Understanding Debt-to-Income Ratio

This playbook guides an individual through the process of calculating their debt-to-income ratio (DTI), a key financial metric used by lenders to assess creditworthiness. It explains the importance of DTI and how it affects personal financial health.

Step 1: **Gather Data**

Collect all financial statements including monthly debt payments and your total monthly income.

Step 2: **List Debts**

Write down all monthly obligations including loans, credit card payments, and any other debts.

Step 3: **Sum Debts**

Add up all the monthly debt expenses to find the total monthly debt payment.

Step 4: **Verify Income**

Calculate your total monthly income before taxes. Include all sources of regular income.

Step 5: **Compute DTI**

Divide the total monthly debt by total monthly income and multiply by 100 to get the DTI percentage.

Step 6: **Evaluate DTI**

Assess your DTI percentage. Generally, a DTI of 35% or lower is considered good, while anything above 43% may hinder your ability to obtain new credit.

Step 7: **Plan Reduction**

If your DTI is high, create a plan to reduce your debt which may involve budget adjustments, debt consolidation, or seeking professional financial advice.

General Notes

Accuracy Matters

Ensure the accuracy of both your income and debt figures for a precise DTI calculation.

Regular Review

Regularly computing your DTI can help monitor your financial health over time, allowing for timely adjustments.

Powered by: **PlaybookWriter.com**