrow shortage. If the loan is non-escrowed, divide annual taxes and insurance by 12 to determine monthly amount escrow amount.

[2] Gross monthly income must be used for all employment income. Social security and benefit income must be grossed up 125%. Child support, spousal support and non-borrower income can be included but it is not required.

[3] Total monthly debt payments consists of revolving debt and installment debt, including, but not limited to, automobile loans, student loans, second mortgages/junior liens on the property, and credit card debts. (Do <u>not</u> include living expenses such as non home related insurance payments, daycare expenses, utilities, etc.) For HELOCs, use minimum payment on the credit report or 1% of the balance. For revolving debt use the "minimum due" shown on the credit report or billing statement (the amount the homeowner is contractually liable to make).
All installment debt payments should be included unless there are 9 or fewer payments remaining, then the debt is typically not included in the calculation. Debts in a period of deferment or forbearance must be included. If no payment on credit report, calculate the payment by multiplying the outstanding balance by 3%. If student loan is deferred, monthly payment is 1.5% of the balance.